ECONOMIC ENGAGEMENT

THE WORLD'S SHORTEST GUIDE TO BETTER BUSINESS PERFORMANCE AND MORE ENGAGED EMPLOYEES

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FOUNDER

LET'S GET DOWN TO IT

How would you like to run a company that performs at a high level year after year? A company whose employees pitch in every day to help it succeed? I know hundreds of companies that fit that description. They are strong, sustainable, and profitable. They hum along without much oversight from the founders. If the time comes when the owner wants to retire, there are usually plenty of prospective buyers—including, often, the management team or the employees themselves. This white paper explains how you can begin to build such a company—**starting now**.

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Introduction

Over the past twenty-five years, **Bill Fotsch** has helped more than four hundred companies boost employee engagement and increase profits. He has worked with industry majors, such as Southwest Airlines, BHP, Harley-Davidson, Roadway Express, Carlson Wagonlit Travel (now CWT), Scottish Hydro Electric, and Capital One. He has also coached many small-to-medium-sized privately owned businesses.

In the initial years of his career, Bill gained experience in management, marketing, and consulting at organizations such as Briggs & Stratton, Bain & Company, Case International, and Litton Industrial Automation. Later, as head coach at Great Game of Business, he spent over two decades applying the principles of economic engagement to help companies deliver results through a highly motivated staff.

He founded Economic Engagement in 2012 to continue the work on his own. Bill holds a Bachelor of Science in mechanical engineering from Marquette University and an MBA from Harvard Business School, where he graduated as a Baker Scholar. Articles written by Bill have appeared in *Harvard Business Review*, *Inc*., *Forbes*, and several other publications and websites.

The Case for Economic Engagement: A better way to a strong, sustainable, profitable business

Imagine a company where everyone on the payroll is engaged and committed. Where employees are considered trusted partners rather than hired hands. Where everyone has a chance to learn about the business, to contribute to its success, and to share in the wealth they help create.

Such a company would likely be highly profitable—a leader in its market. It would attract and keep the best people. It would be innovative, because employees would regularly come up with new ideas to boost efficiency or better serve customers. It would be an organization that everyone, from the CEO to the accounts-payable clerk, could take pride in being a part of.

Economic Engagement is a way of running a company that engages employees in making money. People learn to understand the economics of the business. They track and forecast key numbers. They figure out how to move those numbers in the right direction, and they share in the rewards of better performance.

But why should anyone bother with a whole new approach? Why not just keep on keeping on, managing your business the same way you always have?

Improved profitability. This is arguably the most compelling reason. Economic Engagement nearly always improves near-term financial results. In our experience, companies register as much as a 30% increase in productivity and profitability in the first year alone, when they implement the approach properly.

But the real business case for Economic Engagement is that it makes a company stronger over the long haul. It improves the lives of employees, building loyalty and commitment. It helps create a business that can thrive year after year in today's mercurial economy—and that can be sold for top dollar when and if that time comes.

More engaged employees. Every company would like its workers to put their shoulders to the wheel. Engaged employees go the extra mile for customers, come up with new product ideas, figure out how to save money. But very few companies get this kind of involvement. It's a well-known statistic: only about 30% of US workers say they are engaged in their work.

An Economically Engaged company can double or even triple that figure, because employees see the effects of their actions on the business's performance and know they will benefit when results improve. "I don't have employees in my plant anymore," says Roger Grommet, co-owner of Boardman Inc., a specialty manufacturer based in Oklahoma. "I have entrepreneurs who are looking to find ways to make more money."

Lower supervisory costs. People who view their work as "just a job" need supervision. Supervisors make sure that these hired hands work hard and don't screw things up. People who view their work as helping to build a business—a business in which they share—don't need that kind of supervision. Coaching, sure. Someone constantly peering over their shoulder? Not so much. The less a company spends on supervisors, the better its bottom line.

Better front-line relations with customers. A hired hand's typical response to an irate customer is usually something like this: "Sorry, ma'am, I'm just following policy," or "Sorry, that's not my job." A business owner's typical response in the same situation: "We're terribly sorry, ma'am. Let's talk about how we can make it right." At Economically Engaged companies, employees learn to think like owners—which means they act like owners toward customers. The difference isn't relevant only to customer problems. Economically Engaged employees also keep an eye out for longer-term changes in what customers want and expect from their interactions with a company.

A built-in competitive advantage. Economically Engaged companies convey a powerful message. You have nothing to hide. You can be trusted. You are providing your employees with a great place to work, and you are expecting them to think and act like owners. Who wouldn't want to do business with a company like that?

