CREATING AN EXCEPTIONAL ORGANIZATION

RESEARCH AND DATA

THREE TALL TREES

Tom Mann

January 1, 2016

Introduction

What defines an exceptional organization?

What makes an organization consistently growth-oriented, profitable, a great place to work, and an organization that's a thoughtful steward, both of its people and the planet?

Aware, authentic leaders, guided by a strong, human-centered culture. For the purposes of this report, I will not delve deeply into the data that indicates authentically-lead companies are also ethical companies with a strong leaning toward environmental and financial integrity. Hollywood will not be making a sequel to *The Big Short* featuring these organizations.

Basically, there are two major areas that exceptional organizations address, consistently invest in, and make a priority in terms of their business strategy:

- Creating a critical mass of Authentic Leaders, who have great leadership capacity because they focus on organizational alignment and performance, and, who in doing so, create authentic followers;
- Creating organizational clarity and strategic effectiveness through Organizational Alignment supported by Performance/Strategic objectives. Organizational alignment encompasses: Purpose, Vision, Values and Customer Experience. The best organizations tie these cultural imperatives to performance measures.

Both of these key factors impact the single imperative of exceptional organizations: strong organizational health, and its defining characteristic, highly engaged employees.

This report provides a research and data-driven look into the key factors that define exceptional organizations. These factors are:

- Authentic leadership development
- A strong corporate culture, aligning employees around purpose, vision, values and an emphasis on customer experience
- Creating higher levels of employee engagement and organizational health

Authentic Leadership

Authentic Leadership (AL) is, in the research, a 'root construct,' meaning that all positive forms of leadership, such as coaching, democratic and transformative leadership, are encompassed within AL. Authentic leaders are more trusted, more transparent, better communicators, care about their subordinates at a personal level, and take an active interest in developing their employees. They also create authentic followers, who embody many of the positive characteristics they model.

A genuine, transparent, ethical form of leadership, broadly termed authentic leadership (AL), is now recognized as a positive approach to organizational leadership that can help meet today's challenges (Avolio & Gardner, 2005; Avolio, Gardner, Walumbwa, Luthans, & May, 2004; George, 2003; Luthans & Avolio, 2003; Walumbwa, Avolio, Gardner, Wernsing, & Peterson, 2008) AL is characterized by a leader's self-aware-ness, openness, and clarity behaviors. Authentic leaders share the information needed to make decisions, accept others' inputs, and disclose their personal values, motives, and sentiments. Such characteristics enable followers to accurately assess the competence and morality of their authentic leader's actions (Walumbwa, Wang, Wang, Schaubroeck, & Avolio, 2010). Luthans and Avolio (2003) posited that authentic leaders draw from their own positive psychological resources to contribute and complement their followers' psychological capital in order to enhance their performance. This psychological capital, or simply PsyCap (see Luthans & Youssef, 2004; Luthans, Youssef, & Avolio, 2007), has now become the widely recognized core construct consisting of the positive psychological resources of hope, efficacy, resiliency, and optimism.

OK, that's a lot of scholarly citations. Basically, the data confirms that authentic leaders have an incredibly positive organizational impact. They create higher levels of employee engagement in the workforce. They embody and model corporate cultural imperatives, purpose, vision and values, and create alignment with followers. And, through their authenticity, they drive authentic customer experience. Creating a critical mass of authentic leaders is the direct route to organizational health and high levels of employee engagement.

A 2011 study by EnAnPAD, *Authentic Leadership: Effects on Work Performance and Analysis of Mediating Processes*, Boas & Cavazotte, investigated the influence of authentic leadership on job performance in a sample of employees and supervisors in a large company in Brazil. Using survey data, the authors found that authentic leadership positively affected employee performance at work. The study results also suggest that 'efforts should be made to develop authentic leader behaviors among those in charge of managing teams.' The authors further conclude that 'Attention to the issue of authenticity might improve organizational performance in the short run by stimulating higher levels of engagement (Avolio et al., 2004), and thus foster business performance (Avolio & Gardner, 2005), as well as the development of innovative solutions to internal problems and market challenges'.

