

Is Partnering with Employees More Profitable?

Research tests the hypothesis put forth in “More Than a Paycheck”

By: Bill Fotsch

Background

In our 2018 article, “[More Than a Paycheck](#),” we explained the remedy to the decline of “good” blue-collar jobs: *Now a decent living entails more than a generous wage; it involves sharing the company’s success with the employees who drive those results.* The article showcased companies that provided secure, well-paying jobs for employees, while profitably serving customers, by giving employees a voice in how the company was run and a stake in the results.

It wasn’t a novel concept then, and it isn’t now. Authors like John Case, in his book *Open-Book Management*, and Jack Stack, in his book *The Great Game of Business*, made a similar point thirty years ago. In fact, “[More Than a Paycheck](#)” concluded with the following:

“Ninety years ago the chairman and CEO of General Electric, Owen D. Young, gave the dedication speech at a ceremony for Harvard Business School’s new campus. ‘I hope the day may come when these great business organizations will truly belong to the men who are giving their lives and their efforts to them. Then we shall dispose, once and for all, of the charge that organizations are autocratic and not democratic.’”

Prior to the Industrial Revolution, this perspective was conventional wisdom; common sense. Most businesses were family businesses—a farm, a ranch, a store. As part of the family, each member had a say in how the business was run and a direct stake in the outcome. Few of today’s companies, even those that aspire to offer great workplaces, operate this way. The increasing wealth gap suggests fewer and fewer companies do. Instead, they pay their employees a wage, benefits, occasionally equity, but rarely a voice in how the company is run. They tell those employees what to do. They don’t involve employees in the economics of the business, nor do they encourage workers to make decisions on their own. What would be the point? If the employees don’t understand the economics of the business, they’d be unlikely to make good decisions anyway.

“[More Than a Paycheck](#),” recommended making the economics of the business transparent and understandable, sharing the results of improved performance, and giving employees a voice and a stake in the business. This approach (now referred to as *Economic Engagement*) produced success stories like Southwest Airlines, Capital One, Carlson Travel and many, many more. Yet, as Professor Dennis Campbell pointed out, anecdotes are not proof. No research had tested this hypothesis to determine whether Economic Engagement drives superior business results.

We have now conducted six years of such research. This article provides the compelling results.

Economic Engagement Horizontal Research

Our work began by clearly defining the *Economic Engagement* management approach. The approach was distilled into *partnering with employees to serve customers profitably*. Economic Engagement aligns employees, owners, managers, and customers in a way that is consistent with Mr. Young’s comments.

Next, we designed a way to measure Economic Engagement at any company, objectively and repeatedly. We sought to test the premise that Economic Engagement—partnering with employees to serve customers profitably—led to significantly improved business performance. With the assistance of research associate Iuliana Mogosanu, we took the following steps:

1. Developed a hypothesis that partnering with employees to serve customers profitably (Economic Engagement) drives superior results.
2. Defined Economic Engagement by five key drivers.
3. Developed a research tool, (like Gallup's Q12, ours is the *EE15*) to measure engagement and performance in an objective, repeatable way.
4. Conducted ten waves of research, with 50-150 companies per wave, to gather data and test our hypothesis.
5. Analyzed the results of the research.

To define *Economic Engagement*, we identified five key drivers of an economically-engaged business based on success stories from thirty years of business coaching:

1. **Customer engagement** is the starting point since customers define value and thus the economics of any business.
2. **Economic understanding** aligns all employees in a common understanding of what defines success for the company.
3. **Economic transparency** enables all employees to see how the company is doing and learn from successes and failures.
4. **Economic compensation** gives all employees a shared stake in the results, making them economic partners in the company.
5. **Employee participation** leads to lower turnover and better relationships between owners/managers and employees.

We developed three objective questions to measure each of the five drivers. The choices for each question were *always*, *sometimes* or *never*:

Customer Engagement

- Our company measures customer satisfaction and engagement with formal tools such as Net Promoter Score.
- Our company follows up with customers to understand what they really value in our products or services.
- Our company seeks input from customers on new products, features, or services.