Higher company valuation. An Economically Engaged company requires robust, transparent financial systems. It asks everyone in the organization to learn certain numbers that affect financial results and how they can make these numbers move in the right direction. Many such companies draw on practical techniques such as lean and kaizen to ensure continuous improvement. These are all factors that affect a company's appeal to potential buyers and hence its valuation. When Dan Foley sold his landscaping business, those were just what the acquirer was looking for.

For decades, Economic Engagement has described how countries have learned to cooperate and thrive by enhancing their respective positions through trade and other forms of commerce. Even in situations where the countries have years of animosity between one another, Economic Engagement has provided substantial and enduring benefits for both countries. The recent agreements in the Middle East, between Israel and several of their Arab neighbors are good examples of the value of Economic Engagement.

We have found applying Economic Engagement within companies, between owners, managers and workers have similar substantial and enduring benefits for all parties. After all, companies are economic organizations. We applaud the decades of efforts at employee engagement, which have become increasingly important, as we move to a knowledge-based economy. But we think these efforts have failed to generate enduring benefits because they don't focus on the shared company economics. Employee engagement is currently estimated by organizations like Gallup to be roughly 30%, largely unchanged from 30 years ago. It is unclear to us what engagement in a company means if it is not connected with the business economics.

After three decades of working with clients, to improve business results and the lives of the employees who drive those result, our clients, both large and small, like Southwest Airlines and Adams Beasley remodeling in Boston, have generate industry leading financial results and superior job security and compensation for their employees by having all employees working as trusted partners, understanding, driving and participating in the economics of the company. In collaboration with Harvard Business School, we have conducted research to measure Economic Engagement in companies and test the premise that applying these principles leads to superior business results. While the research is ongoing, results thus far document a very strong positive relationship between Economic Engagement and business results. The benchmark research also enables us to measure Economic Engagement in an ongoing way.

Those familiar with the principles of open-book management, the term coined by our editor John Case, will see some similarities with Economic Engagement. There are similarities. But there are two key differences:

1) Economic Engagement starts with and is centered around the customers, since the customer defines value and consequently the economics of the business
2) Economic Engagement focusses on the economics of the business that drive the financial results, not the financials. This focus on things like revenue per paid hour, tonnes of ore mined or job margin dollars per month and metrics that are readily understood by workers, consequently not requiring financial training.

We think of Economic Engagement as the natural evolution of open-book management. Economic Engagement can complement a number of managerial tools, like agile, lean, OKR, MBO, etc. The key is to drive the economics of the business in ways that are beneficial for customer, owners, managers and employees.

In the following pages, you'll learn how to create Economic Engagement at your company. It's a tough world out there, and company owners who blindly try to go it alone are likely to be left behind by their more engaged competitors. Rest assured, moreover, that Economic Engagement is coming to your industry. The case for it is just too strong.

Customer Engagement

Customers define value and, thus, the economics of any business.

A company's economics--essentially, how it makes money--aren't determined internally. They're determined by customers. An entrepreneur may believe deep in her heart that her product or service is worth more than the cost of providing it. But if her prospective customers don't agree, she doesn't have a business.

Consequently, customer engagement is foundational, and frequently represents the single biggest opportunity for Economic Engagement improvement and increased profit growth. Customers, however, are a fickle bunch. A market shift, a new competitor, changing tastes--suddenly they want something different than they did before.

Finding out what your customers value almost seems too simple an answer. Still, it always amazes us how few smaller businesses stay in regular, systematic touch with their customers--*all* their customers, not just the ones they're doing business with at the moment. So naturally they get caught off base when customers change their minds and their behavior.

Large companies in recent years have rediscovered the importance of listening closely to customers. According to *Fortune*, two-thirds of the biggest corporations now employ a system called Net Promoter. These companies regularly ask customers (1) how likely they would be to recommend the company (or a particular product) to a friend or colleague, and (2) why they gave the rating they did. For global businesses with a zillion customers, the ratings and verbatim responses are an effective method of learning what those customers are valuing right now.

FA Engineering, a 35-person firm in Pocatello, Idaho, learned this lesson the hard way. A few years ago, the company's two biggest customers unexpectedly reduced their demand for FAE's services. Faced with a shrinking backlog, the firm asked all of its engineers to begin calling past and current customers. The script started with thanking the customer for past business, and then asked the same two Net Promoter questions. By the end of the first week, the group had conducted nine interviews, yielding two proposal opportunities and eight referrals to companies that might be able to use FAE's services.