In arguing for Authentic Leadership, Avolio and Gardner (2005), in their landmark research articles on Authentic Leadership, *Getting to the Root of Positive Forms of Leadership*, published in Leadership Quarterly that it enables a competitive advantage to be gained through the organization's ability to achieve persistently high performance and growth over a long period of time. The performance is defined as including financial, human (skills and ability), social (communications and team-work) and psychological (confidence, hope, optimism and resilience) capital returns.[(1)]

Authentic leaders have another profoundly positive influence in organizations. They create authentic followers—that is, employees model the authentic leaders' traits: authenticity, openness/transparency, and authentic behaviors and actions. This, in turn leads to a higher level of commitment (greater engagement) to the organization, and its vision and values.[(2)]

HBR joined the party, saying 'Those organizations that invest more in talent management...significantly outperform their competition across every measure of business—including earnings per share, gross profit margin and market capitalization per employee.'[(3)]

Organizational Alignment

Organizational alignment is, in essence, determined by corporate culture. GE defines corporate culture as: 'Essentially the sum total of the attitudes, behaviors, beliefs, and traditions of an organization. It encompasses the collective goals of a company and the standards of expected behavior in achieving those goals. And it describes the environment and manner in which employees interact with each other and the market.'[4]

A study from the book, *Corporate Culture and Performance*, by Kotter and Heskett (1992) highlights the difference in results over an eleven year period between twelve companies that did, and twenty companies that did not, have a performance-enhancing, people-centered culture.

	Average Increase for Twelve Firms with Performance-Enhancing Cultures	Average Increase for Twenty Firms without Performance-Enhancing Cultures
Revenue Growth	682%	166%
Employment Growth	282%	36%
Stock Price Growth	901%	74%
Net Income Growth	756%	1%

The authors note that strong corporate cultures that facilitate adaptation to a changing world are associated with strong financial results. These cultures highly value employees, customers, and owners and encourage leadership from everyone in the firm. So, if customer needs change, a firm's culture almost forces people to change their practices to meet the new needs. And anyone, not just a few people, is empowered to do just that.[5]

Purpose. WHY does the organization exist? Purpose is one of the three primary engagement drivers uncovered by Harvard and Stanford researchers, presented in Dan Pink's book *Drive: The Surprising Truth About What Motivates Us*. Purpose is the 'why' behind an organization's very reason for existence, beyond making money.

Employees want to know WHY they get out of bed in the morning, and come to work at 6am, when it's raining sideways. Sure the money and benefits are important, and they want to feel like part of something bigger than them.

A Booz Allen Hamilton/Aspen Institute survey of corporate behavior finds that leading companies craft a purpose-driven identity.[6]

A study by the consulting firm Bain and Company reports that 90% of the 500 firms surveyed issue some form of mission (purpose) and vision statements. Firms with clearly communicated, widely understood, and collectively-shared mission and vision have been shown to perform better than those without them, with the caveat that they related to effectiveness only when strategy and goals and objectives were aligned with them as well.

And finally, employees who focused on the meaning and purpose in their work experienced a 60% drop in absenteeism and a 75% reduction in turnover.[7]

Vision. Employees are more engaged when they know where the company's going and it's clear that it's a grand adventure, bigger than themselves—the famous 'BHAG' (Big, Hairy, Audacious Goal, of Jim Collins fame). Vision allows work and performance to be measured against a long-term goal.

The impact of Vision on Employee Engagement is HUGE.

- 16% engagement (% of employees engaged who perceived their company's vision as 'not meaningful')
- 40% engagement (% of employees engaged who perceived their company's vision as 'of average meaning')
- 68% engagement (% of employees engaged who perceived their company's vision as 'highly meaningful')

Clearly, creating a vision that employees accept and value creates engagement, and engaged employees are more likely to resonate with the vision rather than fight against it.(8)

Values. Values are what a company collectively believes is important—the deeply-held beliefs that drive employee behavior. Values, when held 'dear' by an organization, are a key driver of engagement. AND, values are, as you may suspect, quirky. They have the most significant impact when the organization and its leaders truly 'hold' and live them—even hiring, firing and promoting based on the company's values. Yet they also seem to have a positive impact on an organization's bottom line even if the organization simply posts them on their website (and even quirkier, the MORE values on the site, the bigger the impact)!

