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Session 33PD
Achieving a High ROI on Human Assets

Track: Management & Personal Development

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Summary: What are the two key assets that every business needs? Money and people. And money is inert, until your human assets deploy it!

Organizational and personal vitality is closely associated with something commonly referred to as the "war for talent." It is critical to become aware that you are in the middle of a race for obtaining, engaging and retaining top talent. Achieving a high ROI on human assets is central to your personal success and to the success of your company.

MR. DAVID S. DUNCAN: I am an actuary and the vice president of Employee Benefits at Great-West Life & Annuity Ins Co. I have been in the profession 26 years. I am in the process of learning, but I have had some successes, and I want to share those with you.

In the last 25 years, I have had different professional executive-level positions with companies, in both consulting organizations and carriers. My expertise is in the area of profitability and productivity improvement, with an emphasis on trying to get the best out of people; trying to put money on the bottom line by investing in people. I am a member of the National Human Resources Association. I am a member of an organization called Gateway Industrial/Organizational Psychologists. I am a member of the American Society for Training and Development. I may be the only actuary in the world that is a member of the National Speakers Association. I am also the editor of *The Stepping Stone* magazine. I am part of the Management and

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Personal Development Section and was elected to that a couple of years ago. I am the editor of the magazine. I do this because I like it, and I like sharing information.

I'd like to begin by sharing a story that demonstrates the importance of emotional motivation. My wife is a flight attendant for American Airlines. When we go on vacation, she wants to go home. I am always home, so I want to go some place. So we picked Maui. We flew into Maui in February of last year. It was dreary. It was rainy. It was 65 degrees. The hotel room was grungy. When we opened the drapes in the morning, our view overlooked the trash can.

We hung around for a couple of days, and the weather started to get better. We had some extra time, so we went to a timeshare presentation. I am the last person that would buy a timeshare. Particularly after a miserable experience, it is the last thing I wanted to do. I sat down with the salesman, who said, right off the bat, "Thirty percent of the people that come in here will not buy a timeshare. They are here to get the $100. If at any time during my presentation, you want the money, that is fine. Your time is valuable, mine is valuable, and you can go on your way. Thirty percent of the people end up buying a timeshare here from me. And 40 percent of the people really do not know. He gave me those statistics, and, as an actuary, I started to warm up to him.

I was not interested in the timeshare. But he started talking to me about vacations, and forcing yourself out of the office. He shared personal experiences like, "I got divorced in 1991, and I hadn't had a vacation with my children in 10 years." The idea started to have some appeal to me. Before it was all said and done, he was showing me the prices.

I looked over at my wife, and she said three words that shocked me. She said, "We'll take it." We bought this one-bedroom, oceanfront timeshare in Maui for $29,700. I came away from this experience remembering what consultant Alan Weiss once said: "Logic makes you think, but emotion really makes you act."

I know that all of you are here because you have some interest in this particular subject, and there are many emotions attached to this subject. There are also some facts that I want to share with you. I really want to appeal to your intelligence quotient as well as your emotional quotient today, by talking about these things.

Most of you are actuaries, and most of you are managers. My contention is this: By putting your people and your staff first in all of your thinking, you increase the odds of success not just for your company, but for you personally. That is really the heart of my presentation. I want to share with you some best practices at top companies. I have a couple of consulting studies that I want to share with you from Watson Wyatt and Tillinghast-Towers Perrin. Finally, I want to share some personal experiences that I have been fortunate to have. My staff has not necessarily been as fortunate, because they have been my test-tube laboratories for the last four years. Some things have worked well, and some things have been ruined. But the end result has been really good.

Howard Schultz, chairman of Starbucks, said, "We are not in the coffee business, serving people. We are in the people business, serving coffee." He insists that his whole business is people-centric.

When we took actuarial exams, we did not walk out remembering everything that we studied, but we knew where to go to get that information. I regularly recommend books during my presentations. If you have not read *Pour Your Heart into It: How Starbucks Built a Company One Cup at a Time*, by Howard Schultz, I think it is worth buying.

The average customer goes into Starbucks 18 times per month. At $3 a cup, that is $54 a month, $650 a year. At 35 percent marginal tax rate, that is a $1,000 of income per year per customer going to Starbucks. People return, people love it, people spend money, and people are very engaged in the business. When they go there, they feel very much a part of the business. All of the workers participate in stock options and medical-care benefits.

All of your staff wants to be very engaged in the business that you are in. Sometimes you understand that, and the people that work for you understand it, and all the people around you. Your boss may not get it. That is usually the biggest stumbling block. We do find that but it is imperative that you try to lead in the right direction.

Len Schlesinger, the chief operating officer of Limited Brands said, "Margin—and ultimately profit—is rooted in meaningful differentiation of your product, of the experience and of your people."

