The Numbers Don't Lie | Bruce W. Fritch

87% | 21.1% | 3

Most leaders are brilliant at generating profits, few at generating brilliance.

We accept mediocrity in leadership and operations by pointing to profits as the rationale that all is well, thus, missing an opportunity for extraordinary performance, and possibly even greatness.

Deep down we know this over-emphasis on profits is myopic and unwise. The numbers don't lie.

87%: Untapped human brilliance – a travesty of leadership

According to a Gallup 2012 study,[1] globally 87% of employees feel unappreciated, are disengaged, and don't care about their company – a travesty of leadership! As leaders, don't we know that only the collective human brilliance in an organization can achieve and sustain superior performance? Today, we are failing to tap into that brilliance at alarming numbers – 87%!

> *Given the proven links between employee engagement and financial outcomes, if organizations worldwide could find a way to double the number of engaged employees, it would dramatically improve their balance sheets and change the world's entire economic trajectory.*

[1] *State of the Global Workplace: Employee Engagement Insights for Business Leaders Worldwide*, 2013, Gallup Inc.

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Gallup Report: ***Gallup Employee Engagement Categories***

Engaged: Employees work with passion and feel a profound connection to their company. They drive innovation and move the organization forward.

Not Engaged: Employees are essentially "checked out." They're sleepwalking through their workday, putting time — but not energy or passion — into their work.

Actively Disengaged: Employees aren't just unhappy at work; they're busy acting out their unhappiness. Every day, these workers undermine what their engaged coworkers accomplish.

Just when we thought technology would save us and we'd move from "good to great," these numbers raise some serious questions about our concepts of leadership and organizational effectiveness.

"Business leaders can save their countries by building stronger companies."
- Jim Clifton, CEO, Gallup Inc.

Disengagement varies by region, industry and company, but these overall numbers are a wake up call – it's an epidemic of mediocrity. If globally 87% of employees are disengaged, we might be inclined to think, "Yeah, but that's all those other countries and companies." But we need to look at ourselves because we are all somewhere between mediocre and dismal (note the US is only 6% better than Kazakhstan):

- US: 70% disengaged
- Qatar: 72% disengaged
- Australia: 76% disengaged
- Kazakhstan: 76% disengaged
- UK: 83% disengaged
- Canada: 84% disengaged
- Germany: 85% disengaged
- India: 91% disengaged
- Japan: 93% disengaged
- China/Hong Kong: 94% disengaged

"Emotional commitment is four times as valuable as rational commitment in producing discretionary effort."
- Corporate Leadership Council

The room for improvement is mind-boggling. That's the upside. Conversely, it means most leaders are trying to push large cohorts of disinterested, disengaged and disappointed people.

It's tough getting commitment, inspiration and insight when people don't think you care about them.

No wonder innovation, insight and sustainable performance are hard to come by – not for the quarter or the year, but for the long haul. It's tough getting commitment, inspiration and insight when people don't think you care about them. It preempts constructive impertinence. It defines performance in terms of political correctness rather than insight and innovation. It undermines the natural brilliance in the human spirit.

Potentially every organization is full of brilliance as it resides in each of us, waiting to be respected, to be released, to flourish.

"I hail and revere the tenets of Conscious Capitalism."

- Herb Kelleher, former CEO, Southwest Airlines

(…more)

21.1%: Good to Great isn't so good for shareholders, let alone all stakeholders

21.1% is the three year annualized investment performance of companies who consciously invest in *human brilliance,* compared to S&P 500 companies at 3.3% and "good to great" companies at –8.4%.

The numbers and history clearly demonstrate that superior investment performance is achieved when companies learn how to tap into the collective brilliance of the organization.

At Fritch we admire aspects of *Good To Great* companies but our focus is on the deep and intrinsic resource behind all performance – human brilliance – and how to release it and overcome the dearth of employee engagement.

Today, one of the most important books for business leaders is *Firms of Endearment: How World-Class Companies Profit from Passion and Purpose*.[2] The historic investment performance numbers of companies the co-authors call, "Firms of Endearment (FoE)," are compared with *Good To Great* (GtG) companies identified by Jim Collins,[3] and S&P 500 companies. The 75 FoE businesses are loved by all stakeholder groups, and the FoE businesses avoid the trap of excessively focusing on maximizing shareholder value in the short-term.

"Take a hard look at your corporate character — not the reputation you intend to project, but what is actually revealed through the decisions and actions of employees and leaders."

- Leading Through Connections,
CEO & C-Suite Studies
IBM Corporation 2012

Subsequently, Professor Sisodia co-wrote the New York Times Bestseller, *Conscious Capitalism*: *Liberating the Heroic Spirit of Business,* with John Mackey, Co-CEO and Co-Founder of Whole Foods Market.[4]

The data provided on the following page is available in that book as well.

