

# Management Ideas



a monthly newsletter to key executive-leaders  
on practices, possibilities and ideas generally  
for stepped up performance  
edited by  
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on problem-solving and creative ideas

FOR STILL BETTER

RESULTS

RELATIONS

REPUTATION

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**3659 TEMPLETON PRIZE FOR 1997:** Shri Pandurangshastri Athavale - Dadaji to his many followers - has been awarded the Templeton Prize for 1997. (The Award was established in 1972 by Sir John Templeton to honour those who advance the world's understanding of religion and spirituality in a big way.) It is good to know that Dady's unique man-building work has been recognised in the international circles. (Last year, he was awarded the Magsaysay Award.)

How to live the higher dimensions of religion in day to day life for one's own good and for the good of others has been his focus for the past three decades. Organizations will do well to let their members know of this man and his good work. May be, some of them would like to become active members of the Swadhyaya movement that gives a blueprint to know oneself. When they do, their quality of life will improve and that in turn will affect their attitude to life and work.

**3660 HRD PAYS:** *There can be a difference of opinion on what constitutes Human Resource Development or Human Resources Management. We need certainly take a cost vs. return approach instead of HRD as the going fashion. What people at times doubt is that HRD is a frill, a fashion and not a business surplus proposition. The accompanying item from Financial Times, London asks the reader to reconsider this prejudice.*

It is almost a management truism that companies gain a competitive edge by valuing their workers and investing in them. Yet there is little hard evidence to back this up. In one of the first studies of its kind, our analysis of more than 100 German companies reveals a strong link between investing in employees and stock market performance. Companies which place workers at the core of their strategies produce higher long-term returns to shareholders than their industry peers.

Not every successful company invests a great deal in its employees. However, we found that the shares of companies which focus on their workforce outperform competitors who make human resources a low priority. The search examined companies in 10 industrial sectors, including car manufacturing, banking and pharmaceuticals, over a seven-year period from 1987 to 1994. "Employee focus" was divided into two components: traditional human resource policies and opportunities for "intrapreneurship" within the company. Both of these are necessary to produce exceptional shareholder value: employee benefits alone will not do the trick.

The first, traditional type of employee focus was measured in four ways:

- \* Expenditure per employee on training, and continuing levels of training.
- \* Number of layoffs relative to the industry average and efforts to help relocate redundant employees.
- \* Extent to which the corporate philosophy recognises the contribution of employees as reflected in mission statements and publications.
- \* General human resource policies, including recruitment, performance evaluation and feed-back, and promotion

opportunities. "Intrapreneurship" means giving an employee the freedom to take decisions and to maximise the scope for individual initiative within a given ob. Four criteria were used to measure the extent to which companies encouraged intrapreneurship:

- \* Flexible work hours.
- \* Project organisation, including the prevalence of teams, number of levels of hierarchy, and independence of working units.
- \* Opportunities for employees to learn skills in new areas, and speed with which a firm can transfer staff to new fields.
- \* Extent to which employees share in company performance through profit-sharing, performance pay and bonuses.

The results are striking. In every industry, those companies which scored most highly on these criteria produced a greater "total shareholder return" than their competitors. TSR is the sum of share price increases and dividends over a given period. The companies receiving the lowest scores also produced the lowest TSR in their sector.

We also looked at the data over a shorter, four-year, period. Even then, the degree to which a company invests in human resources is still a good predictor of stock market success, with those investing most performing best, and vice-versa.

Employee-focused companies not only delivered the best share holder value; they also created the most jobs. This discovery has profound implications for Germany and France, where TSR is still a controversial measure of success. The conventional wisdom, especially among labour unions, is that a management focus on TSR will inevitably lead to downsizing. But we found that more than three-quarters of the companies with above-average TSR produced a net increase in jobs.

Companies in the same sector vary to a surprising degree in the extent to which they focus on human resources. In the car industry, BMW and VW have organised workers in teams for many years, whereas Ford, Opel, and Audi adopted this approach much later. BMW is a pacesetter in numerous work shift choices - others offer much less flexibility. Some companies try to relocate laid-off workers; others do not.

While the laggards are trying to catch up, the leaders are already seeking ways to empower their workforce further. Although most German employees enjoy benefits which are generous by international standards, few German companies practice anything like intrapreneurship. Those which do, including BMW, SAP and Bilfinger + Berger, display the strongest stock market performance.

SAP, the software group, has defied almost every rule of German corporate life to become the world's fifth largest in the sector. Even by industry standards, the company has an enviable record. Sales have increased from DM500m to almost DM3bn (\$1.8bn) over the past five years. It now employs some 8,500 direct employees and at least a further 40,000 through its innovative "partner" companies, which install, train and customise SAP products. During the same period, shareholders have enjoyed an annual return of 54 per cent on their investment.