Everything that we do is about people, including trying to make money. In our business, in the services industry, everything that we have is intangible. In 1995, 55 percent of people could be classified as knowledge workers. These would be professional, managerial, technical and sales staff. Your job, as a manager, is to try to get the greatest return on investment on your people. Every year, you have a budget. But your job is not simply to look at your budget and stay within it. If you stay $10,000 under budget, you are not necessarily okay.

There is a person at our company that is about 75 years old. I need to have lunch with him once a month, just to keep me even. He said to me one time, "Don't worry about your budget. Give the bean counters their 2 percent budget increase next year. Don't waste your time on it."

How many of you have spent this inordinate amount of time worrying about your budget, instead of spending the time to do your business well. He said, "Go do your business well. Give them their lousy 2 percent. If you focus on the business and make it successful, they will not care if you overran your budget next year. If you focus on the business and you mess it up, going over budget is the least of your worries." It is not just money that you are spending; it is money that the company is entrusting you to invest wisely.

There's a lot of research being done that suggests that soft/people issues really do have a significant impact on the bottom line. A Tillinghast-Towers Perrin study found that although 90 percent of 300 executives interviewed said that their employees are the most important variable in their company's success, they rank specific people-related issues far below other priorities.

Human capital is not only a company's biggest asset; it is also, in many cases, a company's largest expense. How do you view people? This is what *Human Capital* magazine has to say. (By the way, if you do not subscribe to *Human Capital* magazine, it is free, www.humancapitalmag.com.) There are two ways of looking at people, and we cannot ignore the fact that we have to look at them both ways. They are investments *and* costs.

One type of company will look at people as investments. They select their investments carefully, like when buying a stock. They expect the best. Since they invest in them, just as when they buy a good stock, they want a return on their investment. That is fair. It is fair to have performance-management systems that actually back up that kind of an investment philosophy in your staff. If somebody is a real winner, they invest more in them. If somebody is not — like a stock, if you have a loser, you have to dump the loser. So select your investments very carefully. It's, obviously, very important.

There's another kind of company that looks at their income statement and finds that 65 percent of their entire operating budget is tied up in personnel costs—salaries, benefits, vacations and the like. They think that if they can just keep their thumbs on those costs, they can eke out some kind of a bottom-line profit.

I have worked for both kinds of companies. As a manager, I probably have done a little bit of both—sometimes even depending on the mood that I am in. But what I'm here to contend is that the first way is much better, and the return is much greater.

James Hatch is quoted in *Enterprise* magazine as saying, "Human capital is all about people, their intellect, knowledge and experience. Human capital goes well beyond knowledge and skills to encompass other qualities, such as loyalty, motivation and teamwork."

Assets are, by definition, something that you own and deploy. You do not own human assets. You do not deploy human assets. You cannot even manage them. If I were to ask you how many people you manage, the answer really is zero. You cannot manage.

People really are not assets in the classical sense in which we own them and deploy them.

I recommend that you read Thomas O. Davenport's book, *Human Capital*. Over the last few years, I have spent hundreds and hundreds of hours in research on this subject. If you want one reference book, this is it. Davenport says that people should not be viewed as assets or factors of production, but investors in the business, paying in human capital and expecting a return on their business. So he is saying that employees are actually the investors and owners of human capital. They are not organizational assets.

You know that this is true. Why did you stay awake all hours of the night passing actuarial exams instead of being with your family if you did not believe that you were investing in yourself so that there would be a return later on? You were an investor in yourself, and you want a return on that investment. Everybody in the organization, I do not care who they are, feels the same way.

Davenport also says, "Human capital is the currency that people bring to invest in their jobs. It includes abilities, behaviors, personal energy and time." So successful performance is not just about showing up with a bunch of skill-sets and knowledge, but it also involves those other things—time, engagement, behaviors, etc.

Yahoo, Inc. is an example of a company that puts a value on human capital. On April 25, Yahoo was trading at $24.96 with a price/earning (P/E) ratio of 106.04. Enterprise Magazine published the following regarding the company, "The high-flying stock price of Yahoo ... reflects not only the book value of the company, but also the potential that lies in the employees' knowledge, skills and ability to innovate."

There is a body of evidence that suggests that people are investments and provide great returns, or cost you dearly. People are not necessarily your greatest assets, but your *greatest* people truly are your greatest assets. People issues and the bottom line of your company are directly related. The thing that makes the difference is not your company. It is not your people. It is you as a manager. You make the single biggest difference to your people and to your company. Your goal is to somehow identify the greatest talent and create the programs to retain them. While they're there, get them engaged, provide programs that reward them.

