"Employability" and Trust

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What kind of social contract should exist between employers and employees as we look ahead to the 21st century?

As with any challenging topic, I'm sure all of us look at this issue in our own way. For myself, I feel somewhat like a lumberjack who has trouble describing the contours of the forest because of his familiarity with individual trees. In my case, I'm often asked to talk about the big picture of the American workplace because I've seen a lot of trees.

My co-author Milton Moskowitz and I have written two editions of the *100 Best Companies to Work for in America* – the first in the mid-1980s, the second in the mid-1990s. For each edition we visited all 100 of the companies that we listed in the book as well as another 50 or so that didn't make it. All in all I calculate that we have interviewed somewhere between six and seven thousand employees in focus groups and individual interviews over the past 15 years.

It is for that reason that I find it difficult to think of broad trends without thinking of lots of examples and counterexamples of whatever anyone puts forth as what is really going on in the workplace today. I have found this especially true when I hear talk about the "New Deal in Employment Relationships", the title for today's conference.

In its crudest form, people often say that the key concept in the New Deal is "employability" – the notion that employers can no longer offer job security, so companies should now offer employees the opportunity to gain skills to make them employable when they do leave the current company. That sounds awfully nice in theory, but I can only say for myself that I have not seen any examples of this version of the New Deal. I have read about it. Apparently Sun and Raychem are doing a variation of that, according to an account I read in the Harvard Business School Review by Bob Waterman and his wife Judith. I've met them and I have a lot of respect for both of them, so I assume that what they are saying is absolutely true. But a few trees do not a forest make.

Is "Employability" Viable ?

Regardless of how widespread it is, I have some specific problems with the viability of the notion. First, I am acutely aware of the fact that very, very few companies have ever offered any kind of genuine job security. In the first edition of our book, we only found about 20 companies that actually had no-layoff policies. And that was among a list of the nation's best employers. Our most recent edition had some 17 companies with such policies. Based on what I've seen, it has always been a rare thing for companies to offer anything approaching the kind of job security that many people are now talking about as if it has existed for generations. Sure, there are more white collar and professional people being given the ax now than ever before. But for the vast majority of workers in this country, I would contend that the old deal never involved an offer of genuine job security. Gail Fosler's research paper on downsizing in the Conference Board Report (*The New Deal in Employment Relationships*) makes this point rather clear.

Second, I have some skepticism about whether this idea will catch on. It doesn't make good financial sense for a company to train people to go to work for a competitor. If you spend a lot of money in training people for job specific skills, I don't think you will look with equanimity about those people taking those skills across the street.

Finally, I don't think it's a good deal from the employee viewpoint. If I understand the concept correctly, employees are being told something like this: "Now we expect you to continue working here with the same kind of commitment and dedication as before. For our part, we may throw you overboard whenever it suits our fancy. But don't worry because you'll leave here with more skills than you came in here with." To me this sounds like someone going into a marriage and hearing your spouse tell you, "Honey, life is real different these days, and the chances are this won't last a lifetime. But you'll learn a lot about being a husband while we're together. So if and when we break up, don't worry because you'll be a lot more marriageable than before." I don't think that approach is going to garner commitment in the workplace any more than it would at home.

In short, I find myself agreeing with former Motorola CEO Robert Galvin who told an IndustryWeek reporter that he believes that the employability notion "is a passing intellectual fad" that will change in due course. "We [at Motorola] don't cotton to the proposition that the world will be devoid of loyalties and there won't be long-term employees in our institutions."

External Changes vs. Internal Choices

As you can see, this lumberjack has some real questions about the notion of employability. This is not to say that I think that the issue we're talking about here isn't a real one. But to make sense of it we have to make a fundamental distinction between external conditions and internal decisions. What I mean is this: The workplace of the 1990s is going through a tremendous amount of change. But that does not mean that companies have to make fundamental changes in the way they treat their employees. In fact, I believe that the basic ingredients for a successful relationship with employees are no different today than they were 10, 20, 30, 50 or 100 years ago. In other words, the best new deal for employees is very much like the best old deal. And that is one that is based on trust.

But before I address the notion of trust, let me go back to the distinction between external conditions and internal decisions. I would be the first person to agree that there are profound changes taking place in the workplace today. My co-author and I both saw in incredible detail the tremendous changes in the business world between the 1980s and the 1990s because we twice visited about 150 companies some 10 years apart. We saw in company after company the effects of global competition, of rapid technological changes, of rising health care costs, of deregulation, and on and on. You know the litany. The business world is indeed going through a sea change on many different fronts.

