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**WHAT IT MEANS TO
TREAT PEOPLE RIGHT**

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What it Means to Treat People Right

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We have entered a new era in the relationship between organizations and their employees. The old understandings have disappeared and need to be replaced by new ones which reflect the realities of today's very competitive global business environment. In this new era, people can be the primary source of a company's competitive advantage in most businesses. How people are treated, therefore, increasingly determines whether a company will prosper and survive. Thus it is critical that companies treat people in ways that lead to them being committed members.

A key part of treating people right is the establishment of a mutually beneficial employment relationship or contract. What a contract should contain, and how it can be turned into an employer brand is the focus of this article.

Death of the Loyalty Contract

Throughout most of the twentieth century, organizations maintained a tacit agreement with their employees that as long as they were generally productive and followed orders, their jobs and a reasonable pension plan were guaranteed. This value proposition was often referred to as the "loyalty contract." However, globalized competition, the rise of technology, and the increasing demand for knowledge workers with state-of-the-art skills has made the loyalty contract unrealistic. More and more organizations have realized that buying their workers' long-term loyalty is simply not a good long-term investment. A recent survey I did of large U.S. corporations found that

only 16 percent said they place a strong emphasis on loyalty, and only 5 percent said they reward seniority.

Beginning in the 1980's, more and more companies ended their loyalty contracts. Such revered organizations as General Electric, IBM, and AT&T shattered their contracts by laying off thousands of employees. In retrospect, it is clear that these organizations had no choice. At that time, laying off their workers was the best way these firms could adapt to the dramatic changes in their businesses. To have done otherwise would have been fatal for them.

The death of the loyalty contract has had enormous repercussions in today's business environment. One of its major effects has been on the cost, availability, and attitudes of good labor. Most people, especially younger workers, understand and accept that loyalty to their organization is largely a losing proposition. As a result, many of them are no longer willing to be dependent on their employers or amenable to accepting organizational practices and decisions that are not advantageous to them. Today's employees are demanding substitutes for the security the loyalty contract affords. Challenging work, opportunities for learning, being treated with respect and in a cool manner, and last but not least substantive rewards are usually at the top of their lists. And when they do not get what they want, today's workers are quick to move on to more attractive employment situations.

Ultimate Goal: A Virtuous Spiral

The change is significant: organizations can no longer count on their members' loyalty, so they must continuously compete for talent. They have to focus on attracting and hiring the most talented people and retaining their critical existing talent. In order to

do this, they must utilize approaches to management that are advantageous to them and their employees, and that lead to higher and higher levels of performance. Figure 1 pictures this type of individual organization relationship as a virtuous spiral of higher and higher performance and rewards.

Figure 1. Virtuous Spiral

Virtuous spirals begin when an organization takes intelligent, strategy-driven, conscious actions to attract, retain, motivate, develop, and effectively organize committed, high-performance individuals. This generates a high-performance organization which is able to reward its employees better. This, in turn, increases their motivation and commitment. The more challenging and rewarding environment that results further reinforces the organization's ability to attract, retain, and develop effective employees, who further positively affect performance. Thus a virtuous spiral forms and grows, carrying the organization and its members to greater heights.

To successfully sustain a virtuous spiral, organizations need to emphasize ever-increasing levels of performance, higher reward levels for individuals, and increasingly competent employees. As they achieve these goals, a positive performance momentum develops that feeds on itself and provides a powerful competitive advantage. Virtuous spirals are actually the ultimate competitive advantage — powerful and hard-to-duplicate sources of positive momentum and higher and higher levels of performance.

Virtuous Spiral Organizations

Microsoft is one of the most impressive examples of a company that has profited from a virtuous spiral relationship with its people for decades. Since the early 1980's, the

company has had an environment in which its employees have done well and the company has done well. The employees have had challenging work and, of course, one of the most highly rewarding stock plans around. Microsoft has been an enormously attractive place to work, especially for high performers. As a result, it has attracted some of the country's top software engineers and marketing executives. Because of its relationship with its human capital, Microsoft has been able to generate a powerful dynamic in which success begets success, which begets more success.

Proctor & Gamble is another somewhat less dramatic example of a virtuous spiral organization. Though the company is over one hundred years old, the past forty years of its existence have been marked by many forward-thinking efforts to establish a virtuous spiral relationship with its employees based on employee involvement and the development of leaders throughout the company. P&G was an early adopter of employee involvement practices in its manufacturing plants. It also has a stock ownership plan that has placed over 30 percent of its stock into the hands of its employees.