You have to know your people. You have to spend time with them. You have to know what motivates them—like the timeshare guy knew what motivated me. But if you truly know your people, that's the very first step in being able to engage them, because you know what's behind them and what actually motivates them. You have to change your focus to being people-centered. You cannot be company-centered. You cannot be self-centered. You have to be others-centered. If you meet their needs, they are more than likely to meet your personal needs and the needs of your company.

Southwest Airlines has been very successful. Two years ago, the airline industry was going through horrific times—this was even before September 11—with fuel prices, labor issues, and all kinds of things. *Fortune* magazine reported that Southwest Airline's president, Herb Kelleher went to his staff in February and told them that he needed every employee to find a way to come up with $52 million. He wanted them to help to keep the company going, to keep it profitable, to keep it the kind of place that they wanted it to be. It required that every employee come up with $5 per day.

The employees would start doing things that normally were not in their job description. For example, people that were supposed to cater the peanuts and the soft drinks on Southwest Airlines would not show up, so a pilot would get off the plane to bring them on board. Now, this was a big deal. There is only so far that folks in a union go. For people to really pitch in, particularly in a unionized environment, said a lot about the airline. Within two weeks, they had $25 million to $30 million dollars in savings at the airline. The airline had become so other-centered that when it was time to get people to step up to the bar to help out, they did it.

What has changed today, though? I mentioned earlier that I have been in the business for about 26 years. There was a respect for actuaries at the time. There was not even a personal computer, but they could run these little terminals. They were the only people in the company that could do a percentage, and that was great. They pulled up the commutation columns, and they would do all this stuff, like magic. If the actuary said, "This is the dividend scale," that was it. There was no negotiation with sales. That is different today.

What happened along the way? There was this thing called "social contract." How many of you have ever heard the term "social contract"? Social contract is "the deal." For example, my step-father worked for Goodyear Tire & Rubber Co. for 48 years. Every day, he did the same job, day in and day out. He made tires. I remember that he walked to work in the snow, if the car was not running yet. The deal that he had with Goodyear Tire & Rubber was that if he came to work every day and did his best, he'd have employment for life. They would give him a pin at 20 years. They would give him two pins at 30 years. They would give him a gold watch at retirement. They would give him a nice retirement package, etc.

I am part of Great-West Life, but I actually joined General American Life four years ago. Great-West bought our health enterprise about six months after I started with the company. But at General American, it was a good-old, sleepy mutual company. They were not comfortable with the performance-management philosophy. They felt that they could not let somebody go just because they were incompetent. If people came to work every day and didn't call in sick and stayed in, they didn't abuse that one day a month of sick time, and did their best, that was good enough. We could not ask for more than that. It was an unwritten contract called the "social contract."

The deal changed about 20 years ago, a few years after I got into the profession. The deal was this. It has nothing to do with our profession, but because companies decided to do things like send jobs overseas, downsize, etc. Suddenly, this vast number of people were working under a different set of assumptions; the social deal changed significantly.

So what do we have today? We have a human-capital agenda. Everybody reads about it all the time. A new economy has emerged with an emphasis on entrepreneurial skills; leaner, flatter structures; a new kind of worker. We are in a war for talent. We are out there like General Patton.

In *Fast Company* magazine, a spokesman for Ford Motor Company said, "We have a new culture initiative that wants to build a new army of warrior entrepreneurs."

So the people that work for you, they invest in themselves. They expect a return on the investment that they are putting in, and it is important for you to recognize what each and every one of your staff people wants. Because if you do not give it to them, they are going to go some place else. You do not have any choice other than to be people-centered at this point.

What is your main job as an actuary? Your job is to add value. No matter what your job is, your company is counting on you to add value and get returns for the company.

How do you do that through people? You do that through recruiting, retention and engagement of the people that you already have through the door. This is stuff that you already know, but it is worth a reminder.

One of the things that we do when we hire people is look at knowledge and skills. We are looking for good actuaries, in particular. We ask, "Have you ever done evaluation? Have you ever done any pricing? Do you have any long-term-care experience?"

We do not focus on other things, because we typically hire based on knowledge and skills. But we have to engage talent and behaviors, as well. These are things that we should be looking for when we recruit.

I will give you a quick example of this. There is a hair stylist I knew in Indianapolis. She was really good. She had all the education, all the knowledge. She knew how hair works. She knew that the average head of hair had 125,000 hairs. It grows half-an-inch a month. If you do the math on that, the average head of hair grows one mile per month. She knew what it took to open up the hair follicles on every little hair and the difference between permanent and semi-permanent, how long you had to have the processing on, etc. She knew the chemical makeup and the amino-acid-complex structure of hair, which is similar to things like fingernails. She had the knowledge, and she had the skills to be able to actually apply it.