Economic Understanding

- Our work groups have measurable goals that define success for the year.
- Employees understand these metrics and goals and how they link to overall business results.
- Employees help to create their work group's goals.

Economic transparency

- Work groups publicly track their progress against these goals from week to week or month to month.
- We share business results, including financial results with all our employees.
- We are open to sharing more economic information with our employees.

Economic compensation

- We pay performance-based compensation such as bonuses to all or nearly all of our employees, which increases with increasing performance.
- Our employees understand how their performance drives incentive compensation such as bonuses

- Our employees receive some of their compensation in company stock in addition to (or instead of) cash bonuses.

Employee Participation

- What was your employee turnover during the last 12 months (voluntary and involuntary combined)?
- Employee teams are consistently involved in efforts to improve products, services, or processes.
- Employees regularly discuss the performance of the business with their manager.

With this tool we initially tested the validity of our hypothesis with credit unions affiliated with the Filene Research Institute (FRI). 140 of their 700 members participated. Working with Luis G Dopico, Chief Economist at CU Collaborate, LLC, we analyzed the data. The results were much stronger than we had expected. High-scoring Economic Engagement credit unions had:

- 50% higher profitability, as measured by return on assets.
- Six times faster growth, as measured by asset growth.
- 20% less risk, as measured by lower loan losses.

Results were published three reports regarding the research. (In those days we referred to Economic Engagement as an evolved version of Open-Book Management.)

- [The Power of Engagement Through Open-Book Management | Filene Research Institute](#)
 - Introduced the concept
- [The Practice of Open-Book Management in Credit Unions | Filene Research Institute](#)
 - Reported the research findings
- [The Practitioners of Open-Book Management | Filene Research Institute](#)
 - Detailed specific Filene member insights on Economic Engagement

While the initial results were promising, we had only showed that Economic Engagement worked with credit unions. Consequently, we reached out to a wider variety of company groups and industry associations, mostly in North America, to further test our premise. With the help of Gabriel Cretier in affiliation with St. Gallen Business School, we conducted two waves of research in Switzerland. We ultimately collected eight waves of data, with roughly 50 to 150 companies per wave. Seven of the waves are shown below.

As we reviewed the data, a distinct pattern emerged. Top-quartile Economic Engagement companies consistently had roughly **double the profit growth of their peer group average**, a dramatic difference. In addition, average quartiles had roughly twice the profit growth of the bottom quartile.

Companies were ranked by their overall Economic Engagement scores to establish the top, average, and bottom quartiles. Percentages represent profit increase from 2017 through 2019.

	AFC	CRA	NCEO	Scaling Up	Swiss B-Corp	PMPA	HARDI
Top Quartile	42%	20%	13%	106%	67%	43%	74%
Average	17%	10%	9%	37%	26%	22%	38%
Bottom Quartile	7%	0%	7%	6%	2%	-5%	24%

The groups represented are:

- AFC Urgent Care Clinics

- California Restaurant Association
- members of the National Center for Employee Ownership
- companies affiliated with Scaling Up
- Swiss B-Corp companies
- Precision Machine Products Association members
- HARDI members, HVAC industry association

Each participating company received a report on its overall Economic Engagement ranking and individual performance on each of the five drivers. A sample report:

	Your Company	Top Quartile	Average Quartile	Bottom Quartile
Customer Engagement	3.33	8.11	5.63	3.54
Economic Understanding	8.33	7.88	6.20	3.94
Economic Transparency	5.00	9.55	7.52	4.83
Employee Compensation	5.00	5.30	4.91	4.86
Employee Participation	8.33	7.39	6.00	5.07
Overall Economic Engagement	6.00	7.65	5.97	4.31
Profit Growth	10%	43%	22%	-5%

The report provided each company with a clear direction for improvement. For example, the sample company ranked well on employee participation, but performed poorly in customer engagement; focusing efforts there would likely yield a high return. Every report also included reference articles for each of the five drivers, with targeted improvement suggestions. Participants valued the research’s intel and the report’s advice. As one New York Construction Company put it, “Our report, showing we were weak on Economic Understanding confirmed what we thought, and enabled us to focus our management on improving there.”