But wait, there's more!

Companies that update their values as they evolve also experience a bottom line bump! When corporate values serve as a foundation, businesses gain a strategic advantage that shows up in the financials.

Whatever an organization's values may be, when they are real they impact the bottom line in a variety of ways. Values help organizations:

- Avoid penalties, fines, lawsuits and criminal penalties
- Build employee loyalty, reduce hiring and training costs
- Reduce theft and other anti-company activity
- Drive customer loyalty and sales
- Create community goodwill that can lend support for tax advantages, recruitment opportunities and strategic alliances
- Attract quality applicants with less search investment
- Maintain loyal vendor relationships, reducing loss of suppliers or unexpected cost increases.(9)

Core values are designed to capture "How you show up, serve, and promote who you are as a business." If you are able to infuse your core values into the many layers of your business and its operations, the business' capacity to fulfill its fundamental, higher purpose is much greater.

There are great examples of companies operating their business using their core values as a guide. Southwest Airlines is committed first and foremost to the customer experience. About 100,000 people apply to work at Southwest each year, but only 2-3% of the applicants are hired. Southwest hires people that embrace their company's culture and values, namely people who are energetic, outgoing and friendly. And, of course customer-focused. And, the focus on values impacts their bottom line. Southwest was the only airline to remain profitable after 9/11. Most of the credit is due to Southwest's employees who continued their customer focus and also continued to present ideas to management about ways to improve the business.(10)

Customer Experience. Creating authentic, exceptional, and shareable customer experiences has a significant positive impact on an organization's bottom line. Few companies do customer experience well. Many do it from an inauthentic place—devoid of values or with falsely expressed values. The best truly trust and empower their employees to create memorable customer experiences. AND, organizations that have authentic leaders and are aligned around a common purpose, vision and values have a far easier time creating great customer (and visitor, subcontractor, vendor and employee) experiences.

Leading edge customer experience companies outperformed lagging companies (those with no emphasis on customer experience) in several key areas;

	Leading-Edge Companies	Lagging Companies
Profitability	60%	35%
Quality	66%	27%
Growth/Revenue Generation	60%	28%
Market Share	54%	29%
Customer Retention Rate	54%	20%

There's also data that shows that customer experience leaders outperform the stock market. (8-year stock performance of Customer Experience leaders vs. Customer Experience laggards, vs. the S&P 500 (2007-2014). A research study looked at the cumulative total stock returns for two model portfolios—comprised of the Top 10 ("Leaders") and Bottom 10 ("Laggards") publicly traded companies in Forrester Research's annual Customer Experience Index rankings.(4)

– Leaders: 107.5% return over 8 years
– S & P: 72.3%
– Laggards: 27.6%

Leaders outperformed the broader market, generating a total return that was 35 points higher than the S&P 500 Index.

Laggards trailed far behind, posting a total return that was 45 points lower than that of the broader market. There's also some interesting data on the impact of negative customer experience, From Thunderhead.com: (2):

- 19% of customers will not trust a company after one bad experience
- 30% of customers will share a bad experience with colleagues
- 25% will switch 'providers' after one bad experience
- 59% of customers say they have 'no relationship' with their providers

Basically, the data says that customers are far LESS loyal to their providers and are often unhappy with the relationship. They are open to changing providers.

PeopleMetrics' research indicates that companies creating authentic relationships with their customers achieve higher Customer Engagement scores—which, in turn, lead to higher profits, stock prices, and a slew of other positive business outcomes. Along the same lines, a Bain & Company study of 400 companies found that 80% of those companies surveyed believed they were providing 'superior customer service, while only 10% of their customers rated the customer service superior.[(11)]

And finally, some research on customer experience that's quirkily interesting...

According to a McKinsey & Company survey, 92% of customers, across all product and service offerings, are 'passive loyalists,' people who make repeat purchases out of habit, yet are open to offers from competitors that may entice them to change.

