

People and Investment Value

Appraising Employee Value Propositions
to Distinguish Corporate Performance



Foreword

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LAPFF has a long and distinguished record of engaging with companies on the subject of how they attract, retain and motivate staff, with the objective of encouraging higher standards of corporate behaviour in this regard. In the past the Forum's focus on the monetary aspects of the employee value proposition has been on executive pay escalation and pay for performance, the consideration of risk in remuneration arrangements, and the extension of monetary rewards to include non-financial indicators of performance.

The Forum's analysis of the financial crisis highlighted the role played by remuneration systems in financial institutions, for example.¹ Indeed, some of the problems experienced by leading financial institutions and banks in particular demonstrated why LAPFF has prioritized remuneration as a core governance issue.

The Forum's conclusion was that a very narrow conception of incentive and reward resulted in arrangements which encouraged inappropriate short-term risk taking at the expense of long-term success – a fact which many financial companies have since conceded.

Subsequent engagement with companies took the opportunity to expand discussion of executive remuneration to the subject of aligning remuneration with long-term strategy; incorporating a measure of risk-adjusted performance into remuneration; the use of deferrals and clawback arrangements, and on increasing the transparency of executive remuneration arrangements.

These companies were largely drawn from the Forum's Global Focus List, which highlights companies in which the Forum believes investors are put at most risk from the effects of poor governance.

In addition, although the Companies Act 2006 requires companies to identify the key performance indicators they use to measure non-financial performance, the Forum's survey work in this area found only seven companies considered non-financial performance measures important enough to build them into a long-term incentive plan (LTIP).

The same survey work also found that the quality of target setting varied greatly, with some companies merely applying a performance 'scale-back' factor, often in conjunction with remuneration committee discretion, of a non-financial nature as opposed to fully fledged targets that stretch over a broad vesting scale.

The Forum subsequently combined its analysis and engagement on remuneration with an examination of the quality of investee companies' reporting of employment policies and practices, incorporating this into an engagement strategy to address underperformance with companies.

The Forum produced a template of core qualitative and quantitative indicators on which all publicly listed companies should be required to report. The core indicators were identified in 2005 in the first LAPFF Report on Company Workforce Practices.

This followed an initial report in 2003, which was commissioned by a LAPFF member, which identified those FTSE 100 companies that were leaders in promoting good employment practices and also those companies that were doing less well, with the long-term aim of seeking improvements to protect and enhance shareholder value.

The Guide included consideration of the findings of the 2003 Kingsmill Report (which took account of a wide range of investor and stakeholder views on the subject) and was informed by experiences drawn from active engagement on workforce practices with companies in the hotels and leisure sector, and in the food producer sector.

In a survey of the linkage between remuneration and non-financial performance in the FTSE 100 (published in January 2008), the Forum also found few links between management of non-financial business issues and long term performance-based pay for executive directors.²

Bringing all these subjects together, the Forum agreed in 2009 a possible counterbalance to 'runaway' executive remuneration might lie in encouraging companies to consider other aspects of their employer brand besides financial reward that serve to attract, retain and motivate staff – the publication of which has led to the publication of this new Guide.

The Local Authority Pension Fund Forum is a voluntary association of 55 public sector pension funds based in the UK which manages assets of over £120 billion. It exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders while promoting corporate social responsibility and high standards of corporate governance among the companies in which they invest.

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Executive Summary



The Local Authority Pension Fund Forum (LAPFF) believes companies should work hard to ensure employees will choose them over competing alternatives; that employees will stay with them, and that they will give their discretionary effort towards achieving the company's objectives.

We describe the mechanism that companies use in order to this as the *employee value proposition*.

Our premise is that the link between people and investment value exists in a company when it creates an employee value proposition that gives it an advantage in the 'war for talent'; that enables strategy execution on a day-to-day basis, and which competitors find difficult to match.

The evidence suggests getting this right counts for shareholders:

- Staff in companies with compelling employee value propositions are almost 90% less likely to leave than staff in companies with inferior value propositions.
- Such staff are 20% more productive than elsewhere.
- They deliver better customer service; their attendance is higher, and they contribute to better risk management.
- As a result, companies with highly engaged work forces tend to grow earnings more than 2.5 times faster than those with staff who are not highly engaged.
- And this leads to better stock price performance. (The stocks of companies with a high-trust work environment outperformed market indexes by a factor of three from 1997 through 2011, for example).

With so much investor focus on financial rewards it would be easy to imagine the employee value propositions that generate such outcomes are distinguished by their treatment of money.

They are not.



Research has shown that money motivates people only in very restricted circumstances. Its absence from conversations about what drives us at work speaks of the fact that money does not inspire *commitment*. And the science on commitment at work tells us it primarily exists because:

- People care deeply about purpose;
- They are drawn to working with people they can connect to;
- They value autonomy at work;
- They are driven by a desire to achieve mastery;
- They take pride in and are fulfilled by achievement and progress, and
- They are heavily influenced by the context in which they work: whether they feel valued, whether they perceive themselves to be fairly treated, and how they are treated by immediate superiors.

In our view, companies that craft employee value propositions that engender a commitment to the firm according to these principles of commitment have an opportunity to turn their staff into advocates, who will be increasingly prepared to give their discretionary effort to meeting the firm's objectives.

Nonetheless, corporate performance in this regard is poor – which means that the Forum has a great deal of scope for helping to improve relevant behaviours in the companies in which its members invest.

To our mind that work begins with interested asset owners and investors shining a light on a subject that companies are rarely (if ever) asked about.

It proceeds from there to assessing the quality of an employee value proposition against a sense of what good looks like in this regard.

And it starts to make a real difference when we hold underperformance up against best-in-class performance and ask for change.

This Guide has therefore developed questions that will enable pension fund trustees and asset managers to look more closely at the link between people and investment value:

- To distinguish between companies with compelling employee value propositions and those with weak employee value propositions;
- To engage with companies on this basis, and
- To provide a platform for encouraging companies to better operating and stock price performance through better human capital performance.

In Search of What Good Looks Like



"I've had approaches from the US and if I wanted to maximise my earning potential, I should have taken them, but there's more to life than money. This is my company and having a chance to run it and bring it back to its best is a great privilege."

Andrew Witty
CEO, GlaxoSmithKline³

In November 2011, 22 institutional investors met with directors and managers at GlaxoSmithKline to debate what the Company would pay its senior executives and how it would do so.

That debate did not begin and end with the 40 hours or so of man time dedicated to it on that day. Nor was it confined to those in attendance.

It extended to innumerable additional players and soaked up far greater resource. And, of course, it was also replicated across hundreds of listed stocks in the UK.

Yet a reasonable observer might ask what the intellectual capital and budget invested in the design of executive remuneration has achieved:

- Some CEOs in the UK have seen the value of their remuneration packages increase by over 4,000% in the last 30 years. *But no measurable link between pay and performance can be found over that period.*⁴
- Levels of income inequality are heading for those last seen in Victorian England, which has encouraged public distrust of business to reach all-time highs.⁵ (This is the same public that is expected to give its discretionary effort in the workplace every Monday morning).
- And, as Andrew Witty infers, the recipients of escalating executive pay usually tell us they find their motivation to perform in attributes of their work that have nothing to do with money.