But she had some behavioral issues. She got fired from the hair salon because she did not get along with anybody. She was very disruptive. She had the same behaviors that you end up with in your own departments. It is the talents and the behavior, not just the current skill-sets that are really important. No matter how much money she actually made for that particular salon (by the way, 10 years ago, she was making $60,000 dollars a year), it was not worth it if her behaviors were not right for the enterprise.

You should read the book *Good to Great: Why Some Companies Make the Leap ... and Others Don't* by Jim Collins. He recommends focusing on recruiting excellence. He thinks that companies sometimes do it all wrong. They decide what they are going to do, and then they try to do it. He says that the first thing that you should do is "get the right people on the bus." He likens it to a bus trip. You get the right people on the bus and get the wrong people off the bus. After the right people are on the bus, then get them into the right seats. Then decide where to take the bus.."

According to the American Management Association, the cost of employee replacement is 30 percent. (In some actuarial circles, it is even more than this.) We know that we pay our recruiters 25 percent to 30 percent already, if we have to replace somebody. Consider productivity losses, advertising, retraining, and the value of lost knowledge. It is so expensive to replace people.

We are suffering from a delusion right now, when our turnover rates are pretty low in our companies. We think that people are kind of happy, but actually they are not. As soon as the economy turns, the people that we think we are going to keep for a long time, because they are putting up with it right now, are absolutely going to go out the door. If ever there is a time to pay attention to your people, this is the time. All of these costs go right to your bottom line and reflect on you as a manager. The No. 1 reason that people leave their companies is some issue with their boss. It is not the benefit package.

Engagement—you recruit the people and then you have to keep them there. Just because they are there does not mean that they are really doing anything. I know of a company who is closing one operation and moving it to the company's corporate headquarters. I guarantee you that the engagement level for the division being closed is not really high. I have taken little polls around that enterprise. The average amount of time people are not productive right now, not engaged, is 40 percent.

It is up to you to create the environment for people to really engage. I think that a fulcrum is a good example. As people are engaged on one side, the return to the company is actually going to go up on the other. If there is no engagement whatsoever, there will be no return to the company. There will be nothing but cost. The thing that you can do is change the leverage. If you ever have played with levers in school, you know that if you move a lever to one side, you do not have to push as hard to get the same kind of return. You, as the manager, have control and responsibility for the placement of that fulcrum that in turn impacts leverage.

Employees want responsibility for their own work. They want to have a sense of worth in their job. It is not enough to walk in and say, "You know, if we do this, the company is going to make $40 million." What does that mean to them? Being recognized for individual contributions is very important. Everybody has skills and they want to use them. It is important to line up jobs commensurate with people's skill-sets.

There are factors that have the lowest value in getting people engaged or having them try their hardest. No. 1 is compensation based on organizational performance. Most of us, me included, are in some kind of a bonus plan for which a huge percentage of the bonus is tied to corporate performance, and not our own performance. It does not tend to engage you or your staff, either. Benefits do not tend to impact a person's engagement either. Benefits are excellent for recruiting, but not necessarily effective for engaging.

I want to give examples of companies that are considered good places to work. Edward Jones, in St. Louis, is always on *Fortune* magazine's "Best 100 Companies to Work For" list. In fact, it has been rated No. 1 for two years running. Training is important at Edward Jones; 146 hours of time is spent on each and every employee in training, three to four weeks of basic training. They provide more than 600 hours of training for their stockbrokers.

Edward Jones managing partner, John Bachmann said, "In order to grow, you have to be trained, or you get trapped in the present." Be sure to provide training for your staff.

An anonymous administrative assistant at Edward Jones said, "I had never worked for a company that had so many satisfied employees." The result for Edward Jones, by focusing on people and doing the right things, speaks for itself. In 1998, they had 37,000 job applications. Last year, they had 381,000 job applications. They absolutely recruit the best talent, they continue to raise the bar. They retain the best talent, as well.

The *St. Louis Business Journal* rated MasterCard as one of the best places to work in St. Louis. The CEO was fun; he had a great sense of humor. You do not have to be crazy to make work fun. It is impossible to have happy customers if you have unhappy employees. There is a lot of fun that you can have with your staff and it really makes a significant difference to them.

At Southwest Airlines, they base their hires on an ability to have a good sense of humor. If you have a lousy sense of humor, you do not get hired at Southwest Airlines. They hire attitude; they train skill. They are looking for that talent and behavior thing, thinking that they can always develop the skill and knowledge thing.

I have had several jobs over my career, and interviewers always have asked me about the specifics of my current role, "You have no large-case experience. You have limited managed-care experience." I can learn that stuff, but I cannot learn empathy. I cannot learn working hard. I cannot learn those things.

Kohl's 2002 annual report said, "Our ability to attract and retain the people that drive our success revolves around making Kohl's a great place to work. Our retention rates are consistently higher than many others in the industry, giving us the competitive advantage of increased productivity and lower costs."

