Keeping the Crew

Employers find sustained commitments to workforce loyalty are keys to staying above water -- whatever economic winds might be blowing in.

By Richard F. Stolz

You've heard the warnings, the ones that say: If your company has been (over your objections, of course) balancing its books on the backs of employees with wholesale layoffs and cuts in compensation and benefits, there will be hell to pay when the economy picks up. Your workforce will abandon you en masse . . . at least the workers you need the most, you are told.

As more upbeat economic indicators and forecasts begin to filter into the financial news -- the latest from *The Wall Street Journal* that the economy grew at a 7.2 percent annual rate in the third quarter, a sure sign that the recovery is finally taking hold -- are those alarm bells tolling for you? And if so, how should you respond? Or is it, perhaps, already too late?

Granted, in most industries and markets, employees are still quite pleased to have regular paychecks and aren't plotting their escapes just yet. Indeed, in some organizations he's watched, Segal Co. consultant Richard Federico has observed employees failing to take advantage of flextime and other non-financial benefits (including casual dress policies) for fear of being branded as a slacker, and thus vulnerable to being handed a pink slip.

Still, the question of present and future employee contentment is very much on the minds of many employers and employee behavior experts today. Ironically, the companies paying the greatest attention to the matter may be those with the least to worry about.

For such companies, the ambition to be a great place to work is as much a business model as a seasonal HR tactic or strategy (or fad), and it is generally in these companies that employee loyalty withstands the tests of the times. Put more simply, companies that have been committed to keeping employees happy as a matter of course tend not to be dismissed by workers as phonies.

Even in a slack economy, the ambition to show up on someone's employer-of-choice honor roll, like the annual *Fortune* magazine's "100 Best Companies to Work For" listings due out next month, is as strong as ever for many organizations.

Federico, who directs the Segal Co.'s employee communications and work/life practice, says he has plenty of clients angling for a spot on that list. And the San Francisco-based Great Places to Work Institute, which compiles the rankings for Fortune, reports the number of applications for inclusion has never been higher. The Institute is also doing a brisk consulting business helping companies to embrace and apply the principles of being an attractive place to work.

The veteran "great places" companies may offer a few practical lessons to those with a more recent and perhaps less deeply engrained passion for being an employer of choice who are wondering about the loyalty of their workers.

Practical Pointers

Take The Vanguard Group -- the 28-year-old money management and no-load mutual-fund company based in Valley Forge, Pa.

Although the 10,000-employee organization regularly appears on the *Fortune* list, Vanguard isn't looking for publicity, just helpful benchmarking data and insights on what other companies are doing, according to

Kathleen C. Gubanich, the firm's managing director of human resources who heads that function. (One of the perks of being ranked is being able to root around in the "Best Companies" database.)

"You hope and think that you're doing a great job, and for us [being ranked] ended up just being a great validation of the kinds of programs we have and the value they present to our crew," she says.

What kinds of programs?

Vanguard has varied its focus somewhat over the years, Gubanich says. "There was a time when we were really concerned about work/life programs; then, we got that nailed and went into career-management programs, then leadership programs," she says.

Today, Vanguard is very focused on how members of its workforce "are feeling about the organization," says Gubanich.

"These are difficult times in our industry, compared to where we were five years ago. The market has changed very dramatically, and the job market has put different kinds of pressures on organizations."

Predictably, Vanguard's pressure has been to find productive uses for its 10,000-strong "crew" (the company's branding features a nautical motif) without hurling anyone overboard or cutting sea rations.

"Other organizations might think, 'This is an opportunity to scoop up some short-term benefit by cutting back on programs, or laying people off, then hiring them back in six months,' " Gubanich says. "We want to take a long-term perspective on things."

Vanguard's ability to take a long-term view is supported by the fact that it is organized as a mutual company. That is, its customers (i.e., investors in Vanguard-managed funds) are also its shareholders.

The practical effect of this arrangement is that shareholders aren't constantly breathing down management's neck or screaming every time the company has a bad quarter. "We do have the advantage of not having to answer day-to-day to the market," Gubanich concedes.

But because "the customers are the owners," she adds, "they don't have competing needs. We have one client, and our culture can rally around that. It aligns the culture quite strongly."

Thinking long-term, while Vanguard didn't adopt a formal no-layoff policy, the company nevertheless acted as if it had, and managed to redeploy staff where they could be most useful while Vanguard adjusted to new investment currents.

"We don't have a 'no-layoff' policy; what we have is a 'do-the-right-thing-for-the-crew' policy," Gubanich says.

"For us, there are long-term implications to laying off people. We believe there is a better way -- to show commitment to your crew in tough times goes a long way. I think it proved itself out."

With the stock market appearing to have recovered its sea legs, investors are regaining their nerve, and Vanguard's crew members are spending less time making scrimshaw.

Fundamental to Vanguard's approach, however, is the fact that "we are a grow-from-within organization," says Gubanich. "When we hire somebody, we don't hire them for a position. We hire them for a career. We look not only at the position they're in today, but the position they could be in in five, 10 or 20 years down the road."