Ever since, FAE's engineers and drafters get on the phone with customers regularly. The calls often lead to repeat and referral business, just as in that first round. They also inform the company's sales and marketing efforts. At one point, for instance, the engineers learned just how much customers liked FAE's 3-D scanning technology, which produces rapid models of a customer's facilities. Check out FAE's website today and you'll see the scanning capability highlighted.

Matt Plaskoff, founder and president of Los Angeles-based One Week Bath, takes a different approach. Every quarter, Plaskoff meets for an extended dinner with what he calls his customer council, comprising homeowners who had engaged the company to remodel their bathrooms. The agenda is informal, but always includes a presentation from the CEO on company issues and new developments. The customers talk each one over, and company attendees take notes. The meetings have led to new product offerings, a referral program, and some useful information on how customers perceive safety in the wake of the pandemic.

Plaskoff, as president and majority owner, is naturally responsible for decisions about One Week Bath's strategy and direction. But, like FAE's leaders, he isn't making those decisions in a vacuum. These entrepreneurs know deep in *their* hearts that the ultimate determinant of a company's economics is the customer, so the more they can learn from their customers, the better. And since they involve so many team members in the conversations, everyone in the company begins to understand what customers are thinking. There's no better lesson in business economics.

Interested? Learn more in our articles below.

What are your customers thinking? You'll never know if you don't ask
The Simplest (And Cheapest) Way To Leave Competitors In The Dust
Layoffs or Loyalty: Which Should Your Company Choose?

Clarity of Economic Goals

This is a business, so partnership is all about the economics.

Unlike hired hands, trusted partners know their business. They understand the economics. Beyond that, partners have a clear, shared goal. That is what makes them partners. They know whether the business is winning or losing.

If you were to ask one of your managers or front-line employees whether your company was *winning* right now, what would you hear? Most likely, you'd get a blank look. Maybe someone would say, "Well, I guess business is OK these days" or something similar.

That's not good enough. After all, how can people get in the game if they don't understand what it would mean to win? How can they get excited about winning if they don't even know whether they are winning or losing?

When I sit down with company owners to ask about winning, they tend to mention key financial figures as a gauge of whether they are winning. They talk about net profit, for example, or maybe the company's market value. I'm all for improving those numbers, but that kind of improvement is usually the *result* of a series of actions, not something that anyone affects directly.

What I'm looking for instead is one single number that everyone can understand and affect, and that is absolutely critical to reaching your business objectives given the company's current circumstances. If that number is headed in the right direction at the right speed, you *know* you're winning.

Here's an example. Some years ago, I worked with BHP, a mining company with operations all over the world. KPIs were stirring up chaos and contention from top to bottom in the company's Australian iron mining unit, with 9,000 employees tracking a whopping 203 separate performance indicators. Each KPI was attached to an individual incentive. Each had been defined in the executive suite.

And wow, did they run smack into each other. The parts department's KPI was minimizing the money tied up in spare-parts inventory. The production department's KPI was throughput. Not surprisingly, when a machine went down, the parts required for repair were frequently unavailable. That not only stalled production; it also soured relationships between the departments.

So we posed some questions to the division's managers. In a knowledge-based economy, who has the best feel for operational challenges? They agreed that it was the folks dealing directly with operations. And who defines the economics of a company? They agreed it was the customer.

The managers began asking frontline employees how to move the ball forward. Since many of the company's costs were fixed, increasing shipments was the simplest way to reduce cost per ton and significantly drive profit. Customers would be happy, as the company was behind on its volume commitments. Together, management and employees decided on a single company-wide goal: volume of safe tons shipped.

After that, all the arguments were settled with the only metric that mattered. Which approach gets us more safe tons?

If the answer to every question becomes the economic outcome, performance indicators become just that--indicators. At BHP, production soared, cost per ton dropped, and departments aligned. With a single metric of success, collaboration became easy.

There's another insight here. When goals are handed down from on high, as they often are, some employees will regard them with skepticism or downright incomprehension. Maybe that beats having no direction at all. But defining objectives at the senior level means missing out on key perspectives. You don't just lose the knowledge and nuance employees provide, you lose their buy-in.

In the end, companies like BHP don't always do away with KPIs, or with the whole idea of managing by objectives. They just find a more effective way of defining them. They turn to their employees. They turn to customers. And they agree on a single economic objective that everyone can use to resolve conflicts the same way, every time.