Creating a Value Proposition

An effective strategy for developing a virtuous spiral begins with creating an employment *value proposition*. Organizations need to fashion a compelling platform that clearly establishes who they are, what they expect from employees, and what they offer. This is truly the beginning of treating people right, because it establishes the initial set of practices to ensure that the organization employs people who are aligned with its values and goals.

First and foremost, the value proposition must be designed to fit with the business strategy. Its purpose is to attract, motivate, and retain employees, but not just anyone. It

needs to focus on enticing people who have the skills, knowledge, competencies, and personality to perform well and who can be motivated by the practices and programs the organization offers.

The value proposition must take into account the organizational design elements, capabilities, and competencies the organization needs in order to be successful and the various environmental issues that might affect its ability to attract and retain the right people. It also needs to be based on a realistic assessment of what the organization can deliver.

The second key issue in creating a value proposition is making sure it includes a reward system that attracts and keeps the right people. Given that individuals are motivated by and work for rewards that matter to them, the reward system must contain a mix of rewards that the workforce will value and respond to.

Naturally, what and how much an organization can offer depends on the type of business it is in, its financial resources, its size, and a variety of other factors. That said, there are certain things that most organizations can offer, such as civil treatment by managers and honest communications. Organizations do need to be creative in developing a wide range of rewards to meet the diverse needs of their employees. Organizations can create both extrinsic and intrinsic rewards to attract and motivate people. What is important is that the rewards an organization offers be tailored to the people they are trying to attract and keep.

When designing a reward system two caveats are important to keep in mind. First, many organizations make the mistake of offering rewards that are good at attracting employees but fail to motivate them to perform. For example, if an organization's value

proposition ties rewards and promotions to seniority, it may attract and retain the type of people who want a steady long-term relationship with your company, but it is not likely to motivate large number of them to perform well. Most employees will conclude that all they need to do is show up to get raises and promotions. In order to motivate performance, a value proposition must include rewards for performance that pull people toward high performance levels.

Second, a value proposition must not just attract and motivate people; it must also keep the right ones. Organizations need to avoid hiring “walking floppy disks” — employees who enter the organization, get an expensive download of training and information, and then leave for a competitor.

On the other hand, organizations may not want to encourage people to stay as employees for their entire career or, for that matter, for more than a short period of time. Because of the environmental changes that organizations must respond to, they increasingly need to employ people for short periods of time and to make frequent changes in the number and type of people who work for them. For this reason, the issue of retention needs to be considered from the start, at the attraction phase, because that is when employees develop perceptions and expectations about working for an organization. The attitudes they form when reading job postings, interviewing, and working during their first few months can ultimately have a significant impact on their feelings of job satisfaction and equity, which can in turn affect their interest in staying.

Admittedly, developing a reward system that succeeds in keeping people for the “right” period of time is challenging today. The traditional loyalty contract clearly is not the answer today. Using loyalty contracts to retain people locks companies into a long-

term commitment that often becomes unproductive. It creates a hand-cuff that makes it difficult for employees to leave. People know they need only to continue to show up to keep their job and increase their vacation days and retirement benefits.

Loyalty contracts also make change difficult. Change often requires that the organization hire people with the new skills needed to develop new core competencies and new organizational capabilities. Or it can require that the organization motivate current employees to change their behavior, develop new skills, and adopt new technologies and new strategic directions. The loyalty contract does not motivate employees to improve their knowledge, skills, and competencies, nor does it encourage them to embrace organizational change. It also does not attract or retain those who want to be part of an entrepreneurial organization or who want to be part of a rapidly changing, technologically advanced, or knowledge-intensive organization.

The loyalty contract is also dysfunctional for many individuals. In addition to not motivating them to learn valuable new skills, it limits their chances to develop and grow within their company because with stability there are few job openings. And it often hinders their ability to move to other corporations, particularly when many organizations are unwilling or unable to bring in “new blood.”

Organizations need to offer a skills and performance-based substitute for the loyalty contract that motivates selective retention and high performance. It needs to stress that continued employment is based on performance and having the right skill set for the organization’s business strategy. It also needs to stress that people are rewarded for performance and skill development. When this is translated into the right combination of reward system practices, people will be motivated to excel and those who

excel will be motivated to stay because they will be highly rewarded. This is the foundation of the virtuous spiral, in which both sides win and create success for each other.

My research shows that those organizations that link skill development with continued employment — and rewards with performance — handle change more effectively than others. In a sense, you might say that they create “mobile” human capital; people who realize that they must continue to learn, develop, and perform in order to maintain their positions and careers. Today, organizations need mobile capital. Getting stuck with obsolete human capital is just as big a negative as getting stuck with out-dated equipment and materials. And whereas you can readily buy new equipment, often you can’t easily buy talented human capital. Instead, organizations need to create a culture that emphasizes that its people must continue to learn and grow as the organization and environment change.