But companies react to these external challenges in very different ways. One example. Two companies go through hard times. At one, thousands get laid off and the CEO's pay quadruples that same year. At another company facing hard times, the CEO goes to the bank to borrow enough money to make sure not only that there aren't any layoffs but that the company can pay the annual performance bonus to employees. I don't need to name a specific company for the first scenario because the media has related variations of that story many times in the past few years. But the second is Lincoln Electric in Cleveland. And when two other companies on our list, Delta Air Lines and FedEx, faced hard times a couple years ago, the first thing the CEOs did was to cut their own pay. As you may know, Delta did go ahead and lay some people off, but FedEx didn't. The point is that there are still lots of companies around where the people at the top have gone to great lengths to share the pain rather than scoop up all the gain.

What I am saying is that companies have something that I like to refer to as free will. Our legal and economic systems allow companies almost total discretion to develop their own unique relationships with employees. Sure, there are some restrictions – like you can't discriminate or sexually harass or have an unsafe workplace. But companies are completely free to do what they want on the positive side. I learned this lesson about 10 years ago when I was doing research for my book, *A Great Place to Work*, and revisited a medium-sized trucking company headquartered in Maryland called Preston Trucking. Now Preston is unionized with two of what are considered to be the toughest unions in the land – the Teamsters and the Longshoremen. I recall asking the CEO how he had been able to get so much buy-in among the employees for his various initiatives at employee empowerment long before that practice had become commonplace. He replied: "The union contract tells us what we can't do, not what we can."

What Can Be Done?

In these days of tremendous external change, what can companies do? I believe that the very best companies spend a lot of time and energy being concerned about the quality of the relationships with their employees. In saying this I draw a sharp distinction here between the notion of a deal and a relationship. A deal is something that is more along the lines of a union contract that describes a kind of tit-for-tat exchange – I'll do this for you if you do that for me.

But what I've seen in the very best workplaces over the years is an entirely different attitude about what the exchange is about – an attempt to create a mutually beneficial framework so that both parties can work together for common goals. This requires thinking in terms of relationships.

In other words, what I've discovered is that the very best employers are not characterized by any set of policies or practices. Some have profit-sharing, some don't. Some have flex time; some don't. Some have on-site day care centers; some don't. And so on. The crucial difference is how the various policies and management practices are put together in the whole relationship.

How do I describe the nature of this relationship at the very best workplaces? My definition: "A great place to work is one where you trust the people you work for, have pride in what you do, and enjoy the people you work with."

A Model for Change

Now I'm going to very quickly explain the significance of this definition and how it can help you put into perspective the work you should be doing as you help make your company into a great place to work.

First off, the model that we've developed from this definition indicates that there are essentially three relationships in the workplace – between the employee and the management, the job, and other employees. You may find this a helpful model for your work as I would contend that much of HR is spent on the middle relationship – of the employee and the job – and largely ignores the other two, especially the first one of the employee and the management, where trust is the key ingredient.

From this perspective, you can see another reason why the employability notion doesn't work. It focuses on the employees' relationship with the job, when most of the external changes are also creating stresses in the employees' relationship with the management – that is, trust.

Another way of putting it is that HR in particular has traditionally been concerned with job satisfaction – the relationship of the employee and the job – rather than creating an environment of cooperation – where the primary focus is on the relationship between the employee and the management.

So, what really distinguishes good workplaces is this thing called trust. It's something I heard again and again – people saying that they felt they could believe, have faith in the management, that they thought they were fair.

But that raises the question: what is trust? And how is it expressed in the workplace? As I've looked at this more closely, I've concluded that trust involves three elements – credibility, respect and fairness.

The first, credibility, is what employees think about the management. Do they find them believable? Do they walk the talk? Are they open and accessible?

The second, respect, is what employees think that management thinks about them. Do they feel that management supports their professional development? Do they feel they respect their ideas enough to collaborate with them in decision-making? And do they show respect for them enough as individuals with lives outside the workplace to make provisions for their private lives?

And finally, fairness. It doesn't make much difference what we think about each other if I feel that I'm never going to get ahead because I was born of the wrong race, gender or sexual orientation. Or that my competence doesn't matter if I don't play the right political games in the office. This is why the obscene CEO pay hikes of the past few years undermine trust.

After having seen lots of good workplaces and having analyzed what makes them tick, I am strongly of the opinion that any company, no matter what it's like today, can become a much better workplace in a period of two to three years. And I believe that any company can become a truly great place to work in about five years.