Determine your key performance metric

If you're uncertain as to what *your* key number might be, that's good. I have found that the process of developing the performance metric is just as important as the number itself. In the process outlined here, I suggest getting employees, management, finance, and even your customers involved:

- **Start with input from your customers.** Would they recommend you to others? Why or why not? What companies do they see as your competitors, and what do they think your competitors' relative strengths and weaknesses are? Many companies hesitate to do this, but I have found that interviewing customers not only produces market input, it also strengthens your relationship with customers. That typically leads to more repeat and referral business.
- **Ask your employees.** What do they see as the key issues the company faces right now? Asking for input through an anonymous survey is a great way to start open-book management, because it begins the process of engaging people and encourages candor.

- **Managers.** It's also important to get the input of the management team. Again, an anonymous survey is a great way to get candid input on what they see as the company's biggest opportunities and challenges. Find out whether they have similar perspectives as the employees or different ones. See whether they're on the same wavelength as you.

- **Financial data.** Now get out your financials for the last five years. Plot the trend lines on numbers that you think are important. We often find that detailed study of the financials reveals problems that managers and even owners may be only dimly aware of. If you have developed a budget, look at the variances between budget and actuals for the current year. Perhaps gross margins have been declining or overhead has been creeping up. Maybe sales costs are rising faster than revenues, or some of your product lines are unprofitable. You'll uncover such issues from close inspection of the financials.

These four perspectives—customers, employees, management, and financials— almost always provide you with a sound, fact-based understanding of the issues facing your business. The likelihood that you will miss some critical problem or opportunity is small. And you can do all this data gathering in just a couple of weeks.

Now summarize the key issues that emerge

Maybe it's excess capacity due to a shortage of sales. Maybe it's a cost structure that's higher than that of competitors. Perhaps your employees are unhappy, and turnover is driving up the cost of hiring and training. For example, here is a summary of the positives and negatives facing one company we worked with, a manufacturer of specialty gears:

Employees:

- Low morale; wages had been cut 10%
- Generally still committed to the company
- Little or no understanding of the business's financials

Customers:

- Generally pleased with company's quality and price
- Not satisfied with on-time delivery performance

Financials:

- Mounting losses, due partly to high scrap rates
- Excessive overtime, creating high costs
- High inventory levels, hurting cash flow and requiring a lot of debt

Understanding the key issues enables you to develop just one or two metrics that will define winning for the next six to twelve months. For the gear manufacturer, the performance metric turned out to be manpower efficiency, defined as:

$$\frac{\textbf{Gears Shipped} \times \textbf{Standard Hours}}{\textbf{Total Paid Hours}}$$

Why was this number critical? Look again at the issues this company faced. Improvements in manpower efficiency would have a positive influence on virtually everyone. Wages could rise. On-time delivery would improve. Costs would decline.

Moreover, manpower efficiency was a metric employees were already familiar with, albeit they had been focusing on gears produced rather than gears shipped. The difference was important, since the company had problems with on-time delivery. The employees could understand the metric, and they could easily see the connection between greater efficiency and better financial results.

Remember these four points about your key number:

1. The process you use in developing the key number is at least as important as the number you come up with. By involving customers, employees and managers in the process, you create a level of understanding and consequent buy in that will make improving the number much easier.

2. There is no simple formula for determining a company's performance metric, other than the process I just outlined. Every business is unique. Depending on the nature of your business and the issues you face, your performance metric might be revenue per employee, room occupancy, or cost per unit. The trick is to find a number that's easy to understand and track, and that will have a beneficial effect on your company's results if it improves.

3. Most companies change their key numbers every year as part of their planning process. Typically, they have made significant improvements in the original one. They have mastered it, so to speak, and they are ready to go on to something else. As employees become more financially literate, the performance metric may become more financially sophisticated, like gross margin or return on assets.

4. Large companies typically have many different businesses within their company. So they typically break the company down into smaller business units or natural teams and determine key numbers for each one. Once this is done, the same process I outlined works well. I have applied the process at big corporations such as Southwest Airlines, Capital One, and BHP Billiton.

You can see the importance of focusing on one or two key numbers. They become the central concern of everyone in the company over the next six to twelve months, just as making the bank loan payment was in the early days of SRC. Creating a clear, common definition of winning for your employees has a powerful effect on engagement. Suddenly people are *players* in the game. And players like to win.

Interested? Learn more in our articles below.

Don't Start By Handing Out The Financials
To Move the Needle for Your Company, Find Your Key Number

Transparency of Economic Performance

When employees are treated like partners, they take responsibility for improvement.

Much is said about transparency in the world of open-book management. In fact, there may be no greater misconception about open-book management than this: all you have to do is hand out the financials. But why?