Bottom line…those organizations that create authentic, memorable and shareable customer

Tying It All Together

As I noted, there's not a lot of research and data available that speaks to what happens when an organization brings the pieces together: leadership, organizational alignment and operational performance, though a study by The Blanchard companies touched on the major areas: leadership, culture, employee engagement and customer experience:

'A year-long study, including a literature review of hundred of studies from 1980 through 2005, reveals some profound connections between leadership effectiveness, employee passion, customer devotion and organizational vitality.' Basically, the data indicates that one competency feeds another. So, for example, the study found that 'strategic Leadership and Operational Leadership Directly Predict Employee Passion.' In other words, Leadership must help employees understand where they are going in relation to the company's vision, help them 'buy in' to the culture and what the company stands for, and to understand how to connect their work to strategic imperatives. The study also found that employee passion (engagement), directly predicted high levels of customer devotion and organizational vitality (health).[(12)]

Blimes, Struven and Wetzker of the Boston Consulting Group conducted research over an eight-year span to understand the characteristics of top performing companies (forty-eight in Germany and thirty-six in the U.S.). In every case, each of the high performing companies had unusually progressive policies toward their employees.[4]

Each of the 10 companies and 1,979 business units Gallup studied as part of its initial Human Sigma research undertook initiatives to strengthen the “employee-customer encounter”, these companies outperformed their five largest peers in 2003 by 26% in gross margins and 85% in sales growth. However, Gallup found that in order for companies to realize outstanding financial benefits, they had to be better than average in both employee and customer engagement.

Employee Engagement. Employee engagement is the byproduct of all of the key areas this report addresses. Employees are more engaged when their leaders are authentic, and they feel seen, heard, valued and developed. Employees are more engaged when they feel they’re part of something bigger than themselves—that they have a purpose and vision that are inspirational and motivating. They’re more engaged when they have core values they can use to define the way they work and relate to other employees, customers and even sub-contractors, vendors and visitors.

Employee engagement is the level of commitment and involvement an employee has towards their organization and its values—the involvement an employee has towards their organization and its values (Vazirani, 2007). Engagement is the willingness and ability to contribute to company success, the extent to which employees put discretionary effort into their work, in the form of extra time, brainpower and energy (Towers Perrin, 2007). There are many definitions of employee engagement but it boils down to the extra effort an employee is willing to give based on their emotional commitment to the organization. Highly engaged employees are those who give more of discretionary time and energy to the organization. They are ‘on fire’ about their job, their work (and how to do it better/safer/faster) and the organization.

Organizations with highly engaged workers outperform companies with less engaged employees be a huge margin. A study of 64 organizations revealed that those with highly engaged employees achieve 202% the annual net income of organizations whose employees lag behind on engagement.[13]

HR consulting firm Hewitt Associates, 2005, indicates that they “have established a conclusive, compelling relationship between employee engagement and profitability through higher productivity, sales, customer satisfaction, and employee retention. And a Harvard Business Review study in 2000 said, *‘Research has clearly and consistently proved the direct link between employee engagement, customer satisfaction and revenue growth.’* Gallup has also noted the link between employee engagement and profitability: ‘Research has shown that engaged employees are more productive employees. The research also proves that engaged employees are more profitable, more customer focus, safer and more likely to withstand temptations to leave. Many have long suspected the connection between an employee’s level of engagement and the level and quality of his or her performance. Our research has laid the matter to rest.’[14]

Despite the overwhelming evidence that engaged employees are more productive and their organizations more profitable, many organizations have no strategy for creating engagement in their workplace. In December 2008, Towers Perrin’s *Global Workforce Study* of almost 100,000 employees in 20 countries found that only 22% of the US workforce is engaged, while 66% of employees are not engaged and 11% are disengaged. Other, more recent studies take an even dimmer view, pegging the level of disengaged (and toxic) employees at the average organization at close to 25%!

