

People Leadership Matters – Now More Than Ever


An Executive Briefing Prepared By





TPO[®]


Introduction

It's here, there's no denying it. Whether you're willing to use the "R" word yet or not, there are very few who feel that the next few months or years won't require us to think prudently about everything we do in business. Members will feel it, donors will feel it, and funders will feel it. That means you'll feel it too. Tough times call for all sorts of measures – simple and creative, to deep and drastic. If you're like most not for profit organizations, your staff expense – including salaries and benefits – and facility costs are

 What steps can smaller organizations take to help survive during a recession?

 What are the links between effective people management and positive organizational results?

 Why is it important to invest in people even more during tough times?

 What can you do to be ready for the tough times to end?

easily your largest budget items and therefore amongst the first things that you'll need to consider as times get tougher. However, it's one thing to think about cutting space and sharing slightly closer quarters and another thing completely to assess your staffing budget and consider layoffs.

So, how do organizations navigate these difficult decisions? For small to mid-sized organizations, options appear limited. Large organizations can reduce their development staff by 10% and still have nine employees dedicated to meeting fundraising targets. For a small organization, one employee is 50% or even 100% of the development team. Further, you and your staff rely on the organization for your income. If you're like most chief executives, the responsibility for the livelihood of your people is one you take

seriously. That alone makes the goal of survival important enough to develop a viable strategy.

The answer lies in returning to fundamentals. You will need to work proactively to reconstitute and reinvigorating the vital relationship between your mission and your people. Most Executive Directors and CEOs fundamentally understand that people play an important part in the success or failure of their organizations. Their instincts and experiences compel them to believe that increased success with their people is tied to

greater success for their enterprise. But when the budget contracts, and difficult decisions have to be made, it can be all too easy to overlook the strategic value of continuing to invest in people, not only to survive, but to also preserve the talent you will need when the economy rebounds.

Let's Look at Some Data

It is important to remember just how vital the link is between effective people management and positive organizational results.

In 2003, culminating four years of extensive research, Bruce Pfau, Practice Director for Organization Effectiveness at Watson Wyatt Worldwide, co-authored a book called The Human Capital Edge that, for the first time, empirically linked specific HR practices with the measurable creation of shareholder value. His research began with two objectives – to determine the size of the impact of HR on shareholder value and to determine if certain HR practices had more impact than others on this value. Equally interesting was the challenge he set for his research to end the “lead-lag controversy” in HR. Many studies had previously shown that companies with superior financial performance often were noted as also having superior HR practices. Pfau sought to find out which came first.

His findings?

1. Superior human resource practices are a lead indicator of good financial outcomes – this he said argued for increased investment in human capital practices.
2. For small to mid-sized organizations, options are even more limited. There is a potent difference between those firms that have good human resource practices and those that don't – in his study shareholder value creation in companies with superior human capital practices showed *three times* that of companies with inferior practices.
3. Most controversially, some HR practices generate more value than others and some actually negatively impact value. The most telling theme here? Those HR

practices most clearly and closely aligned specific business results paid off most handsomely.

Perhaps for some these findings don't seem so astonishing today – after all, they've been in the public domain now for the better part of a decade. However, many smaller businesses and nonprofit organizations discounted the practicality of the findings within their world. Of course Fortune 500s would get these results – they could certainly afford to invest proportionately more in their human resource programs.

During the period 2004-2006, The Gevity Institute (a sponsor of research to discover how people management practices impact small- and medium-sized business performance) and Cornell University's Center for Advanced Human Resource Studies conducted a series of joint studies to better understand which human resource management practices foster small (those with fewer than 200 employees) business success.

What did TGI and Cornell learn from their three years of research?

1. They confirmed that effective employee management practices did indeed have an impact on positive employee outcomes/behaviors, which in turn positively impacted operational and/or financial performance.
2. The study clearly demonstrated that a state of operations reflecting “workforce alignment” was a key factor in organization performance. Workforce alignment was defined as embodying those management practices that ensure the company has the right types of people, in the right places, at the right times, doing the right things. Specifically important to achieving workforce alignment were:
 - a. Selecting the right employees through a means of “Person-Organization Fit”, focusing on how well the individual fits the cultures or values of the company and seeking to hire people with the capacity to work well with other company employees over the long-term;