One reason is that financial statements are complex and often daunting. It takes some training and practice to be able to understand them. Sure, we love it when nonfinancial people are able to read their company's income statement or balance sheet, but we don't expect many to be able to do so—particularly when they're just getting started. Anyway, that's not the goal. The goal is improving business results and the lives of the employees who drive those results.

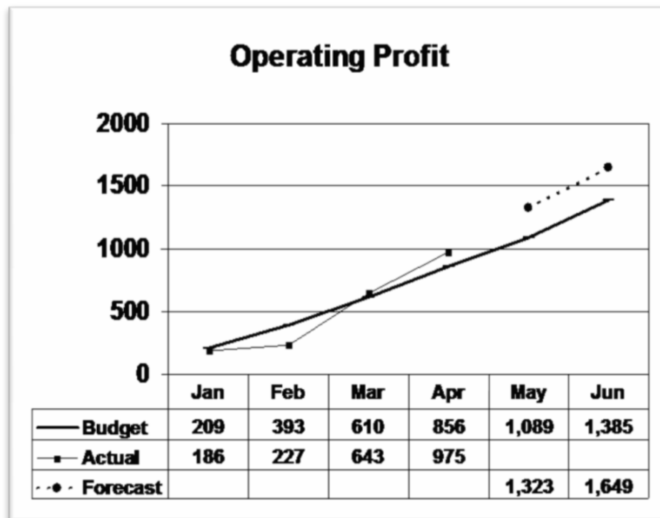
A second, more important reason, is that financial statements are historical documents. They look backward. Most company owners and senior executives check the financials to be sure they're on track, but they don't use them to run the business.

Economic Engagement is about looking ahead, and making the decisions that are required to help the business succeed. Understanding economic goals helps employees align in a common pursuit of success for the company. Owners, managers and employees all are driving in the same direction. Employees can act autonomously, without waiting around for direction from managers. Because they know the company and know the direction, they can respond faster to customer requests, to changing technologies, and to other opportunities that arise.

If employees have helped you define what it means to win, they are already more engaged in the business than they were before. Now it's time to take things to the next level: put up a scoreboard so everybody can track the results.

Draw a clear line of sight

Scoreboards can be big whiteboards mounted on the wall. They can be a site on the company's intranet. The only requirements are that they be visible to every employee and easy to understand. A scoreboard should create a clear *line of sight* for employees, so they can see the company's performance and figure out how they influence overall results.



	Jan	Feb	Mar	Apr	May	Jun
Budget	209	393	610	856	1,089	1,385
Actual	186	227	643	975		
Forecast					1,323	1,649

Here is a simple scoreboard from an engineering services company. This firm's performance metric: operating profit. Everyone can see the company got off to a slow start, as results were below budget for the first two months. But March and April were strong and the company is now performing above plan.

At a glance, everyone can also see that the company came from behind and is now *winning* against its budget. The forecast is to extend this winning streak into May and June. When May and June are complete, they can see how the forecasts compare to the actuals, which provides for further learning.

A good scoreboard reflects the company's organizational chart rather than a financial statement: it enables each department or group within the company to see the impact of its actions. For example, with one remodeling client, they track design, large projects, small projects and millwork, the four major segments of the company. Each group can see how they are doing and how they contribute to the total company results. Graphing overall results and showing actual performance relative to a baseline (such as the budget or last year's results) can clarify this line of sight.

Updating is critical

Keeping the scoreboard up to date is a vital part of Economic Engagement. Create a regular forum for posting and reviewing results. Help people learn to celebrate victories, identify variances, and pinpoint issues. Most companies schedule a short weekly meeting, 30 minutes or so, for these purposes. This is not a problem-solving meeting. Its purpose is to track

performance, learn from what happened the past week, and identify needed adjustments. It provides the context for later brainstorming and problem-solving sessions. And it reinforces accountability.

Remember that the best way to establish economic goal clarity and understanding is to involve employees in the ongoing development and refinement of economic goals. By doing so, you will not only improve understanding, but also improve employee buy in.

Transparency of economic performance enables all employees to see how the company is doing and learn from successes and failures. Transparency creates the dual benefit of accountability as well as a learning environment. Combined with forecasting, your organization can anticipate, react to and learn from changes in the environment. Doing so inevitably increases profit growth.

Interested? Learn more in our articles below.

A Winning Culture Keeps Score
Using Transparency To Build A Better Company
Forecasting -- The Secret To Controlling Your Business (And Engaging Employees, Too)

Performance-driven Compensation

Partners get a cut of the wealth they help create—helping them thing long-term, like owners.