The Employee Value Proposition

Companies usually work hard to ensure customers will choose them over competing alternatives - and stay with them. They largely do this by providing customers with a compelling customer value proposition that completes the job the customer wants done, at a price she is willing to pay.

Indeed, Collis and Rukstad maintain that any strategy statement that cannot explain a company's *customer value proposition* is doomed to failure.⁶

In the same way, we believe companies (should) work hard to ensure employees will choose them over competing alternatives; to stay with them, and to give their discretionary effort towards achieving the company's objectives.

The mechanism companies use to do this is termed the *employee value proposition*.

Our premise is that the link between people and investment value inside a company exists when it creates an employee value proposition that gives it an advantage in the 'war for talent;' that enables strategy execution on a day-to-day basis, and which competitors find difficult to match.

The evidence suggests getting this right counts for shareholders:

- Staff in companies with compelling employee value propositions are almost 90% less likely to leave than staff in companies with inferior value propositions.⁷
- Such staff are 20% more productive than elsewhere.⁸
- They deliver better customer service; their attendance is higher, and they contribute to better risk management.⁹
- As a result, companies with highly engaged work forces tend to grow earnings more than 2.5 times faster than those with staff who are not highly engaged.¹⁰
- And this leads to better stock price performance. (The stocks of companies with a high-trust work environment outperformed market indexes by a factor of three from 1997 through 2011, for example).¹¹

In a world in which there is so much focus on financial rewards it is easy to imagine the employee value propositions that generate these outcomes are distinguished by their treatment of money.

They are not.

They differ only according to how well companies package *non-monetary rewards* to prospective and current employees, such as giving people a sense of purpose, granting them a high degree of autonomy, and ensuring they feel like they are being treated fairly.

The Focus of This Guide

"Men wanted for hazardous journey. Small wages, bitter cold, long months of complete darkness, constant danger, safe return doubtful. Honour and recognition in case of success."

Sir Ernest Shackleton
Polar explorer¹²



This Guide introduces a set of questions that are designed to enable interested pension fund trustees and asset managers to appraise the link between people and investment value:

- To distinguish between companies with compelling employee value propositions and those with weak employee value propositions;
- To engage with companies on this basis, and
- To provide a platform for encouraging companies to better operating and stock price performance through better human capital performance.

Since mainstream sell side research largely ignores this aspect of corporate performance, engaging with companies on this basis is also expected to convey an information advantage to interested asset managers.

The Forum believes who we choose to work for, why we stay with a firm, and what motivates us at work is more than just a financial equation. In our opinion it is, in very large part, a social consideration that taps into the drivers of human behaviour that evolved before the advent of money, which, in turn, make the difference to job fulfilment and performance.

We share the view of the Institute of Employment Studies that an engaged employee: ¹³

- Believes in the organisation,
- Works to make the organisation better,
- Understands organisational context and the 'bigger picture,'
- Respects colleagues and helps others, and
- Is willing to 'go the extra mile.'

Research by the Temkin Group (reproduced in Figure 1 below) suggests that the positive characteristics of engaged employees emerge in all manner of behaviours that are good for the companies they work for (versus the behaviour of disengaged employees).

Our interaction with investee companies on the subject, and our experience and our research tell us companies use the non-monetary ingredients of their employee value propositions to a greater or lesser extent.

We are not certain they use them as well as they could.

Figure 1: How Engaged Employees 'Go the Extra Mile' ■ Highly engaged employees ■ Disengaged employees



Source: Temkin Group <http://www.scoop.it/t/designing-designed-customer-service/p/952481675/report-employee-engagement-benchmark-study>

And we believe scope exists for forward thinking asset owners and investors to both enhance and protect portfolio performance by encouraging companies to improve their governance in this regard.

Our research also tells us companies are rarely (if ever) questioned on this subject by their shareholders. We therefore believe an opportunity exists for certain asset owners and investors to gain an information advantage over the market by analysing factors we know are material to corporate performance, but which most investors either overlook or fail to appreciate.

Our purpose is therefore to empower trustees to either ask critical questions themselves as to how investee companies craft an employee value proposition to attract, retain and motivate staff, or to use insights into this subject to encourage their asset managers to ask these questions on their behalf and/or include consideration of the nature of a company's employee value proposition into their valuation analysis and stock selection.

The Evidence Around Financial Rewards

The theory of staff recruitment, retention and motivation tells us people care about money.

Observation suggests it proceeds from there to suggest that, if we pay people more, they will be more likely to join our company, they will stay with us longer, and they will perform better.

The evidence supports this theory – up to a point.

The Good...

We are all driven to acquire scarce goods that bolster our sense of well-being.¹⁴ Money helps us do this. So we like money. And there's a basic minimum amount of money that people require to satisfy their drive to acquire (which differs according to circumstance).

For production, warehouse or clerical workers in the US, for example, that minimum is currently around \$40,000 a year. Anything less than this sum is likely to adversely affect staff engagement and their intention to stay with the organization.¹⁵

Furthermore, when individual performance can be measured objectively; when people have control over their performance, and when it affirms their intrinsic motivation, the evidence suggests that pay does encourage performance.¹⁶



In support of these concepts, it has been found (for example) that productivity can increase by 44% when a company switches from salaries to individual incentives. Of this increase, roughly 50% is usually attributed to existing workers improving their productivity, while the other 50% is normally attributable to less productive workers quitting and being replaced by more productive workers over time.¹⁷

Research also shows that high performers are most likely to seek other employment if performance is not sufficiently recognised by financial rewards – whilst low performers are more likely to stay with an employer when pay-for-performance relationships are weaker.¹⁸

The Bad...

Nonetheless, most of the available evidence that financial rewards enhance performance has been obtained in contexts where individual contributions to performance can be isolated, where performance can be measured objectively, and where tasks are relatively simple.

Employees rarely see pay as a motivator when it is tied to *subjective* measures of performance – when performance is difficult to measure.¹⁹ And no reliable link has been found between pay and performance in complex tasks.²⁰

Numerous studies have also confirmed that financial rewards run the risk of reducing recipients' intrinsic motivation at work, which undermines performance.²¹

As early as the 1970s, for example, Mark Lepper and colleagues designed a study in which participants were invited to play games for fun. The researchers then began providing rewards for success. When they took away the rewards, participants stopped playing.²²

When success is rewarded with money in the workplace, employees do not stop 'playing.' They continue to work. But, because money is used to encourage them to exhibit certain behaviours, and because that extrinsic motivator feels controlling, they reduce their effort.

In addition, with their focus now just on attaining the financial prize, people tend to do exactly what is necessary to get the job done - and no more. That means they are less likely to notice peripheral features of the task, to take chances or to experiment. They are likely to avoid risk. And they are unlikely to engage in the incidental learning that comes from doing, which enables them to improve their own performance without supervision.²³

Studies have also confirmed that people are motivated by how their pay compares to similar others, rather than by how much they are paid in absolute terms.²⁴

That can be good. Pay inequality appears to motivate high performers.²⁵ The escalation in executive pay makes sense from this perspective.

However, a downside to escalating executive pay is that its benefits are seemingly outweighed by the costs to staff elsewhere in the firm, who, because they feel unfairly treated, put in less effort.²⁶

- High-technology firms with greater pay inequality in their top management teams have lower average valuations, for example.²⁷
- Companies with higher pay inequality also suffer from greater manager and employee turnover.²⁸
- And companies with the greatest difference between worst and best paid executives had the weakest financial performance in terms of Total Shareholder Return (TSR).²⁹

And The Disappointing

Dan Ariely has found that, when tempted, most of us are willing to be a little dishonest, regardless of the risks.³⁰

That is not to say our behaviour degrades massively. It appears that our conscience imposes some limits. However, when the reward for cheating is paid in the form of, for example, stock options, rather than in cash, we are twice as likely to cheat.

