

How High Employee Commitment leads to Superior Performance

Synopsis

The relationship between 'people' and 'business performance' is becoming ever clearer and many organisations now talk about the importance of employee commitment. But commitment is not a straightforward concept – it is the end product of a complex set of psychological and sociological relationships between employer and employee. Unless organisations understand the true nature of commitment and how to channel it effectively, many well intentioned initiatives will go to waste.

"Companies with highly committed employees experienced greater 3 year shareholder returns (112%) than companies with low employee commitment (76%)"

Watson Wyatt 1999

"Companies who scored highly in their ability to manage talent earned, on average, a 22% higher return to shareholders than their industry peers. Companies that scored low on talent management earned no more than their peers did"

Ed Michaels, Helen Handfield-Jones, Beth Axelrod. War For Talent, McKinsey 2001

"There is a growing 'value gap' between firms market capitalisation and their physical assets. Even after the internet bubble burst, 90% of the value of Microsoft, for example consisted of intangibles; its brands, intellectual property and accumulated expertise - in shorts its human capital". S Caulkin, People Management Aug 2001, HR and the Bottom Line.

"The single best predictor of overall excellence was a company's ability to attract, motivate and retain talented people". Fortune Study 1998.

"Rising stress at work costs £4bn per year". The Sunday Times 1st September 2002

Introduction

The above quotations illustrate clearly the importance of good people management and the contribution that it can make to the creation of shareholder value. Yet many organisations fail to match the reality to the rhetoric. Why? We believe that a failure to fully understand the nature and potential business impact of employee commitment lies at the heart of the problem.

The People Challenge Facing Organisations

The nature of work is changing. Gone are the days of lifetime employment, stable jobs and predictable career paths. Equally society is changing. People are becoming more demanding, both as consumers and as employees; they have more choice and are prepared to sacrifice financial gain for a more 'emotionally' rewarding work / life balance. Moreover, demographic trends suggest that the situation is going to become more acute. The age profile of the population as a whole is getting older and young people entering into employment are exhibiting a much more critical attitude towards the traditional notion of work. Consequently employers are going to have to radically re-think the nature of the employment deal that they offer as the composition and requirements of the workforce changes. The days when the employer was in the driving seat have now gone. In future, if an organisation wishes to be able to attract and retain the best talent, it will need to be capable of delivering an employment deal that meets the needs of an increasingly diverse workforce – and one where the old concepts of allegiance and loyalty are fast disappearing!

So why does this matter now? Recent research carried out in the US and the UK has demonstrated this most graphically¹. On average only 40% of employees believe that their employer deserves their loyalty, and it is estimated that 33% of employees will actively seek to change employer in the next 2 years (and 50% within 5 years). Given that it can cost the

Building employee commitment is fundamental to sustained business success

Approximately 35% of investment decisions are driven by an assessment of non financial data

18% of variations in productivity and 19% in profitability can be attributed to people management

Only 40% of employees believe that employers deserve their loyalty

equivalent of between 50% of base salary (for clerical and shop floor workers) and 200% of base salary (for executives) to replace a 'defecting' employee, the financial and business ramifications of these findings are potentially huge! And that is not all. Experience shows that it is all too often the 'prized' individuals who leave – the high performers or the ones with high potential, as these are by definition the most sought after and most marketable. The impact of losing talent of this calibre can be striking. Research has shown that superior performers produce up to 48% more output than averagely performing employees, and that this equates to a difference in added value equivalent to an extra 40% of base salary². And what about the 'roadies' (Retired On Active Duty), those employees who are content to turn up, do the minimum and take their salary? How many organisations have large numbers of such 'switched off' employees who fall into this category but who could really raise productivity if they could be 'switched on'.

All in all these findings should be more than enough to make organisations sit up and take notice. After all a significant proportion of the cost base of most organisations is associated with the employment, deployment and development of their people and this means that in many cases, organisations are failing to obtain a satisfactory return on that investment.