Performance driven compensation gives all employees a shared stake in the results, making them economic partners in the company. When the company wins, employees win.

Once you have defined winning and begun to track results, and once employees begin to understand how they can affect those results, you can develop a powerful incentive plan tied to improvement in the performance metric. The incentive should be self-funded from the incremental dollars generated by improvements in performance.

Typically, Economic Engagement starts with a form of gain sharing, focused on the value created by improving economic performance in a given year. Over time, this evolves into longer term compensation, such as stock options or other forms of equity like compensation, as the understanding and interest in the company's longer term value increases.

This does not take the place of other compensation issues, such as promotions or market adjustments. But the tie of economic compensation to all owners, manager and employees creates a real economic team environment. Doing so can also reduce the increase fixed costs associated with straight wage increases.

For smaller companies, I usually recommend that employees participate in a companywide incentive plan. That reinforces the importance of the team, and the interdependence of subgroups like sales, engineering and operations. Afterall, if operations does a great job, subsequent sales are much easier to get. For larger companies, the relevant unit may be a business unit or a particular geographic office. Reinforce the linkage between the company winning and the employees winning. *The incentive should be simple, transparent and easy to understand*. Let me reinforce the importance of simplicity. I have seen incentive plans that are based on 12 different parameters. If the team can't understand the incentive plan, then it is not an incentive plan. And by tracking the scoreboard, employees are essentially tracking their bonus. You may want to add bonus numbers to the scoreboard to make the connection even clearer.

Some people believe that incentive payments should go mainly to the individuals who are most responsible for generating improvements. In the long run, this will probably be the case, because

the most competent and innovative individuals will earn a disproportionate share of promotions and pay raises. But the purpose of a bonus plan should be to reinforce team accomplishments. After all, business is a team sport. Any salesperson going after a new account with many great references knows that most of his or her success is due to the fact that the company has delighted its customers.

The mechanics of a bonus plan can get complex. Depending on your business, for example, you may decide to pay part of the bonus quarterly and part when the yearly results are in. Some companies divide the bonus pool equally among all employees; others pay shares that are proportional to each individual's compensation. Whatever your decisions about the mechanics, however, make sure that you meet the three fundamental requirements for a bonus program: it must be simple, transparent, and it must be self- funding. If people don't understand the program, it won't have any effect as an incentive. And if results do not improve, you do not want to be paying anybody a bonus.

Interested? Learn more in our articles below.

More Than a Paycheck
Incentive Plans That Actually Work
The Key To An Effective Incentive Plan
Why Your Company's Incentive Plan Isn't Working

Employee Engagement

Why don't companies just engage people in making money?

Plenty of time has been spent trying to figure out how to engage employees, and it's not hard to see why: companies at the 99th percentile of engagement have nearly five times the success rate of those in the bottom percentile. According to one report, American companies spend over $100 billion every year in pursuit of it. But the percentage of engaged employees (hovering around 33%) hasn't increased by more than a couple points in a decade. And we're paying the price. Companies lose up to $605 billion each year to disengagement.

Why don't we have more to show for all our efforts?

It could have something to do with how we talk about employee engagement. We know engaged employees improve outcomes like profits and sales, reduce costly turnover, and drive repeat and referral business. In other words, engagement improves the economics of the business. But instead of talking about the economics, we give employees perks and praise, hoping this somehow translates into motivation and money. What engages you more, perks or a shared challenge?

Part of the reason some owners and managers don't talk about the economics is that they assume employees don't understand them. And often they don't. People follow orders without understanding how their actions affect the bottom line. They're informed of a crisis only after it's happened. Owners and managers send the message to employees time and again: you sit at the kiddie table.

You might be tempted to offset this parent-child dynamic with bonuses, barbecues, or expensive employee wellness programs. But good company culture doesn't make employees act like partners. Treating them like partners does. And partnership starts with trust.

When we worked with Hillenmeyer Landscape Services, a 200-person family-owned business in Lexington, KY, leaders were looking to increase job margin dollars to stay afloat. They needed all the help they could get, but they were uncertain how to bring employees into the plan. Would shop workers and landscapers even understand what job margin dollars were, let alone how they could improve them?

Management took a chance and invited all employees to participate—first, by asking them to write down one thing they could do to boost job margin dollars in the next 30-60 days. The ideas, written on small index cards, began to pile up. One offered a new way to ensure jobs started on time. Others suggested how to better maintain equipment, or how to return excess products, like shrubs, to inventory. Leadership listened. Employees were excited to see their firsthand knowledge of the business put to use, and job margin dollars started to rise.