A study by the University of Minnesota, which compared over 400 companies that had to restate their financial statements with those that did not, confirmed Ariely's finding. That is; the higher the proportion of senior executives' pay was in stock options, the more likely the company was to have had to restate its results.

Research by Maurice Schweitzer also found people that are rewarded for goal achievement, are more likely to engage in unethical behaviour, especially when employees fall just short of their goals.³¹

The Science of Non-Monetary Rewards

Taking the good, the bad and the disappointing of financial rewards into consideration the advice from many informed observers is simply to treat pay mostly as a matter of fairness – and move on.³²

Yet, from the Forum's perspective, science also tells us something of far greater significance about attracting people to a firm, and encouraging them to stay and to perform:

- People care deeply about purpose;
- They are drawn to working with people they can connect to;
- They value autonomy at work;
- They are driven by a desire to achieve mastery;
- They take pride in and are fulfilled by achievement and progress, and
- They are heavily influenced by the context in which they work: whether they feel valued, whether they perceive themselves to be fairly treated, and how they are treated by immediate superiors.

Purpose

Admiral Sir Mark Stanhope, the Royal Navy's Commander-in-Chief Fleet, has observed that even in the armed forces young men and women putting their lives at risk will ask and expect to have answered the question: 'why?'³³

He also believes this question must be answered satisfactorily as a precondition for them to become willing to follow orders on the front line.

That is because we are hardwired to care about purpose – something to strive for, which gives our lives and our work meaning, and which motivates us to perform. And when people lack purpose their wellbeing suffers.³⁴

When college students were asked to rate their satisfaction with life and surveyed years later, for example, those that set *and achieved* 'profit goals' - to become wealthy or to achieve fame, for example - rated their satisfaction as no higher than when they were students. They also exhibited relatively high levels of anxiety and depression.³⁵

Conversely, those who set and achieved 'purpose goals' like helping others improve their lives, to learn, and to grow reported higher levels of satisfaction and wellbeing than when they were in college, and relatively low levels of anxiety and depression.

It should come as no surprise therefore that the best companies to work for have been found to be those that give their employees a clear, credible and authentic sense of purpose.³⁶

Connection

Sir Ernest Shackleton recognized the value of purpose when he sought to attract men made of the right stuff for the British Antarctic Expedition in 1907. The advertisement he placed in *The Times* (reproduced in the quote above) did not major on *what* he was doing. It majored on *why* he was doing it.

Shackleton's additional insight? When you want people to work towards your objective by working well together, a clear purpose establishes the basis for those people to make a connection with colleagues *that share the same values*.

Our desire to connect with others serves a biological purpose. It makes us smarter, healthier and more productive.³⁷ We are, after all, social animals – that thrive and give our best when camaraderie is present in the workplace.³⁸

The sense of connection that comes from working with people that share the same values (often in a collaborative environment) ultimately delivers a sense of belonging, which is highly correlated with happiness. (Indeed it appears that belongingness, rather than mere social contact, is the crucial factor here).³⁹

Autonomy

People who own and operate franchises usually work longer hours for less pay than they did when they were wage earners. Yet they rate their work-life balance as being better than before they became franchisees.⁴⁰

Such people will tell you this seemingly paradoxical outcome is explained by the autonomy they enjoy in their work, which offers them greater scope to make their own choices.

At a biological level, the feeling of autonomy reduces stress.⁴¹ This grants us access to our higher order thinking skills and allows our analysis, perception and decision making to be at its best. (In contrast, losing our autonomy invokes a threat response. The stress that comes with this will almost certainly close down our higher order thinking skills and impair our performance at work. If sustained, it can also undermine our immune system). This is why we all appreciate autonomy at work, or the freedom to choose how we get a job done, working with managers that appreciate how important this is to us, and to our performance.

Indeed, extensive research has shown when individuals and teams are given autonomy; they invest more time and energy in a task, develop more efficient and innovative processes for completing it, and ultimately improve their performance (however this is measured).⁴²

Mastery

Many of us work outside our place of employment to master new skills in order to overcome challenges we have willingly embraced.

This is so much a part of our makeup that, once the technology was available, it created a computer gaming industry (which plays to our drive to achieve mastery) that has come to dwarf the more 'traditional' (and passive) entertainment industries that previously absorbed our attention, such as TV and cinema.

Pursuing the same drive that underpins their leisure time experience, employees that are given opportunities for mastery naturally pursue opportunities to learn and contribute in the work place.⁴³

Companies facilitate this by establishing clear objectives for their staff and by providing them with timely and accurate feedback on their performance. They equip staff with necessary resources and the experience and training that builds skill sets.⁴⁴

For example, when workers operating manufacturing equipment were given the chance to develop the skills to repair machines, rather than waiting for specialist staff to fix them, they took advantage of the opportunity for mastery to plan ahead and create strategies for reducing machine downtime. They also worked to learn how to prevent problems in the future. As a result, they were able to complete repairs more quickly and reduce the overall number of repairs.⁴⁵

Conversely, when the work people do exceeds their capability (they are not yet masters and do not perceive this to be attainable) the result is anxiety - which invokes the same stress effects seen when we lose our autonomy. And, when a role fails to stretch an individual to master new skills, the result is boredom, and wandering attention and performance.⁴⁶

Progress and Achievement

In a multiyear study tracking the day-to-day activities, emotions, and motivation levels of hundreds of knowledge workers in a wide variety of settings, Teresa Amabile and Steve Kramer found that progress in work ranked as the top motivator to performance.⁴⁷

In contrast, on days when they felt they were spinning their wheels or encountering roadblocks to achievement, those surveyed reported their moods and motivation to be at their lowest.

Most companies have recognised this principle and created reward systems around it (particularly at the top of organizations). In doing so, we believe they have missed the central characteristic of progress and achievement: that it contains its own reward!

The research says when people work for the intrinsic reward that comes from attaining progress they perform to their own high standards, even when no one is looking. They adapt their behaviour to fit new circumstances, and they open themselves up to learning on the job: paying attention to peripheral tasks, taking chances and playing with possibilities.⁴⁸

Context

In a study of over 1,000 star investment analysts at 78 investment banks Boris Groysberg found that "mobile" stars experienced immediate degradation in performance that lasted for at least five years after they changed their employers.⁴⁹

Groysberg's findings echo those of the Stanford Prison Experiment, which populated a 'prison' in the basement of Stanford University with a group of healthy, intelligent middle class men who were randomly assigned roles as either guards or prisoners.⁵⁰

The experiment found that these men became "totally different creatures" within a week, and the experiment, which was supposed to run for 14 days, had to be abandoned early.

Specifically, the guards began to exhibit abusive behavior towards the prisoners and the prisoners started to act like victims – with occasional suicidal tendencies.



The lesson from this experiment and from Groysberg's findings is that the context in which we work has an overwhelming influence on how we conduct ourselves, on our performance and on how we feel.