Tools for Change

We've developed a number of tools to help companies get on the right track at our Great Place to Work™ Institute. We have several diagnostic tools – including an employee survey called the Levering Trust Index©, a focus group technique to assess the level of trust in the company, and a 360˚ Trust Appraisal – because I strongly believe that you have to be able to measure something before you can change it. I think that is especially important if you are trying to address something that seems as theoretical to some people as trust.

We've also created a database with hundreds of real-life examples, as a kind of brainstorming tool to help firms think of how they make changes appropriate to their own cultures. It also helps firms understand exactly how different workplace practices – whether they be on-site day care centers, or breakfast with the CEO meetings, or profit-sharing – fit into an overall concept of creating a great place to work.

Of course, I think we've got some great tools to help companies become great places to work. Perhaps others have developed their own techniques for getting at this same issue, though I haven't seen any as yet. The key point is that you need to have a clear idea of your objective – which I would define as creating a great place to work. For if you don't have a vision – as powerful as that of a great place to work – motivating the work you do with your people, it is extremely difficult to respond creatively to all the external changes that are impinging on today's workplace.

So what? you may ask. This may all sound well and good, but what difference does being a great place to work make in my company's performance as a business? If anything is true in the 1990s, it's that everything must be justified in dollars and cents.

Happily, it just so happens that companies that pay attention to developing a trusting relationship with employees are precisely the ones that tend to be the most successful. There have been a number of studies that have shown the links here. The Department of Labor, in fact, has sponsored two separate reviews of more than 100 research studies on the subject. Those studies have come to the following three conclusions:

- There is a strongly positive correlation between good workplace practices and productivity and/or profitability
- The results are strongest where companies combine good workplace practices
- The impacts are greater over the long-term.

In other words, the impact of good workplace practices grows over time, especially after the first two years of introduction. Good workplace practices are not a quick fix but are a long-term success story.

One of those studies in the DOL reports involved companies listed in our last hardcover edition of *The 100 Best Companies to Work for in America*. A Wall Street analyst thought it would be interesting to compare our companies, which were picked solely because they were good workplaces, with a broad cross-section of other companies. The results were spectacular. His yardstick was the Total Return on Investment. He created a hypothetical portfolio of $100,000 in our "100 Best Companies" and a hypothetical portfolio of $100,000 in the Frank Russell 3000 stock index. Over the previous decade, the $100,000 in the Frank Russell Index portfolio grew to be worth $260,000 while the "100 Best" stocks grew to $450,000 – or 62 percent better!

What accounts for this great difference in performance? On one level I think we can explain these results very simply by indicating that in a good workplace there are some obvious and tangible factors that contribute to improved performance. Good workplaces produce Higher Quality Products, more Innovation & Risk Taking and have the ability to attract more Highly Qualified Employees. At the same time, good workplaces experience less Resistance to Change, lower Turnover Costs and lower Health-care costs. All these translate very directly into a fatter bottom line.

Underlying all these factors is the fact that in good workplaces there is a higher level of cooperation among the employees and between the employees and the management. Some of the "100 Best" companies are extremely familiar with this concept. At Federal Express, for instance, they have a slogan called PSP – or People, Service, Profit – meaning that the management concentrates on making a good working environment for the people, they provide superior service, and the company makes a higher level of profit.

This does not mean that companies with good workplaces always win out. Nothing can save a company from bad marketing or strategic decisions or for not keeping up with technological changes – as the case of IBM in the early part of this decade can testify. I would also argue that IBM's more recent comeback has much to do with the quality of their workplace that has built up a reservoir of goodwill over the years.

In any event, I think that the argument is very persuasive that everything else being equal, a company that develops a great working environment will be a winner. Listen to the biggest winner of all, that is America's richest person, Bill Gates, whose company, Microsoft made our "100 Best" list. He recently told IndustryWeek what he considers to be necessary for success: "First and foremost, it's important to hire the best people and give them the right tools to do their jobs. We also try to create an environment where it's O.K. to take risks and make mistakes. Finally, it's critical to conceptualize the big picture and recognize that this often means investing for the long term."

To sum up, Gates and other CEOs spend a lot of time and energy trying to get the relationships right with their employees to make sure they have a strong foundation for success.

So, what is the best New Deal for employees? As I said before, the best New Deal is the best old deal. And that is for companies to focus on the relationship with employees and make sure it's a relationship based on trust.

When this is done right, we can also make a valuable social contribution as trust is such a hard-to-find commodity in today's fast-changing world.

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