So what is the answer? The answer lies in a concept that is deceptively simple, but is hard to put into practice - **securing and channeling employee commitment.**

The Importance of Employee Commitment

Organisations that can successfully harness the commitment of their employees enjoy several distinct competitive advantages. They are able to execute their business strategies more successfully and are more flexible and adaptive to changing market conditions. They have an enhanced reputation in the market place and hence can attract and retain the best talent. They produce superior shareholder value through lower operating costs and higher revenues and profits. Their employees demonstrate higher levels of integrity, support customers and colleagues more effectively and are more prepared to 'go the extra mile'

In other words, in 'high commitment' organisations, employees deliver value in three distinct ways:

- **Persistence** – longer tenure, reduced absence, improved punctuality, reduced stress
- **Citizenship** – more ethical behaviours, spontaneous ambassadorship, more proactive support for others, increased discretionary effort
- **Performance** – greater productivity, enhanced customer service, improved quality, higher outputs

A fulfilling relationship is one where there is a high level of mutual satisfaction and interdependence. When these conditions are met then both parties to the relationship, employees and employers, feel committed and with this commitment comes the will to 'work at it' when the going gets rough and the challenge increases. The alternatives appear unattractive in comparison and the 'costs' of terminating the relationship are high.

But all employees have different needs and expectations and the factors that generate commitment in one group of employees may not have the same value or impact for another employee group. In other words, one size does not fit all! There are ten fundamental needs that the majority of the population are looking to satisfy, to a greater or lesser extent, through work:

- Achievement – performing to a high standard of excellence and meeting goals
- Power – having influence and control over others
- Affiliation – developing close harmonious relationships
- Meaning – operating in line with ones values and making a difference

Over 50% of employees are likely to change employer in the next 5 years

The full cost of replacing a senior manager / professional is 150% of base salary

Superior performers produce +48% more than average performers

The value of superior performance equates to +40% of mean salary

The business benefits of commitment:

- Successful strategy execution
- Increased responsiveness & flexibility
- Enhanced market perception
- Superior shareholder value
- Improved employee behaviours
- Increased productivity
- Positive workplace Climate

Committed employees deliver value as follows:

- Persistence
- Citizenship
- Performance

Commitment means different things to different employee groups

- Growth – acquiring new skills and knowledge and building own capability
- Status – being recognised, admired and respected
- Creativity – being innovative and creative
- Wealth – acquiring possessions and having a high standard of living
- Security – having a solid and predictable future
- Autonomy – being independent and having decision making responsibility

For most people, two or three of these considerations will predominate. The important point is that employers need to understand which are the considerations that are most important for each employee and each employee group, in order that they can create a relationship that meets the employees needs, and hence create the basis for commitment.

There is a further critically important reason for needing to understand what motivates employees. Behaviour is a function of an individual's underlying *motives* and the *situation* they find themselves in. Stress and dysfunctional, unproductive behaviours arise when there is fundamental mismatch between the two. Conversely, when the two are most closely aligned, an individual is most likely be motivated to perform and exhibit the desired behaviours. Understanding what motivates employees enables the organisation to shape the employment relationship in such a way as to create an environment where the employee is motivated to perform and will exhibit behaviours that support the needs of the organisation. The key message is **-the greater the extent to which the organisation can understand and fulfill employee's needs, the greater will be their motivation and commitment and their potential impact on business success.**

Channeling Employee Commitment

Creating commitment on its own however is not sufficient. People can be highly committed but still ineffective. An organisation needs to be able to harness employee commitment effectively in order to ensure that it is directed towards the achievement of the organisation's strategies and goals. Certain conditions need to exist for this to happen:

1. **An appropriate talent pool.** The organisation must first ensure that its recruitment and selection practices succeed in securing the calibre and type of employee that will fit with the company's culture, ethos and values.
2. **Clarity of direction.** Employees must understand what is expected of them and how this relates to the bigger picture. This requires regular two way communication, open disclosure of information concerning company strategy and performance and timely feedback regarding individual performance.
3. **Capability.** Employees must be equipped with the skills and competencies to enable them to operate effectively and enhance their contribution to the organisation. This entails a focus on both formal and self directed learning and in particular developing the teamworking and flexibility necessary to enable the organisation to be responsive and adaptive. And finally
4. **Effective deployment and support.** Employees must be deployed in roles that play to their strengths and provided with the autonomy and empowerment to enable them to be effective. They must also be equipped with the tools, techniques and information necessary for effective discharge of their role

Only when these conditions exist will employees be fully motivated and equipped to provide the consummate effort associated with high commitment organisations.