It appears that the most important contextual factors in regard to attracting, retaining and motivating staff are whether people feel as they are being valued (recognition counts) and whether they feel they are being treated fairly in the recognition process.⁵¹

In turn, this is largely a product of how people are managed by their immediate supervisor or line manager.⁵²

The implication is that if a company wants to have highly engaged employees, all other aspects of the working environment - from the physical layout, to the type of work done, to the quality of colleagues - are relatively unimportant if the people in line management positions are well regarded.

A common refrain from those surveyed in the research on this subject is that people join organizations but they leave their managers.⁵³

Accordingly, studies consistently show that the strongest driver of staff turnover is not pay, but the quality of an employee's relationships with supervisors, which explains more than twice as much variance in employees' decisions to quit as does any attitude towards their financial rewards.

Research conducted by the Management Lab also suggests that 60% of the variation in an employee's overall level of engagement in his or her work is determined by the employee's perception of his or her boss.⁵⁴ To our mind, the extent of this correlation is driven by the fact that line managers create the context in which people work, which either supports the principles of commitment outlined in this Guide, or which undermines them:

- Their behaviour embodies the company's purpose (if it has one), or gives a lie to it;
- They help employees understand how the company's purpose directly relates to individual duties, or they fail to establish this clarity;⁵⁵
- They foster connections in the workplace by encouraging collaboration in a high trust environment or they ensure staff work in isolation;
- They grant autonomy, or they take it away;
- They equip people with the resources required to help them achieve mastery, or they deprive them of these, and
- They affirm a sense of achievement and progress, or they extinguish it.

Motivated Staff Versus Committed Staff

"Emotional commitment means unchecked, unvarnished devotion to the company and its success; any legendary organizational performance is the result of emotionally committed managers."

Stan Slap⁵⁶



The Management Lab's research into what drives people at work also observed a dog that did not bark in all the interview data it captured.⁵⁷ *This was money.* The relationship between how much people are paid or how they are paid was, essentially, nowhere to be seen in the factors they reported as being important to their drive to do their jobs. This is a common finding.

Research suggests that, in certain (restricted) circumstances, money does motivate us to perform. But its absence from conversations about what drives us at work may speak of the fact that money does not inspire *commitment*.

Dr. Steve Peters (the mind coach to Sir Chris Hoy, Bradley Wiggins and the GB track cycling team) tells us motivation is a fleeting emotion: a helpful drive to have, but not one that is essential to long-term success.⁵⁸

It's unrealistic, says Peters, to feel motivated every day because the feelings that underpin motivation can shift very quickly. But he maintains *it is possible to be committed every day and for that commitment to drive performance.*

Given that remuneration appears to be universally designed to attract, retain and motivate people to perform, perhaps the companies in which we invest have been targeting the wrong drive all along.

We do not want, for example, senior executives that, in moments of weakness, look to their pay packages to keep them going. We want senior executives that are committed to the firm; to its reason for being and who are committed to perform because it's what they are there for - and that commitment needs to come from somewhere.



Call To Action

The science tells us *committed*, as opposed to *motivated* staff (at all levels), are driven by purpose, a desire to connect with like-minded colleagues, autonomy, mastery and a sense of achievement and progress. And that commitment is maintained when they work in a context that supports all these drives.

Companies that craft employee value propositions that engender a commitment to the firm on this basis stand to turn their wider staff into advocates, who sing the praises of their employer, rave about their managers, and give their discretionary effort to meeting the firm's objectives.⁵⁹

Indeed, Bain & Company suggests that a single measure of the degree to which staff become advocates for the firm as an employer should be the starting point for companies that wish to both measure and increase staff engagement.

That measure - *the Employer Net Promoter Score* - is the product of the question: "On a scale from 0 to 10, would you recommend your company as a place to work to a friend or colleague?"

Respondents are categorised either as; Promoters, Passives or Detractors:

- Promoters (i.e. those that give a score of 9–10) are highly engaged and drive performance in the manner described by, for example, the Temkin Group (in Figure 1).
- Passives (that give a score between 7 and 8) are satisfied employees, but they do not drive results and they are susceptible to being lured away by the competition.
- Detractors (that give a score between 1 and 6) are disengaged employees that are detrimental to business performance and who spread negative word-of-mouth.

A company's Employee Net Promoter score is found by subtracting the percentage of employees that are detractors from the percentage that are promoters.

The results are not encouraging.

Figure 2 (below) shows, for example, that the employer net promoter score in the US currently stands at -3%, which actually compares favourably to the -34% number registered in Europe. (Additional data indicates that only 3 in 10 UK employees claim to be engaged).⁶⁰

Using Bain's data as a proxy for the state of the employee value propositions in the companies in which we invest, and bearing in mind the link between employee engagement and business performance that has been described in this document (not to mention to human effect on staff and their families of doing jobs in which they are not fulfilled), we have much to do.

That's the bad news.

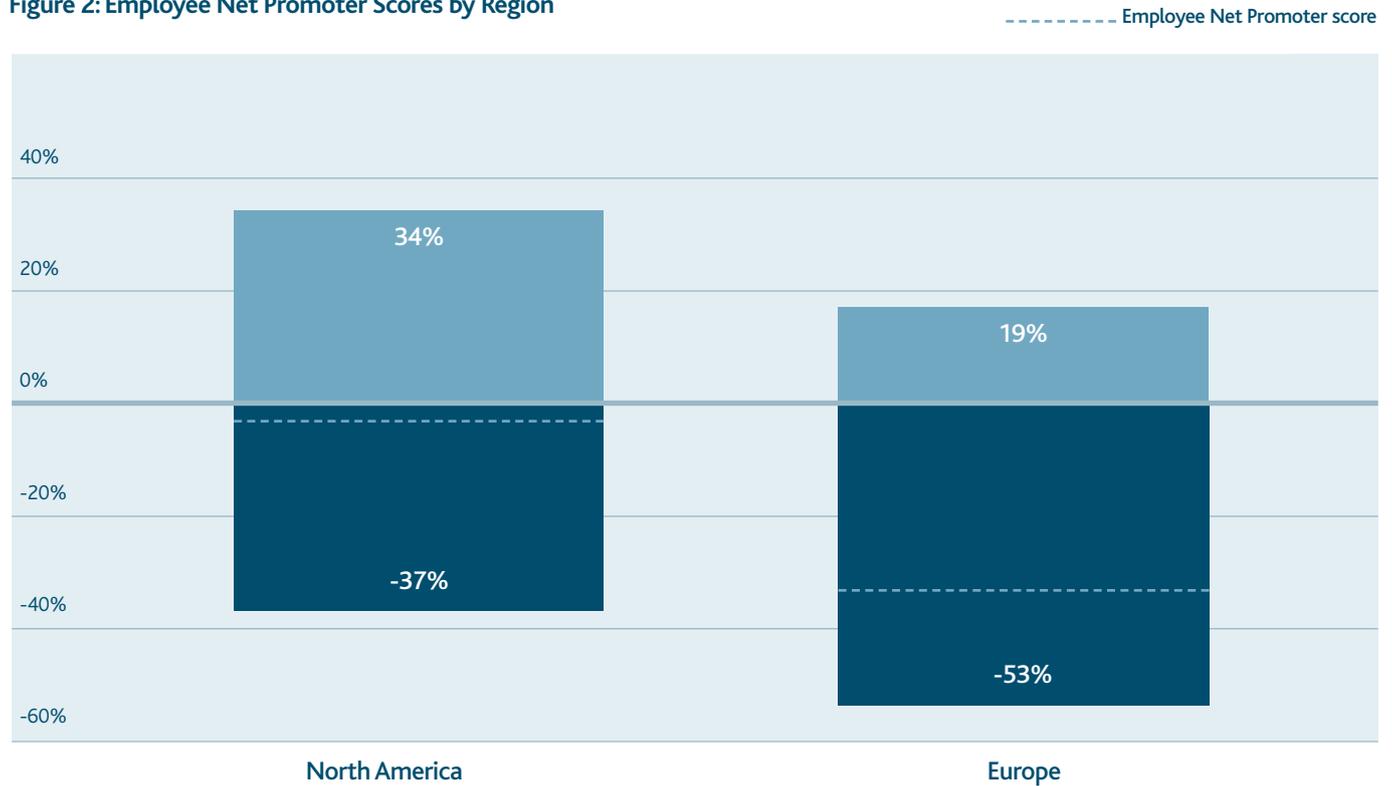
But it's also the good news.