Skandia is one of the few companies that really has tried to track its performance management. In fact, *Fortune* magazine ranked the firm one of the top 10 companies to work for in Europe. In an article entitled "A Capital Idea," Daintry Duffy said, "A few progressive organizations—most notably Skandia Insurance Co. Ltd. of Stockholm, Sweden—have embraced the idea of human capital wholeheartedly and have made concerted efforts to track its value and manage it, achieving impressive bottom-line results in the process."

Let's turn to a few recent consulting studies that support the human capital agenda. Watson Wyatt put out a Human Capital Index study in 2002. It is a study showing the relationship between human-capital practices and a company's bottom line. It was a five-year study. It found that companies that exhibited certain human-capital practices actually had returns to stockholders of 103 percent versus returns to stockholders one-half of that from other companies. They studied certain kinds of companies of certain sizes and they said that there were some key practices—30 practices, in particular—that really were associated with a 103 percent increase in market value for those particular stocks.

What are some of those top practices? No. 1, total rewards and accountability. If you can, implement a system for which you have total accountability from your staff. But it is not enough to give the accountability to your staff with no reward. They are not going to want to achieve goals just because the CEO is going to get a $7 million bonus. What's in it for them, too?

I worked for a company at one time, for which I suggested implementing a stronger performance-management system. If employees did a really great job, they would get 4.5 percent raises. If they did a lousy job, they would get 3.5 percent raises. Someone who worked for me said, "That's a novel concept, but I can tell you right now, people are going to have a fit because in our company it's actually 4.1 percent and 3.9 percent."

I said, "You have got to be kidding. If you do that, (i.e., 4.1 percent vs. 3.9 percent) two-tenths of a percent times an average salary of $50,000, after tax, is only $1.25 per week extra for a top employee. You're giving them pepperoni on their cheese pizza for doing a great job." The poor employee still gets the cheese pizza.

So your good employees are thinking, "Is this worth it?" So what happens? They leave, and take their human assets some place else. So rewarding employees for good work and refusing to accept sub-par performance is very important. Accountability goes along with that.

You should read the book *Straight From the Gut* by Jack Welch. There is a lot of really good stuff in here about performance management.

Watson Wyatt's No. 2 recommendation is creating a collegial, flexible workplace, with great leadership and a less hierarchical culture that encourages employee contribution. My current company did a survey of all of our management team in the last month. We are a top/down, bureaucratic-control culture. We are in the process of trying to change that into something that we would consider a "competence culture."

There is talent sitting in your office right now. Every CEO, at one time or another, was a mailroom person, a file clerk or a secretary. Now, not every secretary or file clerk becomes a CEO. But every CEO at one time or another was not the CEO, and they had a different job. It just makes common sense to treat everybody that you have on your staff with an equal amount of dignity, respect and interest in the work that they are doing, because the potential returns are just enormous. We are not smart enough to know who is actually going to succeed.

No. 3 from Watson Wyatt: recruiting and retaining excellence. That was the No. 1 thing in 1999, but with the economy change and so forth, it dropped to No. 3. Keep turnover low. They also say that time spent getting people up to speed is better off spent taking your time recruiting the right person in a job to begin with.

Communications integrity—if you do not do anything else, try to do this. Use high-tech tools, use any tools you can, to create an environment in which sharing of knowledge is part of your culture. It is just how you do things. It is how you tie what you are trying to do together—brainstorming meetings, keeping in touch, communication meetings. Use high-tech, but do not let that substitute for high-touch. We are "e-mail managers" now. Either try to learn how to be high-touch or hire people that are high-touch. If you have somebody that works for you right now that's high-touch, then have him or her do it.

It's really important in today's economy to know that if you are not getting out of your office and going to see your staff at least weekly, if not daily, they are assuming that something is seriously wrong. If you are holed up in your office, they are not thinking good things. "What's going on? What is happening? Why aren't they talking to us? They used to come around." Well, you are busy now, but they do not know that. They just assume that something's wrong.

The conclusion from Watson Wyatt—hire the right people, create the right environment and leverage that with technology. The implication from Watson

Wyatt, again, is a significant increase in shareholder value. When you are adding value for your company, it is an increase in value for you.

Tillinghast-Towers Perrin has put out three studies that I love. They are called "New Realities in Today's Workforce," "How Leading Organizations Manage Talent," and "Working Today: Exploring Employees' Emotional Connections to Their Jobs." A lot of consulting firms are implementing these huge human-capital practices now. It used to be retirement and health and things like that. Now, there are human-capital practices, for good reason. That last study is their Gang & Gang Research study. It was written by an organization that explores people's emotional connections to their jobs.