Gubanich is a living example of that policy: She joined Vanguard 17 years ago as a part-time recruiter.

Fulfilling the grow-from-within policy involves a substantial commitment to training. "In other organizations, training gets slashed [during tough times]. We just haven't done that. We think that's shortsighted." About 60 percent of Vanguard's 250-strong HR staff is involved in training activities.

Valuing People

Although Vanguard's workers appear satisfied with management's "do-the-right-thing" policy (the company's turnover rate, which was 10 percent in 2002, is half the industry average, according to Gubanich), they nevertheless do raise questions from time to time about their career-growth prospects.

"Obviously, there are less job openings today, and people are asking what they can do to prepare themselves for when the next opportunity may arise." (Vanguard had more than 26,000 job applications last year from outside the organization.)

In keeping with Vanguard's focus on staying in touch with how employees feel about the organization, managers and executives have stepped up the frequency of face-to-face employee meetings.

"It's really important for people to have opportunities to ask questions when they have something on their mind. Usually, the concern is far worse than anything in reality. We don't want them to simmer in it."

Focusing on employee concerns isn't new to Vanguard, however. The company has a 15-year-old tradition of monthly CEO breakfasts with employees to explore their concerns.

Gubanich doesn't pretend that employees aren't also concerned about such old-school concepts as . . . money. "People always want to be paid at a competitive rate," she says. "You always have to be clear that you'll be very competitive on pay and benefits.

"But at the end of the day, people come to and leave organizations not because of money. They stay because of a culture and a career opportunity. Because of the people they work with."

In addition, employees are attracted (or repelled) by what an organization stands for. "I think our value system is what draws people to our organization," she says. A key element of that system is "not cutting people when things get tough, then going off on a hiring splurge six months later."

"If you continue to stick to your value system and do the right thing for the shareholders and the crew, whatever comes your way, you're better able to deal with it," Gubanich says. "It's like living a good life. When tough times come, you're better able to deal with what life hands you."

And if that means retaining and attracting employees in a tighter job market down the road, Vanguard isn't likely to face a staffing crisis.

Unlike Vanguard, fellow "Best 100 Places to Work"-ranked Alcon Laboratories wasn't pounded by the slowdown in the economy since 2000. Demand for the Fort Worth, Texas-based eye-care company's products tends to hold up well through all economic cycles. However, the 12,800-employee global company's strong competitive position within its industry wouldn't be what it is without Alcon's commitment to its employees, according to HR Vice President Kay Cox.

Two-Way Street

It is a commitment that is reciprocated by employees, she believes. When new job opportunities for Alcon workers open up outside the company as the economy picks up steam, Cox says, she won't be worried that they'll jump ship.

And, like Vanguard's Gubanich, Cox is thinking well beyond tomorrow. "Experts are expecting workplace shortages in 2008 or 2010; our approach will keep us in a solid position."

The Alcon approach, she explains, dating from the company's founding in 1947, has emphasized respect, trust and communication. Alcon's paid-time-off plan, for example, integrates sick days and vacation days "so employees don't have to give us a reason" when they take time off. "Employees have a sense of having more control over their time."

And when there's something important to convey to employees, executives "communicate on a face-to-face basis," Cox says, rather than via e-mail or other impersonal means. Alcon's CEO also submits himself to regular Q&A sessions, she adds.

"A lot of people say their employees are their most important assets. We really live this philosophy."

That's the same ambition of Yankee Candle, a 4,000-employee specialty candle maker and retailer headquartered in South Deerfield, Mass. When the 33-year-old company was hailed by *Business Week* magazine as a "hot growth company" earlier this year, founder and CEO Craig Rydin credited the accomplishment to "the commitment and loyalty of our hard-working employees."

Unlike Vanguard and Alcon, however, Yankee Candle did have to eliminate jobs when a distribution facility was shuttered three years ago, says Martha LaCroix, senior vice president of HR for the company. "We said we're going to try not to go through that again."

As a result, Yankee Candle has been very cautious about hiring, she says.

"Our over-arching premise is that, if you treat people well through all economic climates, they'll be committed to you. They can vote with their feet; we hope they'll continue to be here."

To win that election, Yankee Candle is continually looking for new and suitable ways to treat people well. For example, the company recently launched a set of "employee involvement teams" to formalize the process of getting worker input on company operations.

Such a team recently helped to streamline order fulfillment processes at a distribution facility, and shared a $10,000 "Founder's Award" for their efforts.

"We're making certain that we're keeping our commitment to our people, to treat them well and recognize their accomplishments at work, as well as personally," LaCroix says.

Doctor's Orders

This approach seems to come right off the prescription pad of doctors of industrial organizational psychology, like Watson Wyatt's Michael **Warech** >. "Anything you can do to raise satisfaction and commitment, to show that you care about the employee, is going to pay off in discretionary effort," he says.