Making it Happen

There is no magical way of creating and harnessing commitment. Equally, there is no single 'road map' that will work for all organisations – every organisation is starting from a different place and has a unique destination. So what are the key principles that need to be applied? Commitment is based on social exchange theory. In other words '...positive, beneficial

Different types of relationship engender different types of commitment

The ten drivers of commitment:

- Power
- Achievement
- Affiliation
- Meaning
- Growth
- Status
- Creativity
- Wealth
- Security
- Autonomy

Different types of commitment will have different impacts on business success

Talent acquisition, direction, development and deployment are necessary to transform commitment into superior business performance

The characteristics of high commitment organisations:

- Employment security
- Egalitarianism
- Selection on basis of cultural fit
- Job enlargement & enrichment
- Emphasis on learning & development
- Competitive compensation
- Team & organisation based incentives
- Symbolic & financial ownership
- Open communications & freedom of information

actions directed at employees by the organisation contribute to the establishment of high quality exchange relationships ...that create obligations for employees to reciprocate in positive, beneficial ways³. Organisations must therefore first understand how employees perceive their relationship with the organisation and identify the factors that are most valued by employees and whose fulfillment will have the biggest impact on motivation and commitment.

Commitment is not a single, homogeneous entity which means the same to all employees and which remains static. On the contrary, it is multi-faceted, can manifest itself in different employee behaviours and can impact on the business in a number of different ways. In addition, the factors that employees look for will change over time as their own circumstances change and if commitment is to be maintained then the nature of the employment deal will need to be continually modified to accommodate these changing requirements. Finally it is important to remember that relationships are influenced from the very first encounter. Managing expectations honestly from the outset can avoid costly and disruptive separation at a later date

Building a high commitment organisation is not easy, but the superior performance that results from having employees that work for the best interests of the organisation, are flexible, who are continually anticipating what needs to be done and who are continually searching for ways to improve their own and the organisation's performance, is a prize well worth striving for.

¹ Hudson Institute 'Commitment in the Workplace' (2000): Hay Group research paper 'The Retention Dilemma' (2001)

² Hunter, Schmidt & Judiesch ' Individual Differences in output variability as a function of job complexity' Journal of Applied Psychology (1990)

³ Settoon et al 'A construct validity study of the Survey of Perceived Organisational Support' Journal of Applied Psychology (1996).

See also Eisenberger et al 'Perceived Organisational Support' Journal of Applied Psychology (1996) ; Lynch et al 'Perceived Organisational Support: Inferior Versus Superior Performance by Wary Employees' Journal of Applied Psychology (1999); Whitner 'Do 'high commitment' human resource practices affect employee commitment?' Journal of Management (2001); Li-Ping Tang et al 'Distributive and procedural justice as related to satisfaction and commitment' SAM Advanced Management Journal (1996).

Cerus Consulting are specialists in helping organisations release the potential of their people. We are committed to working in partnership with our clients to deliver results that have genuine impact on business performance

Our work is based on many years practical experience, both as line managers and consultants, backed up by the latest research into how to create and channel employee commitment to deliver business success. We have developed a series of web enabled diagnostic tools (such as the Commitment, Motivation & Performance Questionnaire – CMPQ) to help our clients rapidly and cost effectively identify the key areas for attention, establish a high commitment / performance culture and to facilitate inter and intra company benchmarking.

If you would like to know more about our services and how we might be able to help your organisation obtain more value from your people then visit our web site at www.cerusconsulting.co.uk or contact Doug Crawford at info@cerusconsulting.co.uk or on 020 7485 5748

- Teamwork & co-operation
- Social infrastructure
- Empowerment & autonomy
- Coaching & mentoring behaviours
- Strong sense of identity
- Mutual trust & respect
- Leadership with integrity

Commitment results from a mutually fulfilling relationship between employer and employee

Commitment is not static but changes over time

Commitment needs to be established **and** maintained

Create a compelling employer brand and deliver it consistently and honestly

High commitment leads to superior performance