SAP says the success is due in large measure to the company's philosophy towards employees. Preferring "sitting balls" to chairs, workers come and go as they please and enjoy "total freedom," according to Helmut Gilbert, director of human resources. "People need freedom to do their best. They set their own goals and priorities and we give them help if they ask."

Beyond extensive training, language tuition, and other benefits, SAP offers real intrapreneurship. Workers can diversify their skills by working in different areas of the company. New ideas are welcomed and translated quickly into action. The compensation system rewards initiative, performance, and risk-taking. Apart from eight board members, the hierarchy is flat with, for example, all 4,000 employees at the company's headquarters near Heidelberg at the same level. Employees who leave can qualify for seed capital to finance startups in related businesses.

The strong correlation between employee focus and shareholder value holds true not just in the competitive technology sector, it also works in retailing, engineering and in basic industries.

The turnaround of Bilfinger + Berger, Germany's second-largest construction company, illustrates the power of intrapreneurship. Ten years ago, the company was in the doldrums along with most of Germany's building industry. The company decided on a two-pronged radical change: to expand, both internationally and into new types of construction, and completely to decentralise operations, enabling everyone down to the site foreman to share in a project's financial risk and reward. To achieve this, the company invested in training, developed new methods of working in teams and overhauled the procedures for compensation, performance review, and promotion.

As a result, the company moved from fourth to second biggest company between 1987 and 1995. Sales grew at an annual rate of more than 20 per cent. Total shareholder return, which fell to minus 20 per cent during the investment phase in 1986-87, grew to a positive 33 per cent in 1988-95 - the best in the sector. The company has achieved some measure of protection in the industry, by winning important contracts in new areas and diversifying its geographic portfolio. All of this has some important implications, both for companies and for Europe's unemployment problem. First, more focus, not less, on long-term shareholder value is needed to help combat joblessness.

Second, investors would do well to think about employee focus when they make investment decisions. This has already begun to happen in the US. The successful California state pension fund, Calpers, which manages more than \$100bn, takes "workplace practices" into consideration and prefers to invest in companies which demonstrate a strong employee focus.

Third, companies are realising that pro-employee policies can be a powerful competitive weapon. In this respect, common sense makes good business sense. And, finally, employees and unions should welcome a more widespread adoption of intrapreneurship, which can benefit worker, investor, and customer alike.

Linda Bilmes, Konrad Wetzker and Pascal Xhonneux.

**3661** **TEN TIPS TO MANAGE ENVIRONMENTAL MATTERS:** *Both governmental and nongovernmental projects tend to get stalled (if they are new) or into trouble (if they are ongoing), if they get on the wrong side of environmental agencies. The following guidelines have been developed by a U.S. Attorney (James D Viergegg in Arizona Business Gazette).*

1. **Select an employee or group of employees who will be responsible for managing company environmental matters.** This individual or group will stay up-to-date with applicable environmental laws, monitor company compliance and take action to remedy environmental compliance problems.
2. **Appoint a company liaison to interface with environmental regulatory agencies.** This person will keep management informed on significant regulatory matters, field and respond to government informational inquiries and monitor agency compliance inspections or other plant visits.
3. **Conduct regularly scheduled and properly financed environmental compliance audits.** Set up an audit team to evaluate the environmental laws that apply to your business operations and oversee implementation of necessary remedial measures.
4. **Respond to employee complaints concerning environmental and health risks.** Well-established procedures for addressing worker concerns may reduce or eliminate employee contact with government agencies.
5. **Be sensitive to the concerns of citizens.** A citizen complaint could signal a compliance problem and if it is not properly addressed, that person could turn to government regulators for assistance.
6. **Establish good recordkeeping procedures.** Document communications with regulators on significant environmental matters. If your company generates regulated wastes, accurate, up-to-date files should be kept in the event they are needed to respond to an environmental problem, or if requested by environmental agencies. If your plant has undergone a compliance inspection, obtain copies of agency inspection reports and document correction of environmental violations.
7. **Obtain duplicates of any soil, water or other samples taken by government officials at your plant.** Handle duplicate samples according to prescribed procedures and have them analyzed at a reputable laboratory. Obtain copies of government test results.

8. Protect written or oral communications with your attorney through the creation of attorney-client work product or other established legal privilege. Such procedures may protect sensitive communications from being discovered by the government and thereafter used to prove environmental violations.

9. Be courteous to governmental employees during compliance inspections or other site visits. Unnecessary hostility by plant personnel may prompt follow-up investigations which can increase the likelihood of discovering environmental violations.

10. Be prepared to enlist the aid of competent and experienced environmental lawyers and consultants. Because of the number and complexity of environmental laws, it may be necessary to hire outside personnel when in-house expertise is insufficient to address an environmental problem.

**3662 NEW YEAR RESOLUTIONS FOR MANAGERS:** *We saw some last month, from one point of view. Here are some more, from another point of view, from the viewpoint of people skills.*

Don't make the usual New Year's Resolutions to lose weight and exercise more. Instead, make 1997 the year of polishing your people skills.