The scope we have for helping to improve the quality of the employee value propositions that the companies in which we invest offer their staff, is large.

To our mind that work begins with interested asset owners and investors shining a light on a subject that companies are rarely (if ever) asked about - to show them that critical stakeholders that help determine the valuation of their companies care.

It proceeds from there to assessing the quality of an employee value proposition against a sense of what good looks like in this regard. And it starts to make a real difference when we hold underperformance up against best-in-class performance and ask for change.

Figure 2: Employee Net Promoter Scores by Region



Source: Bain & Company, http://www.bain.com/Images/BAIN_BRIEF_The_chemistry_of_enthusiasm.pdf

Employee Value Proposition Questions



The research suggests there is no one-size-fits-all approach that companies can adopt to encourage high levels of employee engagement in their businesses.⁶¹ The context in which companies operate and the business models they pursue will largely dictate how important the principles of commitment we have outlined in this document are to their success. (This means a useful first step in an analysis and/or prospective engagement will be to develop a sense of which factors are likely to be important to the performance of the business in question).

Nonetheless, we believe the questions below will enable trustees and investors to get to the core of the issue in the companies in which they invest – and start a conversation that will also enable them to better appreciate the role that the company’s employee value proposition plays in corporate and stock price performance on both an absolute and on a relative basis.

When you ask these questions we encourage you to consider: we’re not trying to find companies that make their employees happy (this could be done with a one-hour work week, for example). Instead, we are trying to understand the actions companies take to ensure staff are willing, first to join and stay with the firm and, second, to give their discretionary effort to helping the firm achieve its objectives.

QUESTIONS FOR COMPANIES

1) Weighting the Principles of Commitment

Question Origin	Principal Question	Probe Questions
<p>There is no one-size-fits-all approach to using non-monetary rewards to craft an employee value proposition that works. The context in which companies operate and the business models they pursue will largely dictate how important the principles of commitment we have outlined in this document are to their success.</p>	<p>1.1 What weight would you attach to the following principles in respect of the contribution they should make to your long-term performance?</p> <ul style="list-style-type: none"> • People care deeply about purpose; • They are drawn to working with people they can connect to; • They value autonomy at work; • They are driven by a desire to achieve mastery; <ul style="list-style-type: none"> • They take pride in and are fulfilled by achievement and progress, and • They are heavily influenced by the context in which they work: whether they feel valued, whether they perceive themselves to be fairly treated, and how they are treated by immediate superiors. 	<p>a) In what way does your business model take account of these factors?</p>

2) Degree of Current Employee Engagement

Question Origin	Principal Question	Probe Questions
<p>An engaged employee:</p> <ul style="list-style-type: none"> – Believes in the organisation, – Works to make the organisation better, – Understands organisational context and the 'bigger picture,' – Respects colleagues and helps others, and – Is willing to 'go the extra mile.' 	<p>2.1 What is the ratio of engaged to disengaged employees in your company?</p>	<p>a) What evidence can you share with us of the link between employee engagement and the business outcomes you care about in your company?</p> <p>b) What have the trends been in this ratio over the last five years?</p> <p>c) What principal actions have you taken to improve this ratio in the last three years?</p> <p>d) Where do you plan to invest resources in improving this ratio in the next year?</p>
<p>Bain & Company suggests that a single measure of the degree to which staff become advocates for the firm as an employer should be the starting point for companies that wish to both measure and increase staff engagement.</p>	<p>2.2 What is your employer net promoter score (ENPS)?</p>	<p>a) If you measure your ENPS why do staff rate you in this way?</p> <p>b) What trends have you seen in your ENPS?</p> <p>c) What are actions are you taking to improve your ENPS?</p> <p>d) How does your ENPS rating differ across critical employee segments in the company?</p> <p>e) If you don't measure your ENPS, why not?</p>

QUESTIONS FOR COMPANIES

3) Testing the Evidence that Financial Rewards are Working as Intended

Question Origin	Principal Question	Probe Questions
<p>In a world in which there is so much focus on financial rewards it is easy to imagine the employee value propositions that generate desirable business outcomes are distinguished by their treatment of money.</p> <p>They are not.</p> <p>They differ only according to how well companies package <i>non-monetary rewards</i> to prospective and current employees, such as giving people a sense of purpose, granting them a high degree of autonomy, and ensuring they feel like they are being treated fairly.</p>	<p>3.1 What hard evidence can you share with us that a link exists in your organization between pay and staff performance?</p>	
<p>Who we choose to work for, why we stay with a firm, and what motivates us at work is more than just a financial equation. In our opinion it is, in very large part, a social consideration that taps into the drivers of human behaviour that evolved before the advent of money, which, in turn, make the difference to job fulfilment and performance.</p>	<p>3.2 What hard evidence can you share with us that what you pay staff and how you pay them has a bearing on their decision to join your firm or to leave your firm?</p>	<p>a) What issues do you explore in exit interviews with employees that choose to leave your company to work elsewhere?</p> <p>b) What principal reasons do employees give for leaving your company to work elsewhere?</p>
<p>Most of the available evidence that financial rewards enhance performance has been obtained in contexts where individual contributions to performance can be isolated, where performance can be measured objectively, and where tasks are relatively simple.</p>	<p>3.3 In what particular circumstances and/or roles is there a strong link between pay and performance in your organization?</p>	
<p>Employees rarely see pay as a motivator when it is tied to subjective measures of performance – when performance is difficult to measure. And no reliable link has been found between pay and performance in complex tasks.</p>	<p>3.4 What evidence can you share with us that your employees are motivated by pay for performance?</p>	
<p>When an employee's focus is on attaining a financial prize, they tend to do exactly what is necessary to get the job done - and no more. That means they are less likely to notice peripheral features of the task, to take chances or to experiment. They are likely to avoid risk. And they are unlikely to engage in the incidental learning that comes from doing, which enables them to improve their own performance without supervision</p>	<p>3.5 How do you measure the extent to which your employees are just doing enough to get their jobs done versus rising above and beyond this requirement?</p>	
<p>When tempted, most of us are willing to be a little dishonest, regardless of the risks and people that are rewarded for goal achievement, are more likely to engage in unethical behaviour, especially when employees fall just short of their goals.</p>	<p>3.6 What undesirable behaviours have emerged over time from the way in which you pay your employees and what have you done to manage these effects?</p>	

QUESTIONS FOR COMPANIES

4) Exploring the Role of Purpose in Eliciting Commitment

Question Origin	Principal Question	Probe Questions
<p>We are hardwired to care about purpose – something to strive for, which gives our lives and our work meaning, and which motivates us to perform.</p>	<p>4.1 What is the higher purpose in your organization that gives employees' work meaning?</p>	<ul style="list-style-type: none"> a) How do you measure the degree to which this sense of purpose is perceived as being authentic by your employees? b) How do your line managers impart purpose into the work their staff perform? c) Can you give us some examples of where the company's sense of purpose triumphs over short-term profit goals? d) How are prospective employees made aware of your company's purpose? e) Where does your recruitment process emphasise the company's purpose? f) What mix of profit/financial goals have you embedded in your performance management system throughout the company in relation to behaviours associated with the company's purpose? g) What is the thinking behind this mix?