- b. Managing employees effectively through a combined program of formal processes and procedures and the establishment of professional standards emphasizing employee involvement and self-management; and
 - c. Motivating and retaining employees through the creation of a family-like community in which employees are motivated primarily out of a sense of responsibility to one another and the company.
3. The employee outcomes and behaviors produced by management practices resulting in workforce alignment included commitment to supervisors, trust in management, co-worker cooperation, high levels of employee effort and involvement, and low turnover intentions. While these traits, to some degree appeared in all measures of company success, certain traits were more prevalent:
- a. Strong financial growth was present in companies with high levels of employee involvement and low turnover intentions.
 - b. Strong financial performance as compared to competitors specifically featured companies where employees had low turnover intentions, high effort and involvement, and demonstrated measurable co-worker cooperation.
 - c. Customer satisfaction was higher where there were demonstrated high levels of commitment to supervisors, strong trust in management, and high co-worker cooperation.
 - d. Product or service quality was high where there was trust in management, low levels of turnover intention, and high levels of cooperation.
 - e. New product or service development excelled where there was a high level of commitment to supervisors, trust in management, and a strong sense of cooperation.
 - f. The results of workforce alignment and its impact on employee behaviors are significant. Organizations retain and develop their talent so the organization can fulfill its mission faster and more cost effectively.

A Call to Action

Leaders know that their long-term viability depends on both achieving their organization's mission and ensuring the workplace culture to foster superior delivery on the mission.

Most intuitively recognize that the workplace is its own social institution that profoundly affects the lives of employees and can equally impact – for good or bad – the outcomes of the organization. The most skillful executives delicately and actively balance their time between achieving organizational performance and meeting the socio-economic needs of the people they employ. In plentiful times, this juggling act is made easier by the ability to address problems, in part, with injections of resources – be they dollars or people.

However in lean times, when there are untold pressures that interfere with this delicate balance and when there are no additional resources to turn to, it will be the Executive Director or CEO who revitalizes the critical links between mission and people and thereby retains their key talent, and enters the good economic times with a vast head start for their constituencies.

Here are some key actions that you and your leadership team can undertake right now to protect your investment in human capital.

1. Get out there and be with your people. There is no substitute for personally engaging with your staff. Technology can be great for some messages, but it's far too limiting when you need to see and hear what your staff is feeling.
2. Project positively. Demonstrate your personal commitment to and responsibility for the organization's future. Remember, it will not just be the demonstrative statements that people will hear, but the small gestures and non-verbal clues that speak volumes. Keep up your normal routines. You can and will set the tone of either optimism or pessimism.
3. Be open and honest with the staff about the organization's position – even if you are uncertain. Your staff is smart; they will know if you are sugar coating issues or withholding information.

4. Proactively talk about what you are doing with the organization to respond to the current situation. Engage people in decisions, set aside historical barriers, and make room for alternative approaches.
5. Reinvigorate your team by picking a clear and specific near-term issue or goal for the organization to focus on. Tackle or fix one thing at a time. The narrower the focus, the easier it will be to rally them into action.
6. Do not diminish how your staff feels about external and internal stresses facing all of us. Allow staff to express their concerns about the organization, the country and their personal wellbeing. Clearing this dust is a powerful first step to sustaining productivity.
7. Look carefully at your existing team and decide if they are right people for the job. During tough times there is less tolerance for underperforming staff and you may need to redesign how you deliver on your mission with fewer resources or using your human resources differently. First, make sure that you have a strong leadership team and then use that team to determine the staffing design that will help you survive the current downturn and position you to thrive once the tide shifts.
8. Do not take the retention of your staff for granted. Regardless of layoffs and hiring freezes, there continues to be movement in staffing – particularly for the best talent!
9. Remember, top performers want to work with other top performers. If you have to conduct a layoff, don't sacrifice your top talent by relying on tenure or rote basis for any reduction decisions you may need to make.

It takes fortitude and foresight to lead successfully through troubled times. There is much to contemplate and many choices to be made. This go round, many of our investments have simply vanished into thin air. There is, however, one investment that still provides significant returns – investing in your people.

About TPO

TPO was founded with the deep belief that engaged and active management of an organization's human resources has a direct and measurable effect on mission and organization results.

Since 1994, TPO has built long-term human resource outsourcing relationships with our clients. By developing an intimate understanding of their culture, mission, and business objectives, we contribute measurably to their bottom line results.

At TPO we believe in careful planning, focused implementation, and measurable results. We preach this. We practice this. If you'd like to learn more, or are actually ready to change from rhetorical discussion to practical outcome, visit our website at www.TPO-inc.com or contact our main office at 703-533-1533.