Everyone can use a little help in improving their communication style. And if you're like most people, you know exactly what areas need improvement. The challenge, management experts say, is coming up with a plan to address those problem areas. Well, here are five suggestions from management pros.

1. **Listen and learn.** You already know you should pay attention to your staff and show that you care about what they have to say. But that knowledge may not translate into action.

"With all the daily pressures, it's hard to take time to hear what's going on with people," said Nella Barkley, president of Crystal-Barkley Corp., a New York based management consulting and training firm. "Generally, you need to do at least three times as much listening as you think you need to do."

An effective way to understand others is to use "restatements,"

Barkley said. "Wait until the end of the discussion and say, 'The way you feel is...' or ask, 'It is correct that....?'" This lets them know you were listening."

2. **Establish a speak-listen rhythm.** Do you talk too much? Make 1997 the year that you slow down. If you tend to shift into verbal overdrive and have trouble stopping, then limit yourself to three statements before you either ask a question or conclude your remarks. This ensures that your conversational partner will remain actively engaged rather than tune out.

Communication experts find that the best way to avoid monopolizing a discussion is to prompt the other person to participate. That means frequently asking, "What do you think?", "What are your suggestions?" or "Am I making sense?"

After you ask such questions, keep quiet. Purse your lips shut and await an answer. Resist the urge to fill moments of silence and plow ahead. People who love to talk may find it hard to accept a few seconds of silence, but that's a prerequisite of good listening.

3. **Quantify your remarks.** How about making a New Year's resolution to eliminate costly misunderstandings? Sloppy speaking and listening habits can lead to all kinds of damaging communication breakdowns. A useful way to amplify your remarks is to assign percentages or numbers to them. This way, you and your staff can instantly assess an issue's importance.

"Say you've identified a cost-tracking problem and you want to know how serious it is," said Ann McGee-Cooper, head of Ann McGee-Cooper & Associates, a management-consulting group in Dallas. "You can ask that on a one to 10 scale, how big a problem is it?"

Or when you give an assignment, define the importance of the task in percentage terms. Say, "Please do the market-study project at a 20% level, but give this financial report 80% of your effort over the next month."

Added McGee-Cooper, "By communicating differences in importance or



perspective, that keeps people from misunderstanding. A lot of people figure that if their boss asks them to do something -- no matter what -- they have to do it perfectly. But you may want them to get more done in less time, so you need to prioritize for them."

4. **Look to praise.** You've heard it before: Employees crave feedback. And every year, you may realize you should do a better job of letting them know how they're doing.

"Start by checking in with your people and exchanging little niceties" to open lines of communication, said Randall White, co-author of "The Future of Leadership." White, an executive coach based in Greensboro, N.C., has found that many senior managers miss opportunities to express thanks or to praise fine work.

"Just because you know something, don't expect everyone else to know it," White said. "Say something to them."

5. **Answer questions more briefly.** If you beat around the bush, you risk losing your audience. "Try to answer a question in one sentence," said Dianna Booher, author of "Communicate With Confidence." "Most people give their reasoning, opinions or examples before answering the question. The problem is that others will not be able to follow the background until they know your main point."

Even if you do not wish to reveal a full answer, acknowledge the question right away and at least offer a partial response. Evasive speakers can still give the impression that they heard your question and intend to address it.

**3663 RECOMMENDED BOOKS:** THE HEART AROUSED by David Whyte (A Currency Paperback). Subtitled "Poetry and the Preservation of the Soul in Corporate America", the book is an invitation to a higher, broader, deeper vision of work. David Whyte is one of the few poets to have taken his perspectives on creativity into the field of organizational development. Born in England, he works with many American and international companies. The book begins thus: "The Heart Aroused attempts to what is tried and time, good and

efficient, at the centre of our work life, while opening ourselves to a mature appreciation of the hidden and often dangerous inner seas where our passions and our creativity lie rating." It concludes thus: "This kind of approach must be seen as the "great art" of working in order to live, of remembering what is most important in the order of priorities, and what place we occupy in a much greater story than the one our job description defines. Other "great arts," such as poetry, can remind and embolden us to this end. Whatever we choose to do, the stakes are very high. With a little more care, a little more courage, and, above all, a little more soul, our lives can be so easily discovered and celebrated in work, and not, as now, squandered and lost in its shadow.

**LEADING WITH SOUL:** by Lee G. Bolman and Terrence E. Deal (Jossey-Bass Publishers). Subtitled "An Uncommon Journey of Spirit", this book is again an invitation to reconsider the purpose of life and work. It emphasises that the heart of true leadership can only be found in the heart of a leader. The book is in the form of a story. The delightful difference is there are "interruptions" in the form of a commentary. Both Bolman and Deal are professors of management but their writing style is poetic and breezy.

**3664 LAUGHING MATTER?**



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