Economic Engagement Longitudinal Research

In 2021, we began broader long-term research to complement our existing research, with an aim to understand the effects of Economic Engagement in a company over time. To do this, we identified companies that were industry leaders for at least three decades. Assuming no leader, product, patent, or market position could maintain superior performance for such a long period of time, the management system (or “mechanisms,” as Jim Collins put it in *Built to Last*) would be the primary driver of success.

We initiated research with eleven such companies, using the same Economic Engagement benchmarking survey as a diagnostic tool. Here are a few examples:

1. **The Connor Group** provided their investors with an annual return on investment of 28% for thirty-seven years, rising to 33% in the last ten years.
2. **Abbott** is the only company featured in Jim Collins’ *Good to Great* to continue to exceed the stock growth of the S&P 500 by more than double in the twenty-five years since the book was published.

3. **Universal Engineering**'s stock growth was more than double that of the S&P 500 for more than fifty years.
4. **COSTCO** has outperformed Walmart in profit growth since its inception. Of the eighteen companies identified in Jim Collins' *Built to Last*, Walmart was the strongest performer in the last twenty years.

We selected these companies just based on superior business performance. But when we measured their Economic Engagement, their scores stunned us. As seen below, these companies landed above the high end of Economic Engagement performance time after time, further supporting the premise that Economic Engagement leads to superior business performance long term as well as short term.

	Industry Leader	Total Database	Total Database	Total Database
	EE Score	Top Quartile	Average	Bottom Quartile
Economic Engagement	8.33	7.65	5.97	4.31

Continued Case Studies

My coaching work—with large companies like Southwest Airlines, Capital One, Otis Elevator and BHP Billiton, as well as many private midcap and small companies—indicates that using Economic Engagement principles can provide improved profits relatively quickly, typically in less than 6 months. With the research/benchmarking tool, we can identify areas in need of improvement even more quickly. While this is anecdotal, it does provide further evidence of the value of Economic Engagement and the speed with which results can be achieved when its principles are applied.

- **Carlson Wagonlit Travel:** Three of CWT's twenty-seven North American branches applied EE principles. Rochester, St. Louis, and Houston each outperformed the other twenty-four branches that year. They created a video, "[In Their Own Words](#)," which provides the perspective of many of the employees involved.
- **Boardman Fabrication:** After applying EE principles, sales grew by 55% in the first year, and profits exceeded the past three years combined.
- **BHP Billiton:** After applying EE principles, port operations increased production, enabling a \$4 million increase in profits in the first year. EE was subsequently applied to their rail operations, with similar success.
- **Southwest Airlines:** "Plane Smart Business," an EE initiative with Orlando pilots, generated \$2 million in fuel and productivity savings in six months.
- **Adams Beasley Associates:** In the first year of EE implementation, sales doubled, and profits grew even faster, with zero layoffs.
- **Capital One:** "Committed Engaged Owners" initiative reduced costs by \$750,000 in six months when back-office cost centers began to act like profit centers, pointedly serving their internal customers.

Economic Engagement Conclusion

We are pleased that the research thus far is compelling and clear: Economic Engagement drives better financial results. That said, research continues and there remains more to learn. If you are interested in helping us extend our research, particularly outside of the United States, we would love to hear from you.

As we continue to pursue horizontal and longitudinal research, we leave it to others to support implementation efforts, using this tool and research.

We believe business can and should be a powerful force for good, changing the world for the benefit of all. We believe engaging employees as partners in the business has broad positive [effects on society](#) in general. Over time, Economic Engagement [should help](#) with efforts to close the wealth gap, providing workers at every level a route to share in the wealth they help create, consistent with the vision Owen D. Young articulated ninety years ago.