In the past, employees dreaded jobs with long unscheduled hours, like snow removal. But when the workers learned how good the margin was on snow services, they practically rushed to the plows. One driver passed a church parking lot on his way home and saw that it was covered in drifts. He pulled over and knocked on the rectory door. When it opened, he said, “Pastor, I’m with Hillenmeyer Landscape. We’ve already taken care of all our customers for the day. I’d be happy to plow your parking lot for nothing if you’d be willing to speak with our business office about scheduling future services.”

Hillenmeyer found another loyal customer that day, and the driver was recognized by the company for his initiative—all because the economics of the business had come alive.

Engaging your employees in the business starts by sharing critical financial numbers that people can understand and work toward, like job margin dollars. Of course, it helps to tie incentive compensation to the improvement of this number, so everyone has a stake in the outcome. But real engagement comes from helping employees to think about the business the way you do.

If your company happens to be one of the many that is spending a ton of money on conventional engagement measures, we’ve got a suggestion: Stop. Invest instead in your employees. Engage them in the business of making money. They’ll start doing great things—not because they’re told to, but out of their own self-interest.

Interested? Learn more in our articles below.

Engage Your Employees in Making Money
How To Keep Your Best People From Walking Out The Door

Economic Engagement Research

The research confirms that economic engagement drives profit growth.

There are hundreds of different examples of Economic Engagement in a wide variety of different industries, geographies and company sizes and, in each case, tangible economic improvement has been the norm.[1] We are providing below a few examples:

- **Feuerborn Engineering:** Revenue up 300% and profits up 400% cumulative in 7 years across the entire company, no layoffs ever.
- **Southwest Airlines:** "Plane Smart Business" economic engagement initiative with Orlando Pilots generated $2million in fuel and productivity savings in 6 months, no layoffs ever.
- **Boardman Fabrication:** Sales grew by 55% in the first year of applying economic engagement principles and profits were more than the past 3 years combined across the entire company.
- **Zambian Consolidate Copper Mine:** Generated over $10 million in incremental cash in their 10+ cash flow bottleneck games in Zambia, over 18 months.
- **Adams Beasley Associates:** Sales doubled and profits grew even faster in the first year of economic engagement implementation, no layoffs ever.
- **Portland AFC Clinics:** 88% annual profit growth across the entire company in the first year of economic engagement implementation.

In each case, business results and lives of employees improved. Frequently, companies started to also include a self-funded incentive plan. Each company moved employees away from being hired hands told what to do, to trusted partners with a shared interest in the economic improvement of their business. But we have moved beyond anecdotes in our work. Research means test and control experiments, having a hypothesis, then gathering and analyzing data to confirm or deny that hypothesis.

We had the privilege of working with 3 of the 27 branches of **Carlson Wagonlit Travel** (Rochester NY, St. Louis MO and Houston TX) in a 12-month economic engagement pilot. The results were compelling. The 3 test branches exceeded their profit budgets by 10%, 17% and

[1] Information collected by authors from public and private sources and previous work engagement with various companies

20% respectively, generating $1.7 million total profit above budget. NONE of the 24 control branches achieved their budgets. The initial pilot was subsequent rolled out to all other branches. (See their success story in this CWT rollout video)

We also worked with **Filene Research Institute**, an association of credit unions, where we tested the hypothesis that economic engagement drives business results. A survey was created for the CEOs to gage the level of economic engagement in their respective credit unions. 140 CEOs filled in the survey. We then looked at the economic performance of each of the 140 credit unions by collecting 3 key economic parameters for the survey year: asset growth (as a measure of growth), return on assets (as a measure of profitability) and loan loss (as a measure of risk). We ranked the credit unions based on a methodology that captures their level of economic engagement and we linked the ranking to the respective economic parameters. The results were dramatic. The top quartile of the credit unions in the economic engagement ranking had 6 times faster growth, 50% higher profitability and 20% lower risk compared with the average ranking. This Filene research report provides more details on the results.