5) Exploring the Degree to which People Feel Connected to Each Other at Work

Question Origin	Principal Question	Probe Questions
<p>When you want people to work towards your objective by working well together a clear purpose establishes the basis for those people to make a connection with colleagues that share the same values.</p>	<p>5.1 How do you ensure the people who work for you share the Company's values in a way that enables them to connect with each other?</p>	<ul style="list-style-type: none"> a) What examples can you give us of your values in action in respect of how they bind people together in your organization? b) How do you ensure and measure the extent to which your line managers live the company's values in the way they manage people?

6) Assessing the Degree to Which Staff are Granted Autonomy in their Work

Question Origin	Principal Question	Probe Questions
<p>When individuals and teams are given autonomy, they invest more time and energy in a task, develop more efficient and innovative processes for completing it, and ultimately improve their performance (however measured).</p> <p>In contrast, losing our autonomy invokes a threat response. The stress that comes with this will almost certainly close down our higher order thinking skills and impair our performance at work. If sustained, it can also undermine our immune system.</p>	<p>6.1 To what extent do you give staff the autonomy to get their jobs done in the best way they see fit?</p>	<ul style="list-style-type: none"> a) What does the absenteeism data in your company tell you about how engaged your employees are in different parts of your organization? b) How have you used this data to improve working practices?

QUESTIONS FOR COMPANIES

7) Understanding How Companies Enable Staff to Achieve Mastery in Their Jobs

Question Origin	Principal Question	Probe Questions
<p>Employees that are given opportunities for mastery naturally pursue opportunities to learn and contribute in the work place.</p> <p>Conversely, when the work people do exceeds their capability (they are not yet masters and do not perceive this to be attainable) the result is anxiety - which invokes the same stress effects seen when we lose our autonomy. And, when a role fails to stretch an individual to master new skills, the result is boredom, and wandering attention and performance.</p>	7.1 How do you enable staff to achieve mastery in their jobs?	<p>a) What evidence can you share with us of how you fit individuals to jobs so that they experience an appropriate degree of stretch in the task?</p> <p>b) What evidence can you share with us of the product of your investment in training and in learning and development?</p> <p>c) Can you help us scale this answer in relation to the company's performance and industry benchmarks?</p>

8) Assessing How Companies Measure and Reward Achievement (without Using Money)

Question Origin	Principal Question	Probe Questions
Progress in work ranks as the top motivator to performance.	8.1 In what ways do your line managers (in particular) create a working environment that facilitates individual achievement and day-to-day progress, rather than get in the way of this?	a) In what non-monetary ways do you routinely measure and reward the progress and achievement of your employees?

9) Assessing the Degree To Which Staff Feel They are Being Treated Fairly

Question Origin	Principal Question	Probe Questions
The most important contextual factors in regard to attracting, retaining and motivating staff are whether people feel like they are being valued (recognition counts) and whether they feel they are being treated fairly in the recognition process.	9.1 What evidence can you share with us that staff throughout your organization feel they are being treated fairly by your company?	<p>a) How do you ensure, measure and improve this sense of fairness?</p> <p>b) What evidence can you share with us that your employees feel the way in which people are paid in the organization and the financial rewards they receive for their work is treated fairly throughout?</p>

10) Exploring the Employee's Relationship with His or Her Line Manager

Question Origin	Principal Question	Probe Questions
The strongest driver of staff turnover is not pay, but the quality of an employee's relationships with supervisors and 60% of the variation in an employee's overall level of engagement in his or her work is determined by the employee's perception of his or her boss.	10.1 To what extent do or would your staff recommend their boss as someone that a friend or colleague should work for?	a) What is the ratio of engaged to disengaged line managers in your company?

QUESTIONS FOR ASSET MANAGERS

- 1) How does your analysis of corporate performance, and your valuation work, take account of the quality of a company's employee value proposition?
 - a) Can you give me examples of this element of your investment process in action?
 - b) Can you give me examples of where this element of your investment process has made a difference to your thinking?
- 2) To what extent do you engage with the companies in which you invest on our behalf on the subject of their employee value proposition?
 - a) Can you give me specific examples of engagements you have had with investee companies in this regard, including the agenda you set with the target company and the outcomes of your engagement?

Appendix: The \$2bn Success That Almost Never Happened

"What we found at Zappos is there is a huge, huge difference between motivation and inspiration. And if you can inspire your employees through a vision that has a higher purpose beyond just money, or profit, or being #1 in the market, and if you can inspire your employees through having core values – not just stated values but actually practiced values that match their own personal values – then you can accomplish so much more; and you don't really need to worry about the motivation part of it - it just kinds of happens."

Tony Hsieh, CEO, Zappos.com ⁶²



The CEO of Zappos recently spoke before the All Parliamentary Group on Wellbeing Economics at Westminster about the link between worker happiness and business growth. ⁶³ Yet most of us in the UK can be forgiven if we have never heard of the company.

Zappos conducts all its business within the US and, as online retailer (mostly) of shoes, which is also a subsidiary of Amazon.com, it flies largely under the public radar – except, that is, for its hugely devoted customers, and the increasing number of business leaders that are seeking to understand the secret of its success in order to emulate its performance.

The company was founded in 1999, funded with venture capital provided by Tony Hsieh, who became its CEO in 2000. It passed \$1bn in sales in 2008 (two years ahead of plan) ⁶⁴ and was sold to Amazon in 2009 for \$1.2bn - upon which it distributed over 5.8 times the initial sum investors had placed in Hsieh's venture capital fund to its financial backers.

Zappos continues to run independently of its principal owner and now generates in excess of \$2bn in sales, employing approximately 5,000 people.

The Principles of Commitment in Action

It is also a living embodiment of the principles of commitment in action: a company where staff are driven by the company's sole purpose, which is to delight its customers; where they thrive on the connections they make with like-minded colleagues; where they revel in the autonomy they are given to "deliver happiness;" where they are equipped with the resources (and the space) to achieve mastery, and where they genuinely celebrate achievement and progress, all in a company that has a resolute focus on sustaining a culture that supports each of these facets of its performance.

Nonetheless, Zappos' success almost never happened. Like a lot of Internet based companies that started around the turn of the last century, Zappos faced severe cash flow challenges in its formative years.

Soon after becoming CEO, Hsieh allocated the balance of the capital left in his venture fund to keep Zappos afloat. ⁶⁵ After that, he drew down his own bank account (effectively to zero); cut his salary to \$24 a year before taxes, and sold all but one of his property assets (which he had originally bought from the proceeds of selling a company he founded straight out of college to Microsoft in 1998) to further fund the business.