Tillinghast-Towers Perrin found that in today's workplace, mobility no longer carries a stigma. Have you noticed that? I have had a half-dozen jobs in my actuarial career. In fact, there are a lot of people in my company that are looking for work elsewhere, as we relocate jobs elsewhere. They are finding that the fact that they have been with the company 15 and 20 years, and do not have well-rounded experience in the marketplace is a significant problem. Employee views on tenure have changed the majority of workforces now in the market. The majority of the workforce, 60 percent to 70 percent of the workforce is looking for jobs. I do not mean, necessarily, actively looking for jobs. They are taking a call from a recruiter, when there was not a chance they would have talked to that recruiter five years or three years ago. It doesn't hurt to listen, right? It used to hurt to listen. Now, it never hurts to listen. The majority of the workforce in general, your workforce, your people, while we're here enjoying this meeting, are back home thinking about their employment, how they fit into the organization, and so forth. It is a highly informed workforce. We have Monster.com, where people can be educated. DW Simpson did not publish a salary survey 10 years ago. We have a very informed workforce.

There is another thing that Tillinghast-Towers Perrin found. Downsizing used to remove the bottom level of people who came in the door. It is like LI/FO accounting: last in, first out. That has been changed. A lot of companies are moving to a performance-based way of letting people go. Somebody who's been there 20 years who's not doing the job, may be the first one out the door, versus somebody who's been there six months and is doing the job.

The conclusion from Tillinghast-Towers Perrin: workplace reports evaluated the behavior drivers behind recruitment, retention and engagement of talent. They said that much of this is an art, but some of it is a science, too. As scientists, I think that it is incumbent upon all of us to do everything that we can to learn about this in today's economy.

Many of the factors that they found varied by age of employee or service level within the company. But again, it emphasizes the importance of actually knowing everybody on your staff. What really floats their boat and makes sense for them?

They also studied the linkage between corporate goals, organizational goals, and unit goals, which are people goals, as well. There has to be a good amount of communication from corporate goals down to a person's job, for that person to be very engaged in what they are doing. So it is very important, again, for you to focus on communication with your staff.

The Tillinghast-Towers Perrin Gang & Gang Study was put together to research the nature and intensity of employees' emotional connections to their jobs. They revealed really interesting things in the study. One key finding was that there is a statistically significant relationship between positive employee emotion and superior financial results for a company. Again, we are on the forefront of some new knowledge. I mean, we all know that happy employees mean something. But can it be demonstrated all the way to the bottom line?

I read that right now, there is an enormous gap between employees' current and ideal work experiences. People know what they want and need to feel intensely positive about their work. Right now, they are just not getting it, across all industries. They have to be able to get it. They have to be appreciated.

Tillinghast-Towers Perrin recommended focusing on recruiting excellence and on culture modification. If you are doing things in an old-school way in your company, find a way of leading the new charge to try to engage people in a different way, such as performance management and reward systems.

On recruiting excellence—two or three years ago, we were recruiting for actuarial positions. I remember that the actuarial department wanted to make a job offer to this one person. I said, "Really, why?"

"Oh, man! He'd fit right in, he really would," was the response.

"That's precisely why we're not hiring him," I said. "I have enough of you." I was dead serious. That is exactly what I said, and he understood.

We set about to do a different kind of recruiting. We did have significant change in our actuarial department over time. In my personal experience, focusing on recruiting excellence made a ton of difference in our own enterprise.

I have been with the company for about four years, and it has been a test tube for me. I've been experimenting with a bunch of things. I have learned some things. It is important to spend time and focus on culture modification. Design and implement a performance management and reward system where—you can always identify the top 20 percent of your talent. There's this middle group, they are "absolutely needed" people, they are essential, they are the middle 70 percent. Then there is the bottom 10 percent. With that 3.5/4.5 percent raise budget, you could actually pay the 20 percent of your top staff something like 7 percent raises; the 70 percent, 3.5 percent raises; and those bottom people, somewhere in the

2.5 percent range. If you did the math on that, it still balances back to that overall 4 percent merit pool that you had before.

Some companies do not do that because they do not want to make anybody mad. They want to make the 20 percent mad, their best performers, because they are trying to cater to the 10 percent slackers and the 70 percent in the middle. If you want people to like you, then try to create a strong performance-management system in your organization. You will elevate things; that raises the bar and ends up putting money in people's pockets. They end up getting it. Be bold. Lead.

On things like performance management, just to let you know a few of the things that I did that you may have the luxury of doing—spot bonuses, promotions, pay raises, those kind of things. On rewards and recognition, it is as simple as creating an "Underwriter of the Year."

