



New
paradigms, llc

New Paradigms LLC
800 Willamette Street,
Suite 620
Eugene, Oregon
97401

One Main Plaza
101 SW Main Street,
Suite 1905
Portland, Oregon
97402

phone
541.741.3490 (v)
541.729.8275 (c)

The Business Case for Compliance to Commitment™

Some of you may already be familiar with our concept of moving your organization from Compliance to Commitment™, which I have also referred to as the concept of building in employee engagement as a strategic weapon in your competitive arsenal. I will admit that much of the information I have shared with you previously has been anecdotal, but a new white paper I just received from Peppers & Rogers Group, entitled Engagement - the New Competitive Advantage, provides some interesting facts that I think it is important to discuss here.

One of the first things that study distinguishes is a new view of engagement. They distinguish between the traditional view of the **intellectual, behavioral, and emotional** elements we have traditionally associated with engagement. To describe those a little more fully, the intellectual level is where an employee agrees with your company vision statement and/or a customer values the attributes of your brand. The **behavioral** level, recommending or purchasing your product or service is where you start to see energy or discretionary effort. The third level, the **emotional** level, is where you actually see “buy in” and enthusiasm. You can see in some ways this parallels Ron Willingham’s three dimensions of congruency; the **I think, I feel**, and the **I am**. Willingham pointed out, and Pepper and Rogers agree the emotional “buy in” is much more impactful than the intellectual appeal.

They go on however, to describe a different more comprehensive model which includes five levels and incorporates critical concepts like satisfaction, quality, and loyalty.

The “new” levels in hierarchical order are; **satisfied, loyal, recommend, best products and services, and pride**. Most importantly they also describe the critical foundation that this system is based upon, a foundation called **trust**. The point here as I have discussed thoroughly is without a trust based relationship, the rest of the engagement initiative is a wasted effort; and trust is built at the front line level between the immediate supervisor and the employee. It is the trust factor that the five elements of Compliance to Commitment™; respect, responsibility, information, rewards, and loyalty address. There is also a clear relationship to the Human Resources Pyramid™ that I have described before as well.

While I am not going to go into a great deal of detail describing each of these “elements” one of the important differentiators between this model and others is that it points out that willingness to recommend is not the peak performance an organization can achieve, and more importantly it measures the relationship over a long term. Pepper and Rogers point out the “satisfaction” index can fluctuate from transaction to transaction or you can “game the system” by asking the “right” questions. Manipulating the more comprehensive index becomes much tougher, especially factors like pride or excitement toward the organization.

This model also takes into account both employee and customer engagement and argues they are inextricably linked. They also say that true engagement affects three critical elements that every organization should be concerned about: **Productivity, Performance, and Sustainability**. The most important thing in this article is it provides some pretty definitive numbers in each of these categories.

Productivity

Depending upon what business you are in your costs for “human capital” on average represent 60 to 70% of total expenditures. As we know in some businesses it is much higher. As we point out, the best companies are recognizing this and leveraging their return on investment in this area. A 2008 study by Development Dimensions International (an international training and consulting firm) indicate that moving an employee’s level of engagement from low to high represented a 21% increase in individual performance. Employees at the highest levels of performance have per capita productivity of 20% higher than the average across industries and offices with high levels of engagement are 43% more productive according to studies by the Society for Human Resources Management and the Hay Group.

Engaged customers also enhance your productivity through repeat business and word of mouth recommendations.

Performance

In addition to the productivity increases you also direct correlations to financial performance. Engaged employees tend to stay with their current employers at a rate of 85% versus 27% according to a 2008 study by BlessingWhite, an international consulting firm. The savings from reduced turnover alone are huge. Additive to that other studies showed similar correlations to companies with double digit versus single digit revenue growth and an average total shareholder return of 24% for organizations where 60 to 70% of employees rate themselves as engaged versus 9.1% total shareholder return for organizations with an engagement percentage of 49-60%. In retail environments stores in the top 25% engagement level deliver 36% higher operating income than stores with low engagement.

Customer engagement shows similar statistics including higher loyalty, increased revenue, increased profit, and increased wallet share. When you combine high employee and high customer engagement the results show literally a **100% difference** in financial performance on a peer to peer basis.

I don't know about you, but to me those kinds of bottom line impacts get my attention!

Sustainability

Beyond the financial and productivity gains let's talk about sustainability of the organization. I want to talk about three different areas that Peppers and Rogers identified:

- **Brand-** a 2003 study stated the experience a customer has with your employees influences repeat purchase decisions so much that "they are your brand." In the same study they reported that 51% of consumers report that "outstanding service" is the number one reason they continue to do business with an organization and that conversely 80% state they will discontinue doing business because of a bad experience.
- **Strategy-** the biggest reason CEO's fail is not bad strategy, but bad implementation of their strategy according to a study by Ram Charan reported in Fortune magazine. Engaged employees play a critical role in that implementation.
- **Human Capital-** over the next 10 to 15 years the demand for experienced talent is expected to increase by 25% while the supply decreases by 15%. Under these circumstances retention of critical talent becomes even more important. Remember that "engaged" employees are 87% less likely to seek alternative employment.

The 2008 BlessingWhite study that I referenced earlier identifies less than 30% of employees as being engaged. The same study identifies 19% as being "disengaged", but it gets worse, disengaged workers are not the most likely to leave- they "quit and stay".

The same study found that only 27% of organizations globally have a formal program or strategy to increase employee engagement and 19% don't even have it on their radar screen.

So let's go back to the beginning. Consistent with our thinking at New Paradigms, the foundation of employee engagement is the same as any healthy relationship- mutual trust between the parties. We believe there is a direct relationship between the five elements of Compliance to Commitment™ and building that foundation of trust.

I think that what we describe in our case study- A New Paradigm for Credit Unions is a real illustration of employees and customer/members beyond the "recommend" level that we have accepted as the ceiling of employee engagement. In that setting we were able to create "pride".

That “pride” translated into some pretty impressive results including:

- 4000 new membership accounts
- A 21% increase in asset size
- \$150 million in net revenue
- A significant increase in “wallet” share

It sounds remarkably consistent with the statistics in the Peppers and Rogers study, doesn't it? The reality is that technology or processes or outsourcing or off-shoring are not going to create engagement. You are not going to have customer engagement without employee engagement. You are not going to have employee engagement without trust.

So let's go back and review those numbers again:

- A 21% per capita productivity increase opportunity
- An average 60% higher retention rate for valued employees
- A shareholder return of over 50% higher than non-highly engaged companies.
- Financial performance of 100% higher than peer groups for organizations with both high employee and customer engagement scores.
- Less than 30% of organizations with a program in place.

So in summary I would say that if you don't do it for reasons of employee satisfaction, retention, or other related factors consider it as a competitive advantage.

In the end I will leave you with this thought from Margaret Wheatly-
In organizations, real power and energy is generated through relationships. The patterns of relationships and the capacity to form them are more important than tasks, functions, roles, and positions.

It would seem like the “numbers” bear that out. Compliance to Commitment™, simply a better way to manage your organization, the “numbers” tell the story.