At the same time, Hsieh moved Zappos staff into his spare apartment, rent free – although he would later have to sell that property in a fire sale to finance new inventory that would be critical to the company's ability to trade its way out of trouble.

However, as bad as Zappos' cash flow problems were before Wells Fargo bank agreed to provide it with a line of credit that would secure its interim future, they are not our focus.

Zappos could easily have folded at the turn of the century, had it not been for Hsieh's belief and his willingness to bet all he had on the company. But the *business model* that explains the extraordinary success the company has enjoyed ever since was only born *during* that struggle – and it was this model, which so many are now seeking to copy, that was nearly strangled at birth by owner/directors that, according to Hsieh, appeared to care more about immediate financial returns than they did about the particular approach to business he was creating, which would secure those returns long into the future. ⁶⁶

Stumbling On a Higher Purpose

"What do we want to be when we grow up? Do we want to be about shoes or do we want to be about something bigger and more meaningful? That's when we decided that we really wanted to build the Zappos brand and be about the very best customer service and customer experience."

Tony Hsieh ⁶⁷

In the midst of searching for a way to cut costs, and even though it knew it would damage its growth prospects, Zappos decided to reduce its marketing spend in 2000. However, this also meant the company was forced to refocus its efforts on trying to get existing customers to buy more from it, and more frequently – which, in turn, required it to give greater attention to what would later become the company's sole purpose: To deliver the world's best customer service.

That single, almost accidental, decision became the spring board of an entirely new business model that put customer experience at the heart of everything Zappos did; which it would use thereafter to attract, retain and motivate people to perform.

It began hiring only for those people who were passionate about customer service, not just in its call centres but in every department.

It required every single member of staff (irrespective of whether, for example, they were heading for the legal department) to undergo a five-week training programme during which they were introduced to the Zappos culture and required to man the telephones in the company's call centre.

In addition, Zappos offered all new staff money to leave after their first week of training (initially \$200; now \$4,000) so as to ensure employees chose to work at Zappos for more than just pay; instead because they believed in its long-term vision and culture. And it eventually came to define its culture with respect to 10 core values, which it would use as the basis for its decisions to hire, and as the basis of its performance management, and talent management and succession planning processes.

All staff were therefore hired for cultural fit with the company, even at the cost of turning down talented people it knew could make an immediate impact on its top or bottom line. "It doesn't matter how well the entire day of interviews went. If they didn't treat the shuttle driver well, we won't hire them," says Hsieh.⁶⁸

And the vast majority of staff are now hired at entry level status, in the expectation that, with relevant training and encouragement, and the freedom to move through departments until they find a job that suits them so perfectly they refer to it as their calling, they will comprise a pipeline of staff capable of occupying senior roles in Zappos as and when required.

Zappos also found the best way of enabling such staff to deliver an experience that would "wow" its customers was to give them the latitude to find their own way of exceeding customer expectations: from chatting to customers for up to five hours if that is what the customer wants, to checking competitors websites for shoes out of stock at Zappos but which the customer could obtain elsewhere,⁶⁹ and to answering late-night calls for Pizza rather than for shoes if that's what the customer has called for.⁷⁰

Recognising the power behind the value proposition Zappos had come to offer its employees, not only measured in their degree of engagement with the firm and its values, but also in the company's financial performance, Hsieh came to make culture the company's number one priority, with world beating customer service now operating as a subcomponent of a culture.

Nonetheless, success at Zappos did not come in a straight line.

Time for a New CEO?

"The board wanted me, or whoever was CEO, to spend less time on worrying about employee happiness and more time selling shoes."

Tony Hsieh⁷¹

It would take several years post that first decision to focus on customer service for the expression of people and investment value we now see at Zappos to become consistently profitable. In the meantime, it still required periodic injections of capital. Two such injections came from the venture firm, Sequoia Capital, which invested \$35 million in Zappos between 2004 and 2005: a large shareholding that also came with representation on the company's board.

*For all its struggles to survive in a commercial sense, Hsieh tells us he came close to being fired from his post after Sequoia's injection of capital, not because the business was struggling per se, but because he had a hard time convincing his board members to embrace many of the activities that would ultimately help build the Zappos brand.*⁷²

For the most part, Hsieh reports his board wanted Zappos to just focus on the financial performance that was being driven by its e-commerce business, with some board members viewing the developing culture at Zappos as a pet project – "Tony's social experiments" – that might make for good PR, but which would not move the overall business forward.⁷³

By now, Hsieh had already realised that strong culture and committable core values were important to Zappos' success because they created alignment amongst its employees. But, in his own words, he was also learning that alignment with shareholders and the board of directors was just as important.⁷⁴

Encouraging a Focus on People and Investment Value

Hsieh structured the sale of Zappos to Amazon in such a way that Zappos secured its future, whilst also retaining its operational independence.

In the process, he negotiated himself a salary of \$36,000 flat, with no bonuses or incentives, and exclusion from the golden handcuffs agreement Amazon traditionally employs in its M&A; all in return for complete operating autonomy.⁷⁵

According to Hsieh, these arrangements forced him to make sure he worked at Zappos because he loved his job, and they sent a message to Amazon that it could not use pay to retain his services: it just had to make sure that it created the appropriate context (effectively as his line manager) for him to be fulfilled at work.⁷⁶

Hsieh adopts the same philosophy with respect of remuneration elsewhere in Zappos. Staff are paid at, or just above, the market rate for entry level roles. However, as they gain seniority, Zappos pays them more and more *below* the market rate.⁷⁷

Critically, in this regard, Zappos' focus on building a pipeline of senior executives that is overwhelmingly drawn from the ranks of its entry-level staff, not only protects the company against the risk that outsiders appointed to senior positions might damage its culture: *it also ensures the company fills senior posts with individuals who have already defined themselves as the kind of people that work for a higher purpose, rather than for money.*

This approach dramatically reduces the role that market forces play in the remuneration debate at Zappos, and naturally displaces a focus on pay with other aspects of the company's employee value proposition.

Yet it is not an approach that was sanctioned by the company's owner/directors. Hsieh could only secure a reliable mandate to maintain his "social experiments" by negotiating a sale of the company to Amazon, the CEO of which (Jeff Bezos) was sufficiently far sighted to share Hsieh's insight that it was, and is, these experiments that explain the company's success.

Therein, we believe, lies a lesson for any shareholder or any asset owner interested in encouraging companies to craft employee value propositions that work, which do not resort to using money to make them work. Many shareholders are more interested in immediate financial performance than they are in the non-financial factors that explain performance, and, to the degree such shareholders influence managements and boards, they may undermine any potential focus a company may have on investing in its employee value proposition.

A critical aspect of the Forum's approach to engagement lies in identifying best practice in the companies in which its members invest so as to be able to praise such behaviour and encourage relevant companies to even better performance. The experience of Zappos throws this approach into bold relief – as nowhere might it be more important than to support companies that exhibit considered thinking in respect of how they shape the non-monetary aspects of their employee value propositions to create value for staff and long-term owners alike (even as the Forum also searches for and seeks to engage with those companies that fall way below best practice in this regard).