[2] *Firms of Endearment: How World-Class Companies Profit from Passion and Purpose* by R. Sisodia, J. Sheth and D. Wolfe, second edition 2014, Pearson Education Publishing

[3] *Good To Great* by Jim Collins, 2001, Harper Collins Publishers

[4] *Conscious Capitalism*: *Liberating the Heroic Spirit of Business*, 2014, Harvard Business School Publishing

Investment performance of *Firms of Endearment* companies versus *S&P 500* and *Good to Great Companies*, 1996-2011:

3 Years– cumulative investment return

FoE:	77.4%
GtG:	–23.2%
S&P 500:	10.3%

5 Years – cumulative investment return

FoE:	56.4%
GtG:	–35.6%
S&P 500:	15.6%

10 Years – cumulative investment return

FoE:	254.4%
GtG:	14.0%
S&P 500:	30.7%

15 Years – cumulative investment return

FoE:	1,646.1%
GtG:	177.5%
S&P 500:	157.0%

Brilliant!

At Fritch, we understand the fundamental connection between capitalism done comprehensively and the brilliance rooted in a place where, as Adam Smith said, "humanity flourishes."[5] We help create places where brilliance flourishes and the numbers are brilliant.

[5] *The Theory of Moral Sentiments*, originally published 1854, Richard Griffin and Co., London; republished 2000, Prometheus Books

3: Three axioms of cultural leadership shape performance capacity

After forty years as an advisor to CEOs, Chairs, corporate boards and business unit leaders – and an abundance of research – I find there are three leadership axioms shaping the performance capacity of business organizations:

1) Very few CEOs have an accurate and in depth understanding of their organization's culture or the relationship between culture and performance capacity.
2) Organizational culture is a reflection of a CEO – always.
3) Most CEOs discount the importance of changing their corporate culture if company profits are deemed respectable.

Worldwide, culture is the least understood element of leadership, and yet the most critical in improving and sustaining performance at every level. Nothing is more generative. While many so-called "business leaders" defy culture comprehension, culture is comprehensible.

"Maximizing shareholder value is the dumbest idea in the world."

- Jack Welch
former Chair & CEO,
General Electric

Culture is well understood in organizations where mission and results have ultimate primacy, like the US Navy. But in business organizations where quantifications of profits or quality have primacy, the mission, vision and culture are regarded as secondary or optional – soft skills, Kumbayah, "touchy-feely" … What a strategic mistake!

Organizational culture is perceived by the vast majority of employees as not trustworthy.

The findings of numerous studies conclude, generally, that the vast majority of employees regard organizational culture as not trustworthy (e.g., Gallup, McKinsey & Company, Deloitte University, The Energy Project, Harvard Business Review, Inc. Magazine, Aon, John Templeton Foundation, APQC, IBM, CEB Corporate Leadership Council and others). The consequences are far-reaching because trust is the lubricant of a culture and a prerequisite for employee engagement. No trust, no caring, no engagement yields a dysfunctional culture and mediocre performance.

Employee distrust and disengagement should be unacceptable for every CEO, certainly for any board and for shareholders interested in the long-term. The primacy of the short-term often translates into the superficial and expedient. Too often it's the hidden cancer ignored for too long by those at the top of the culture, who reward quick and cheap without deference to brilliance, innovation or insight.

Of course, many CEOs can't tolerate a conversation about this unless they believe, as I do, that their organization is significantly underperforming, including profits. It's tough to admit you're only at a mediocre level. It's even harder to fathom this when profits are growing and executive compensation is so out of proportion that one can't see beyond calculation of one's net worth. It requires a level of cognitive dissonance that few leaders are prepared to grasp: *Your business is considered very successful (i.e., profitable) and yet your organization's performance is mediocre*?

"First the customer, then the employee, then the shareholder."

- Jack Ma
Executive Chair,
Alibaba Group

The culture, stupid.

I've slightly altered James Carville's irreverent slogan from the 1992 election campaign when he called it as he saw it: "The economy, stupid."

As a leader, it is perilous to assume your understanding of your organizational culture is accurate or that profit goals promote human performance. Or that the inherent human brilliance in your company is anywhere close to manifesting the brilliance you could achieve in every facet of performance, including profits and shareholder value.

The question is:

Are you prepared to deal comprehensively with the three axioms of cultural leadership and optimize employee engagement by transforming and inspiring the power inherent in your culture? Or will you just point to current profits and rationalize that all is well, while disengaged culture eats your strategy for breakfast and undermines the long-term future of your business?

"The heart is limited only by the mind's impositions."

- Bruce W. Fritch

At Fritch, we deal comprehensively with deepening the brilliance of leadership, at every level so that the source of all extraordinary performance, human brilliance, is maximized today and tomorrow.

Bruce W. Fritch