I went to the St. Louis Bread Company and bought a trail-mix bagel about three years ago. I put it in my office, and it sat there for about a month-and-a-half and just got hard. It is supposed to have all natural ingredients, but it did not mold or anything. So I kept it for a long time, and I still have it. It is three years old now. I put it in a little box and I call it the "Bonus Bagel." I gave it to somebody and said, "You're doing a great job. Here is a Bonus Bagel and a $20 gift certificate to a restaurant. Your job is to keep it no more than 30 days, put it out there with pride, and then find somebody else doing a great job and give the Bonus Bagel to them. Tell the rest of us what they did that's really great."

It was a way for all of us to find out what was going on. It cost $20 a month. I had the senior underwriter, who's making $75,000 a year, write me an e-mail one day, saying, "Why isn't anybody over in our area getting a Bonus Bagel?" It's a petrified trail mix bagel! But it turned out to be just the little things that make a difference.

If you are fun, they have more fun. They know that it is acceptable to have fun, too. We spend too much of our lives in the office for it not to be a little fun. It is not enough to be rewarding. It has to be rewarding. But if we're going to spend that much of our lives in the office doing what we do, then let's make it fun, too.

E-mails, personal notes, you did a good job, recognizing people in front of other people—it is the little things that make a difference. One day, I lost somebody and I hired him back in four months. Then I lost somebody else and I hired him back in six months. It is great. It was like Tom Cruise; "nobody leaves the firm." I brought in a karaoke machine at lunchtime. We had an hour-and-a-half lunch. It was called "How Sweet It Is Day" to welcome these two people back into the fold. It was just fantastic. It was one of those little things that make a difference.

I make birthday cards for everybody. I could go buy them a lot cheaper, and it would not take as much time. But this is more fun. I take my picture and I put it on different things in magazines and I give them to people with corny captions. It is so pitiful, because I walk around the department and find hundreds of pictures of my face all over the place. It is not pretty, but people love it. They love the attention, the one-on-one attention.

Communication, quarterly meetings, e-mails—let them know what's going on. Every other Wednesday, I have biweekly non-communication meetings. In general, I may have nothing to tell anyone, but I at least tell them what I know, give my opinions on things, and let them ask questions. But we are getting people together so that there is at least an attempt at communication.

So what does all of this cute high-touch stuff do for us? We had an $11 million profit plan in 1999, when I joined the company. We made $1 million. Last year, we had a $53 million profit plan. We made $68 million.

Now, am I responsible for all that? I will tell you this, if we didn't make the profit plan, I am responsible for all blame, okay? Profit and loss (P&L) is my responsibility at our company in St. Louis, and so it would be my fault. Is it my doing that we performed so well? To be honest with you, there were some really good things that were done in our corporate offices that impacted part of the $68 million. Of the $68 million, about $20 million had nothing to do with anything that we did in St. Louis at all. The other $48 million absolutely had to do with St. Louis. Did it have to do with me at all? I take no credit for it, other than to recognize that this is important new-frontier stuff. Engaging staff, getting them involved in the process, putting in performance-management systems, recognizing, rewarding, paying attention, meeting the needs of people on my staff paid off big dividends.

What about the people on my staff? Did it pay off for them? Yeah, when one person's bonus went from $1,500 to $18,000 two years later, it got her attention. When an actuary's bonus was that $8,000 and changed to $35,000, it definitely got his attention. It works for them if you set it up right.

In the four years that I was there, 5 percent of my employees got fired. They just did. I had an underwriter who cost us $2.5 million a year, every year, for four years. I treated him with dignity and respect, gave him a nice package and gave him out-placement services, and so forth, to help him along his way. He has his own business now. He is doing pretty well. Some people had to go. Ten percent of the people actually left because they could not perform at the new level. They did not want to. They could not coast anymore. Fifty to 60 percent of the people received a promotion. Eighty percent of the people there have gone through some kind of continuing-education training. Voluntary turnover of staff has been 4.5 percent. That is pretty good by most measures. All of this human capital stuff, I believe, from my perspective, really does work. It worked for us.

I have suggestions for you as company leaders. Authenticity: be yourself. If two people are exactly the same, then there's one too many of them, right? So I would not want you to be just like me and I probably would not want to be like you, either. No. 1, just be yourself. It is one of the top things on the list of leadership qualities. Learn more about this particular subject. Then truly get to know your staff and really try to establish some kind of trust.

I had a guy say to me, "You are a very tough person to work for. You're very demanding, but you've done it in an atmosphere in which it's okay for us to fail. And we know that when you come down on us, there is also the potential for reward. So it's a nice balance."

I thought that was complimentary. I really did not want to be that tough. I just wanted to get the job done, because I am a very bottom-line person.

Find out what the needs are of people on your staff, build off of their strengths, reward and recognize, do something called "relate and require." I am relating to people on my staff. I am really requiring them to do the job.