We used the same economic engagement tool to survey additional 5 groups of CEOs. A brief synopsis of the results follows below:

1) **Scaling Up** (a platform of fast growing companies in a wide array of industries)**:** We surveyed 19 CEOs and discovered that the top quartile companies in the economic engagement ranking had an average profit growth of 106% during 2017-2019, versus the group average of 37%. The CEOs also told us that the survey accurately captured their individual company situation, with comments like "This report really captures our company situation."
2) **AFC Clinics** (a group of emergency clinics throughout the U.S.): We surveyed 15 clinics and saw that the top quartile average profit growth rate was 42% during 2017-2019, more than double the average of 17%. For the clinic with the highest economic engagement, the average profit growth rate was an impressive 88%. Several of the clinics surveyed are now exploring ways to improve their economic engagement.
3) **Entrepreneurial Organization** (a small group of rapid growth companies in the Midwest): Their average profit growth for the top quartile companies for 2017-2019 was an extraordinary 510%, in contrast to the bottom quartile of -2%. Only 6 companies participated in the survey, but it was clear that the 2 top quartile companies were the leaders in economic engagement.
4) **California Restaurant Association:** The 30 board members completed the survey. Top quartile average profit growth for 2017-2019 was 20%, versus the group average of 10%.

5) **National Center for Employee Ownership:** We surveyed roughly 5% of CEOs members. The top quartile average profit growth was 13%, versus the group average of 9% during 2017-2019.

The results of these 5 surveys are amazingly consistent. The top quartile of companies consistently shows the highest profit growth, typically about double the average. And the bottom quartile is consistently below the average. Here is a brief overview of the compiled results of the 5 surveys:

	Weighted Average	AFC Clinics	Entrepreneurial Organization	California Restaurant Association	National Center for Employee Ownership	Scaling Up
Top Quartile	80%	42%	505%	20%	13%	106%
Average	54%	17%	500%	10%	9%	37%
Bottom Quartile	3%	7%	-2%	0%	7%	6%

We believe this is no accident. Each of the five drivers of economic engagement is linked to specific behaviors that drive results. Each participating company received a report on its economic engagement ranking and performance of each of the five drivers of the economic engagement. A sample snippet of a report is shown below:

	Your Company	Top Quartile	Average	Bottom Quartile
Customer Engagement	0.67	0.67	-0.21	-0.44
Economic Understanding	-2.00	0.67	-0.80	-1.78
Economic Transparency	-0.67	1.11	-0.40	-0.67
Economic Compensation	-1.33	0.00	-0.52	-1.11
Employee Engagement	-2.00	1.33	-0.08	-1.56
Overall Economic Engagement	-1.07	0.76	-0.49	-1.11
Profit Growth	0%	42%	17%	7%

In this example, the company is doing well on customer engagement, but is scoring very low on economic understanding and employee engagement. So this company would logically want to focus on those two economic engagement drivers.

Our research continues, as we believe there are important things to understand among the five economic engagement drivers. For example, we believe economic compensation is of little value if employees don't understand the economics of the business and associated goals. As we go from hundreds of survey data points to thousands, we will be able to test and validate these subordinate hypotheses. As we do, we will continue to refine our understanding of Economic Engagement.

If you would like to learn more about or participate in our HBS benchmarking research, just contact our Research Associate, Iuliana Mogosanu at imogosanu@hbs.edu. We would appreciate your help in advancing the research on economic engagement, and consequently improve business results and the lives of the employees who drive those results.

Economic Engagement Success

What do our clients say?

I was part of an executive team that hired Bill to help build a culture where our 225 employees were focused and vested in the profitability/success of our company. Bill was very experienced, knowledgeable, and easy to work with. Most importantly he delivered results that meet and exceeded our goals.

Joe Candido
Sales, marketing, research, and general business consulting

Bill coached our Pilot group to think outside the box. We had a diverse group of uniquely different thinkers, from "me people" to "group thinkers" to skeptics. Bill helped us produce a program that exceeded our wildest expectations. When finished our development sessions we had a focused TEAM that had goals and motivation.

Bill turned us into True Believers and helped us rekindle the successful concept that frontline employees have the answers required to continue on our road to a profitable, rewarding and FUN future.

Kent Roper
Pilot at Southwest Airlines

Bill's knowledge, expertise, and help have been invaluable to us. From getting us started, to working with us now with high- involvement planning, he has brought us farther and much faster than we ever could have done on our own.

He delivers on his promises, both the content and the timing. He provided us with simple solutions to complex problems. We would not have received a lot of the recognition we have without his influence on our business.

Mark VanDeWege
General Manager at Anthony Wilder Design/Build, Inc.

Head Coach is an honest description of Bill Fotsch, not just a clever title on a business card. He has an understanding of both "the game" in manufacturing companies, having played it himself for many years, and the process of coaching, which is getting others to play the game better. The results, when we followed his lead, spoke for themselves.

James Jennings
CEO at @1