Turning a Value Proposition into a Brand

Creating a value proposition is an important first step. “Branding” it is the next step, especially if an organization needs to attract large numbers of job candidates. Just as with a product, branding a value proposition means creating a strong, unique image that distinguishes an organization from others. Branding essentially crystallizes an organization’s value proposition so that people have no doubt what they will gain as a result of working for it.

Many organizations have built strong brand images as employers. Think of IBM, McKinsey, Microsoft, Amazon.com, the FBI, and even the U.S. Marine Corps. Recently,

a number of organizations have developed brands in order to be included on lists of “best places to work.”

The development of a strong brand calls for intelligent thinking and planning. Like formulating a good marketing campaign, it requires well-thought-out steps. Organizations must be willing to openly declare their value propositions and, of course, live up to it. They must maintain a clear and consistent message and treatment during any and all recruiting. This includes college job fairs, internships, open houses, career days, and other venues. Whether it is employees interviewing recruits or an Internet site, everyone and everything must deliver the same brand.

Branding a value proposition can be expensive. Southwest Airlines ran ads during a recent Super Bowl game largely aimed at attracting employees. The ads touted the freedom, flexibility, and enjoyment people can receive from working for the company. With this multimillion-dollar investment in advertising during the Super Bowl, Southwest succeeded in issuing a powerful statement about the importance of its employees. Anyone who saw the ads got a clear understanding of the benefits of working for Southwest. Of course, the advertising also did a great job of publicizing to Southwest’s customers the quality of the service they can expect to receive when flying with Southwest.

Written Contracts

About 25 percent of the companies in the United States have adopted a written formal statement of their employment contract that states what they have to offer as an employer and what they expect from their employees. I believe that most organizations

should have statements of their value propositions because they are effective in establishing an organizations brand.

Written statements aid in the recruitment process by reinforcing an organization's value proposition and contributing to a realistic job preview. And after people are hired, they establish the grounds rules for performance and rewards and serve as a touchstone for the organization and the individual throughout their relationship.

An important corollary to our discussion of contracts is the fact that increasingly, many organizations need to have not a single contract but several in order to handle the diversity of its employment needs. Historically, most organizations have had two tacit employment contracts, both dysfunctional: one was for managerial and professional employees, the other for non-exempt or hourly employees. The former was the loyalty contract, quietly ensuring job security and various special benefits and perquisites such as company cars, executive dining rooms, and training and development programs, while the latter featured union membership, lay-offs, pay by the hour, strictly defined job descriptions, and seniority-driving reward systems.

What should replace them? Core employees should be covered by contracts that stress rewards for performance, effective leadership and a chance to contribute to the organization's mission. Non-core employees should have ones that feature rewards for performance and as-needed employment. Having a clear contract for non-core employees can enable organizations to hire people with particular skills to whom it doesn't make sense to make a long-term commitment. Such employment relationships allow you to fill short-term work assignments and to respond to rapid changes in your business.

But what about individuals? Does having an employment contract that stresses performance and skills as a necessary condition for continued employment constitute treating them right? I believe it does. It provides them, first of all, with a realistic picture of what the employment situation is like. Telling them that they have a job for life sounds good, but it's something that very few organizations can actually deliver. Thus, people need to be aware that their future employment depends on their skills and their performance. Stressing that skills are critical and rewarding individuals for developing skills can be particularly good for individuals. It can help them develop their own brand as an employee and motivate them to increase their value in the labor market. Given the strong skill-bias which exists in the labor market today, this very much constitutes treating them right.

Rewarding individuals for organizational performance, also very much constitutes treating them right. It is at the core of creating a virtuous spiral organization, in which individuals have the opportunity to grow, develop and prosper, when the organization prospers. Creating this type of win-win relationship is at the very core of what constitutes the right treatment of individuals by organizations in today's highly competitive business environment. Rewarding individuals well in the absence of organizations performing well may, in the short-term, seem like treating people right, but it cannot last. There simply too many competitors who take advantage of the situation and ultimately make it impossible for an organization to be non-competitive and to reward its employees well. Thus, in today's world, treating people right means having a clearly developed employment contract with them that clearly rewards them for

performance and then encourages them to continue to develop the skills and knowledge which are needed by the organization.

Figure 1 – Virtuous Spiral



Edward E. Lawler III is a distinguished professor of business at the Marshall School of Business. This article is based on his recent book *Treat People Right* (Jossey-Bass, 2003).