You have people on your staff that RELATE to other people really well. They get along with everybody. They get nothing done and make no decisions. Everybody likes them, but they are not doing the job. However, there has to be a decent balance. On the other end, there is the REQUIRE, where results are expected. People are just people; spend as much time as you can communicating with them. I flipped through the channels the other night. My dog likes to watch Animal Planet. I was watching this show about a lady who went to sleep one night and woke up the next day blind. The interviewer asked her, "So how's it been? Do you have any of your sight back?"

"No, it just literally went away," she said. "It was this condition. It went away and I never got it back, but I got the Seeing Eye dog."

The interviewer asked, "Have you ever had any problem?"

"Well, a Seeing Eye dog is so wonderful for me," she replied. "There was this one time when we started to walk across the street. We had the right to cross. A car came flying around the corner, and the dog literally threw its body up in front of me and it pushed me back. I could feel the car. It was so close that had the dog had its head out there just a little bit more, it would have been decapitated." Your staff will throw their bodies out for you, too, if you care for them and invest in them. It's called trust.

When Herb Kelleher once said, "I need $52 million ", his employees wanted to help. He developed the kind of relationship with his staff that inspires them to respond, "You care about me so much that I'm willing to do this for you, too, because I know I end up getting something out of the whole deal, too."

I know your staff would do the same thing. I always have felt about my staff that if I needed somebody to step up and work a weekend to get a thing done, I would have the room full of people doing it. They would just do it. If you are doing the right thing with your staff, they absolutely will do the best thing for you.

Focus on your people and not on your own needs. If you do, you will find that these good things are good for you, too, in the end. They are great for your career. They are not just great for your company and for your staff, but they are great for you. People like you. You will get the job done. You will be adding value. You will have more opportunity. You will get more money. It just makes a lot of sense.

Again, service industries have nothing but intangible products, people being central to the whole business. The world is changing. The social contract absolutely has changed. It is not always easy to demonstrate tangible outputs when we have intangible inputs, which is a lot of what I am talking about today. But the body of evidence says that we increasingly need to pay attention to this kind of thing. Personal relevance and success is one result. Business survival is another. Who wants to work in a company that just survives? It is like living paycheck-to-paycheck on a company level. You really do want it to thrive, as well.

Increase your awareness, recruit better, place focus on others, find out what it takes to create a "Best Practices" environment, and then lead the charge. This is new stuff, and you will be recognized and rewarded for doing it, and the results will follow.

FROM THE FLOOR: It sounds like the first step in taking over an area is cleaning house.

MR. DUNCAN: No, because you cannot clean house until you know what your house even looks like. At my current company, we are going to have a competence culture. Everybody says, "What can we do to create a competence culture?" We are not going to tolerate as many mistakes.

We have had 1,200 layoffs in the last year. People were keeping their heads below the water. They hid beneath the surface, because they did not want to get whacked.

But the thing you do not want to do is come in and let some heads roll. Get to know the people. Who is on your staff? Who can you trust? Who can you help? Who is going to help you and those kinds of things? Who should be laid off becomes obvious, but it is not the first thing.

FROM THE FLOOR: Didn't you say that the people at your company were not engaged right now?

MR. DUNCAN: We've taken a very engaged staff and, essentially, said to them, "We don't really see any value in you anymore, and we're going to let you all go by the end of the year." I had three actuaries whose last day was last Friday. So we have created disengagement overnight. It takes forever to make the thing work right. It is like training your dog to go outside, and they finally do. It has currently fairly disengaged, which is really sad. Creating the right culture requires time and attention, and it pays off handsomely, but it can be reversed.

FROM THE FLOOR: Is it okay to have fun at work?

MR. DUNCAN: Some people kind of frown on that and wonder if you are doing the job if you are having fun at work. If you can produce results while having fun, everybody will be right behind you, wondering how they can do it, too.

I remember that when I first came to my company, I said to our CFO that I planned to spend $500,000 to create the environment that I wanted, in order to make $2 million. (Those were the numbers I used. I did not know that we would make $68 million.)

The CFO said, "Well, can't you do it without spending the $500,000?"

The answer was, "No, I really can't." But when a few successes came, then it was okay to do it.

So if you're trying to build an organization where people just hold hands and sing without any tangible results, then that's cute and fun, but that's it. If there are tangible results that can go with that, you will find a lot of supporters.

FROM THE FLOOR: When people have bad things happen to them, how do you keep them engaged the next time around, when cynicism has set in?

MR. DUNCAN: We have quite a few disengaged people right now in our organization because of job eliminations, but I truly believe that if I left the company and went some place else, I could easily recruit these people and have them follow me all over the place. It has to do with that point of contact and trust that you build with them.

Some things are beyond your control. But you have to act on the things that are in your control and entrusted to you. That is about the best that you can do.