



## **Innovation in America's Workplace**

An ongoing and worrisome trend taking place in the United States today is the gradual devaluation of the American worker, as manifested by the escalation in global outsourcing for manufacturing and services. The developments that continue to put pressure on U.S. workers – white and blue-collar workers alike, are attributable to both self-induced internal factors and external macroeconomic causes. When adjusted for inflation, wages have stagnated, health and pension benefits have continued to shrink, downsizing is prevalent and consequently, job security is uncertain. The precipitous decline of financial markets and sharp increases in commodities prices compound workers' anxieties, as business executives rely on the traditional short-term strategies of downsizing and benefits-slashing as the easiest ways to increase company profits and share price. However, in spite of an increasingly dour economic situation, the dramatic increase in fuel prices and shipping costs presents a unique and unprecedented opportunity for U.S. companies to reclaim lost manufacturing jobs if they can make meaningful and sustainable improvements to productivity. To that end, Corporate America must readjust its collective mindset to better utilize and gain productivity from employees as a necessary condition for American businesses to remain globally competitive in the long-run. Our economic future depends on it.

Since the post-World War II boom, the relationship between management and workers has changed significantly and continues to evolve. With postwar America came a new contract that helped build a large and prosperous middle class. Relegating the American social safety net to the private sector worked well in these early days, as U.S. businesses were largely insulated from foreign competition. Union membership levels were as high as 35% in the 1950s, and our strong manufacturing sector spurred innovation in technology. Corporate America had an ethic of respect for the worker and realized that its success depended in large part on this vital component. Driven by global competition and the free flow of products and information, this social contract no longer exists. Across the board, Americans are becoming more and more ambivalent towards their jobs. The erosion of job security affects even college-educated workers who are faced with stagnant living standards and the feeling that they are expendable. Compounding these problems is the lack of a comprehensive trade policy that embraces the global economy and does not discriminate against U.S firms.

It would be overly simplistic to point to just one factor responsible for the complex conditions facing the American worker. The various economic, political and social trends that have contributed to the current economic environment are numerous. The freedom of movement of goods, peoples and ideas are positive developments, but the necessary policies to protect the American worker from the side-effects of globalization

have not been enacted. Advances in technology and telecommunications have facilitated the export of even high-tech jobs overseas; trade agreements have enabled establishing off-shore production sites; and immigration is impacting jobs and wages domestically. While many of these trends are positive, we have not yet learned how to mitigate their unintended consequences.

For decades, corporate profits grew along with worker productivity and the expectation that Americans must continue to work longer and harder to sustain economic growth. This led to the prevalent belief that there is a direct correlation between economic growth and the aforementioned negative conditions that put pressure on the American worker, or that wages need to be low for companies to remain competitive. However, as the management/employee relationship continues to evolve, a business case for treating a company's workers as stakeholders and partners is only now beginning to emerge and take hold.

In this interconnected information age, businesses yield enormous power, including the power to act as catalysts for change. Contrary to popular belief, a voluntary relinquishment of power is not what needs to take place for workers and management to coexist and thrive in an environment of mutual respect. Rather, management needs to understand that its employees are a company's most important asset and that they must be treated as such. Positive worker conditions are necessary for healthy businesses just as a vibrant and profitable business community is a precondition for a healthy economy. The current trends and profound shifts that have left a broad swath of the American workforce on an economic tightrope are simply unsustainable. U.S. companies will continue to lose their competitive edge as long as they employ management practices that do not inspire workers to reach their full productive potential. We urge companies to adopt techniques that generate win/win outcomes for their shareholders and their employees.

While they remain exceptions to the rule, there is a growing list of companies that understand that the economy will not see long term prosperity if workers are faced with constant uncertainty. These companies can serve as models for corporate America, as they have proven that treating one's employees as partners in the business will not compromise profits or financial success. Companies that provide adequate benefits and that operate in an environment of collaboration between managers and workers have created a sense of loyalty which spurs productivity, increases long term value and decreases turnover. All too often, management's concern with short term profits clouds its view of how to attain long-term, sustainable financial success – a much more valuable measure for success. While steps to train and empower the employee might cut into short term profits, in the long-run they will be beneficial to both the business and the overall economy. Several companies have already tested this notion by enacting measures that demonstrate respect for their employees and have seen proven success with respect to financial results and competitiveness.