TONY HSIEH'S SOCIAL EXPERIMENTS ILLUSTRATED

Below we have summarised each principle of commitment in this Guide, and illustrated the way in which Zappos exemplifies a company that has adhered to the principles, using quotes from Hsieh himself. (Unless indicated, all quotes from Tony Hsieh are taken from his book, *Delivering Happiness: A Path to Profits, Passion and Purpose*, Business Plus, October 2011.)

In each case these are supported by additional quotes taken from Zappos staff (one quote per staff member for each principle), sourced from the company's 2011 Culture Book.⁷⁹

Principle of Commitment	Summary	Zappos Approach	Zappos Staff
Purpose	<p>We are hardwired to care about purpose – something to strive for, which gives our lives and our work meaning, and which motivates us to perform. And when people lack purpose their wellbeing suffers.</p>	<ul style="list-style-type: none"> Do employees think of their work as a job, a career, or a calling? Our whole goal is actually to move employees up that pyramid and we encourage employees to move around different departments to find their calling.⁸⁰ We actually do two different sets of interviews. The hiring manager and his/her team will do the standard set of interviews looking for relevant experience, technical ability, fit within the team, etc. But then our HR department does a separate set of interviews looking purely for culture fit. Candidates have to pass both sets of interviews in order to be hired. Ask yourself what are the values that the company is willing to make hiring and firing decisions on apart from job performance?⁸¹ 	<p>I never knew such a work place could exist, where everyone has a common goal and we are all determined to achieve it...</p> <p>Zappos has been the answer to a lot of my prayers about wanting a job that is fulfilling and about knowing that you have a true purpose.</p>
Connection	<p>Our desire to connect with others serves a biological purpose.</p> <p>It makes us smarter, healthier and more productive.</p> <p>We are, after all, social animals – that thrive and give our best when camaraderie is present in the workplace.</p>	<ul style="list-style-type: none"> When we hire employees whose personal values match the corporation's, then employees' personal values match each other and they're much more likely to become friends and not just co-workers.⁸² One of the best predictors of employee engagement is whether people have a best friend, or the number of friends they have in work. So we train managers to spend 10% to 20% of their time outside the office hanging out, e.g. at a Happy Hour, bowling or hiking. It doesn't matter what it is; it's getting to know them at a personal level.⁸³ As our group grew, I realized forming new friendships and deepening the connections within our burgeoning tribe was bringing both a sense of stability and a sense of excitement about the future for all of us. The connectedness we felt was making us all happier, and we realised it was something we had all missed from our college days. I made a note to myself to make sure that I never lost sight of the value of a tribe where people felt fully connected and cared about the well-being of one another. 	<p>Up until a year ago, I was lost and disheartened.</p> <p>In finding this place, I found another home, another family and a new direction.</p> <p>For the first time I look forward to "work" and to my colleagues.</p> <p>It still amazes me that every day is different, every person is happy, and I actually look forward to being here.</p>

Principle of Commitment	Summary	Zappos Approach	Zappos Staff
Autonomy	<p>When individuals and teams are given autonomy; they invest more time and energy in a task, develop more efficient and innovative processes for completing it, and ultimately improve their performance (however this is measured).</p>	<ul style="list-style-type: none"> Personally I cringe at the word 'leader.' It's more about getting people do what they're passionate about and putting them in the right context or setting. They're the ones doing the hard work.⁸⁴ We say to our employees: here are 15 to 20 different skills you can learn, each associated with a small lift in pay, and then we leave it up them to self-direct their career paths.⁸⁵ Most of the stuff that happens in our office is really about some employee coming up with an idea and, whether it's me or other managers, saying, "If you're passionate about it, just run with it."⁸⁶ At some point, it kind of just snowballs, because once employees see other employees just doing stuff, then that lets them feel like they have more permission to run with their ideas.⁸⁷ 	<p>With the lack of micro-managing and the empowerment that each individual CLT [Customer Loyalty Team] representative has, it's comforting to know when I arrive at work that I have what it takes to take care of our customers the way I would like to be taken care of.</p> <p>All companies should adopt the way Zappos trusts its employees.</p>
Mastery	<p>Many of us work outside our place of employment to master new skills in order to overcome challenges we have willingly embraced.</p> <p>Pursuing the same drive that underpins their leisure time experience, employees that are given opportunities for mastery naturally pursue opportunities to learn and contribute in the work place.</p>	<ul style="list-style-type: none"> At Zappos, we think it's important for employees to grow both personally and professionally. It's important to constantly challenge and stretch yourself, and not be stuck in a job where you don't feel like you are growing or learning. We believe that inside every employee is more potential than even the employee realizes. Our goal is to help employees unlock that potential. Our vision is for almost all of our hires to be entry level, but for the company to provide all the training and mentorship necessary so that any employee has the opportunity to become a senior leader within the company within five to seven years. Without continually growing and learning both personally and professionally, it's unlikely that any individual employee will still be with our company ten years from now. 	<p>Zappos is always encouraging employees to grow and learn and we are given all the tools we need to achieve our goals.</p>

Principle of Commitment	Summary	Zappos Approach	Zappos Staff
Progress and Achievement	<p>In a multiyear study tracking the day-to-day activities, emotions, and motivation levels of hundreds of knowledge workers in a wide variety of settings, Teresa Amabile and Steve Kramer found that progress in work ranked as the top motivator to performance.</p>	<ul style="list-style-type: none"> • We used to hire people in the merchandising department at entry level; get them trained and certified and then 18 months later give them a promotion [then repeat the process] and 18 months later give them another promotion. • Several years ago we changed to giving smaller promotions every six months. It still takes 3 years to become a buyer but we found employees were a lot happier with that on-going sense of perceived progress. • Recognition is a big part in keeping moral high in any organization. Here at the Zappos Family we are constantly pushing ourselves to find new ways to recognize our team members for the great job they do.⁸⁸ 	<p>I never leave feeling defeated from the day's events.</p> <p>I am able to go home a happy person and enjoy my time with my family.</p>
Context	<p>Sixty per cent of the variation in an employee's overall level of engagement in his or her work is determined by the employee's perception of his or her boss.</p> <p>To our mind, the extent of this correlation is driven by the fact that line managers create the context in which people work, which either supports the principles of commitment outlined in this Guide, or which undermines them.</p>	<ul style="list-style-type: none"> • Hiring senior-level talent is very hard, it's hit or miss and they can do a lot of damage to culture. We've had bad experiences with that. So we have this thing called the pipeline... • The best leaders are those that lead by example and are both team followers and team leaders. • We believe that, in general, the best ideas and decisions are made from the bottom up, meaning by those on the front lines that are closest to the issues and/or the customers. • The role of the manager is to remove obstacles and enable his/her direct reports to succeed. This means the best leaders are servant-leaders. They serve those they lead. • If you get the culture right, most of the other stuff - like great customer service, or building a great long-term brand, or passionate employees and customers - will happen naturally on its own. 	<p>I love the fact that there is so much room for growth within the company and our Leads, Supervisors and Managers will make sure we get where we are trying to go.</p>

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Each year Tony Hsieh invites all Zappos employees to contribute a paragraph to the company "Culture Book," which is made available online and in hard copy to anyone that requests a copy. In making this request Hsieh asks that staff do not refer to any training materials, the company handbook or any other company-published material. He emphasises he wants THEIR thoughts alone, with the promise that every contribution will be published as is (except for typing corrections).
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