The underlying reason employee engagement is often ignored comes back to the key drivers of organizational health: lack of authentic leaders and organizational alignment. Engaging employees requires authentically caring for their best interests, valuing their perspectives, giving them autonomy to do their job their way, and actively developing them to their highest potential. In other words, trusting (and LOVING) their employees. This isn't hyperbole, it's supported by the data.

Engagement is highest when employees feel one thing—loved. Employees feel loved when:

- Their supervisor cares about them, their well-being and their personal growth.
- They do work they enjoy and have the talents to perform
- They feel valued and appreciated, and have a deep belief that the work they do matters (is part of something bigger than themselves)
- They have strong bonds with other people on their team, especially with their supervisor.[15]

The Return on Investment for Employee Engagement. The proliferation of performance data that link high levels of engagement with superior organization performance is irrefutable creating a solid business case for focusing organization resources on improving employee engagement levels. Examples of this emerging data include:

- The Hay Group reports that highly engaged organizations have 40% lower turnover
- Towers Watson reports: – 3 times higher operating income – 5 times higher income growth rate
- Gallup reports: – 4 times higher earnings per share growth rate – 18% higher productivity – 16% higher profitability[16]

Conclusions

The research is clear. Organizations that commit to developing authentic leaders, and who invest in a strong, 'uniquely them' culture, with a clear purpose, vision, and values, and LIVE those cultural ways of being, will reap the benefits of a highly engaged workforce, one that has the tools and trust to create great customer experiences.

The payoff is huge. Growth. Innovation. Profit. Sustainability. Fun. Great energy. Industry leadership. And, a highly engaged workforce that's capable of innovating and adapting to changing competitive conditions.

Given the data, which clearly supports addressing the key levers that create organizational health and employee engagement: authentic leadership, organizational alignment or customer experience, will have a direct, positive impact on the bottom line, why do so few organizations take this path? Because it's a long-term process that requires significant financial commitment, and a deep commitment from senior leaders. Leaders may not be equipped, either in terms of their own leadership, to pursue long-term strategies that will foster the creation of a sustainably healthy and aligned organization with engaged employees. This is senior leaders' highest work, yet in many organizations, leaders simply don't have the skills or desire, defaulting to management approaches, which are more tactical, short-term and process-driven rather than people-oriented.

Organizations that make organizational health and employee engagement their top priorities can expect to be at the top of their industries, in many key areas: growth, shareholder return, profitability, employee recruitment and retention, and safety, just to name a few.

Sources

[(1)] *Review of Research Literature on Authentic Leadership*, Creative Edge Consulting, Terry Sexton, 2007.
[(2)] *Leader's Authenticity Influence on Followers' Organizational Commitment*, Emerging Leadership Journeys, Artem Kliuchnikov, Regent University, 2011
[(3)] *Harvard Business Review*, 2007
[(4)] *Organizational culture: The effect of behavior on performance*, GE Capital, 2012
[(5)] *Does corporate culture drive financial performance?* Forbes Leadership series, 2011
[(6)] *The Value of Corporate Values*, The Aspen Institute, Reggie Van Lee, Lisa Fabish and Nancy McGaw, 2005
[(7)] *Science of Happiness: How to Build a Killer Culture*. Globoforce, 2010
[(8)] *Organizational Health: The Ultimate Competitive Advantage*, McKinsey & Company, 2012
[(9)] *Does Stating What Your Company Stands for Affect Your Bottom Line?* Harvard Business Review, Walter Frick, 2015
[(10)] *Business Culture—Why Core Values Matter*, OneBite, Hewins Financial, Janice Deringer, 2012
[(11)] PeopleMetrics, The Pinnacle of Customer Engagement: Genuine Service, Customer Experience Knowledge Blog, 2011
[(12)] *The Leadership-Profit Chain*, The Ken Blanchard Companies, Zigarmi, Blanchard, Essary and Houson, 2006
[(13)] Dale Carnegie Training (nationwide sample of 1500 employees), 2010.
[(14)] Gallup, 2009.
[(15)] *Why Engagement Happens in Employees' Hearts, Not Minds*, Fast Company, Mark Crowley, 2015.
[(16)] *Achiever's Intelligence: Insight into today's workforce*, 2013