While any HR professional without a Ph.D. could easily make the same observation, the tricky part is zeroing in on how to go about it, and how to identify and pinpoint disconnects between employer goals and employee perceptions.

< **Warech** >, who runs Wyatt's organizational effectiveness consulting practice, helps companies identify and close gaps between how they say they want to manage human capital and the way they actually do so. He also helps employers sort through gaps between how employees perceive the organization and its policies, and the underlying reality.

While such gaps are never healthy for an organization, they could be particularly toxic when job-locked employees suddenly begin to see greener pastures and the gate is open.

"If we say we're all about being a performance-based culture, but in reality it's who you know that gets you a promotion, you can get all kinds of problems," < Warech > says.

Similarly, many companies have policies on the books, such as those giving employees flexible work schedules to deal with personal emergencies, which fail to yield any employee-relations benefits.

"In many places, individuals may not be able to take advantage of [flextime] because they're afraid their boss is not sympathetic to their situation. If they have a boss who is single and lives, breathes and eats his job 24 hours a day, [they] might get nervous asking for a little slack."

Along similar lines, < Warech > says that in most organizations today, "if an employee marches into his boss's office and complains that the boss is not living the values of the company, he's going to be told to hit the road, unless he's some kind of super employee who the company cannot afford to lose."

On the other hand, companies such as Vanguard that actually fulfill their stated principles will do just fine hanging on to employees, < Warech says. "Most employees would rather work for a place that's going to try to save jobs than a place that's going to lay people off at the drop of a hat, but if the brand is, 'to the extent possible, we're going to keep people,' you need to actually do it."

Plus, such companies will be a powerful magnet for employees disillusioned by unfulfilled policies and implied promises where they work.

Indeed, the latest pulse-taking of employee commitment issued by Aon Consulting suggests many employers have reason to worry. Aon's doctor of employee commitment is David Snyder, a senior vice president and director of the firm's "Loyalty Institute." Snyder says his company's employee commitment vital signs, while improving slightly, remain relatively weak.

Specifically, Aon's "Workforce Commitment Index," calculated from the firm's annual "United States @ Work" poll, remains below the baseline established in 1997 (see sidebar).

Probing Commitment

"We measure commitment in a variety of dimensions that span productivity, pride in the organization, responsibility toward the organization, trust and retention," Snyder says.

Commitment levels are correlated to "a series of workplace practices, policies and procedures that the employee is experiencing on a day-in/day-out basis." What emerges is a hierarchy of employee needs akin to the classic pyramid developed by psychological theorist Abraham Maslow.

"Individuals have core needs they need to have satisfied in the workplace to help them be productive and committed individuals," Snyder says. "At the base is safety and security -- physical and psychological. Those have been most problematic in recent years in the job environment we've seen."

And employees traumatized and uncommitted to their employer due to job insecurity won't be reassured if a company decides today to shift from a flexible-workforce policy to a Vanguard-style job-retention approach, Snyder warns. "There would need to be some period of time before employees would actually believe it."

The same is true of trust in management on any other issue of importance to employees, says Eileen Appelbaum, a professor in the School of Management and Labor Relations at Rutgers University and director of the Center for Women and Work. "It takes years of trustworthy behavior to build trust, and one bad action to destroy it," she says.

Once a work environment has been created that is as secure and stress-free as possible and workers "feel comfortable doing what they need to do to get their job done," Snyder says, the next level of the pyramid (equivalent to Maslow's needs of love, affection and belongingness) emerges in the form of this question from employees: "What do I get for this?"

"In today's environment, there are a lot of interesting things going on with that rewards component," Snyder says. In particular, relatively flat compensation trend lines and higher cost sharing on health plans have created a potentially volatile mix.

Appelbaum says the key here is the perception of shared sacrifice. "If a company is up against hard times, what doesn't go down well is if management is asking employees to make sacrifices, then gives itself multimillion-dollar contracts."

But in the absence of glaring examples of extreme disparate treatment or management hypocrisy, Appelbaum says, employees can accept the inevitable link between a bad business cycle and restrained compensation growth.

Rising to the pinnacle of the Maslow pyramid (self-actualization), according to Snyder, is an employee quest for more meaning and identity in work. "In our research, we've seen this becoming more important; I think Sept. 11 had a lot to do with that; our society has shifted pretty dramatically since then."

Employees, he says, are focusing more on "the degree to which my work is agreeable with my needs as an individual, both in terms of my family life and my altruistic goals for being in society."

This is something deeper than a rationalization of an inability to demand and receive bundles of stock options and fat raises every year. The good news -- and challenge -- for employers is that their ability to keep employees on board and motivated as the economy begins to expand may be less dependent on a bulging compensation budget than in the past, and more on intangibles.

"Leadership needs to lay out a clear sense of mission and values and purpose that isn't just phony, but something the organization really lives by," Snyder says. This must also have some concrete dimensions.

"Organizations need to reward their employees by engaging in and living those visions and values. Otherwise it's hard for people to know what they're committing to."

Or not.

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