Gephardt Group, an Atlanta-based consulting firm, is uniquely positioned to effectively manage conflicts and improve relationships between management and labor, or employees. Our professionals have the experience to bridge internal divisions within a company that will improve corporate culture as well as performance. Dick Gephardt is widely regarded as an innovative thinker in the area of Labor Relations by both business and political leaders. His unique relationship with labor and his demonstrated ability to broker win/win results for businesses and employees situates Gephardt Group at the forefront of the labor/management debate. Our multi-faceted services continue to become more relevant as the relationship between management and labor continues to deteriorate to the detriment of our economy.

At Gephardt Group we believe in a set of core principles for employee relations that are essential for the United States to remain competitive in the global economy. These principles are:

- Increase the level of trust between management and workers
- Teach labor leaders and members critical skills and provide them timely company information
- Drive improved results by getting employees to think and act like owners
- Trust employees to use common sense to solve problems and improve business performance
- Develop labor agreements that align the interests of the company and its workers

Through an affiliation agreement with Springfield Remanufacturing Corporation (SRC), Gephardt Group has incorporated this methodology into our consulting practice. Gephardt Group works with companies to implement these employee productivity principles and tailors them to the specific needs of the organization. Based on our experience and business acumen we develop implementation programs that help bridge the divide between employees and management that is unproductive and endemic in corporate America today.

The management principles pioneered by Jack Stack, the founder and CEO of SRC, are based on the core belief that its workforce is a company's most valuable asset. In 1983, Jack Stack managed a failing International Harvester diesel engine-rebuilding plant that was on the brink of bankruptcy. Despite its dismal performance and prognosis, Jack saw opportunity in the business and its workers and together with twelve partners purchased the factory from International Harvester. Based in Springfield, Missouri, SRC had a beginning debt-to-equity ratio of 89-to-1, jobs hung in the balance, and employee morale was expectedly at an all-time low. Due to its dire situation, Stack abandoned traditional management practices of command and control and instead, instituted a form of democracy in the workplace. He immediately began giving all employees access to the company's financial information and developed incentives for managers and workers to collaborate and cooperate. He empowered employees to "think like owners," thus unleashing their true potential and consequently that of the business. By encouraging

SRC's employees to fully understand the value in their daily work, he showed them how their work could directly boost profit. SRC made remarkable gains in just a few years: revenue doubled, earnings quadrupled and the debt-to-equity ratio was reduced to 5-to-1. Since then, Jack Stack's management principles, as described in his book "The Great Game of Business", have taken hold in countless organizations worldwide, ranging from Fortune 500 companies to smaller businesses. Some of these companies include Southwest Airlines, Harley Davidson, BHP Billiton and hundreds of others that faithfully attend Jack Stack's "Gathering of Games" conference each year in St. Louis.

The "Great Game of Business" seeks to extend decision-making to every level of the organization and foster a culture of entrepreneurship by teaching and motivating employees. Its four main components are: financial transparency, teaching business literacy, establishing real motivation and improving communication between management and labor. In practice, these principles translate into knowing and teaching the rules of the business, following the action and tracking numbers (or keeping score), and providing a stake in the outcome. The Game is about building pride in the business and developing a sense of trust between management and workers.

Companies that implement the Great Game essentially "open their books" to their employees in order to build a culture of trust and business intelligence. A cornerstone of the Game, financial transparency refers to communicating with people via the language of business: numbers. Numbers can tell employees how they are doing, show them where they need to focus their attention, allow them to identify and solve problems, and understand how their actions affect the business as a whole. Employees are able to track, forecast and improve key metrics that define the company's success. Teaching employees how to read basic financial statements binds everyone to the overall corporate mission of a company. Painting the big picture involves informing employees about the company's overall health, its competitive advantages and its growth strategy. Without this crucial context, employees will not understand how their work fits into the larger picture. Demonstrating the calculations of cash flow, operating margin, net earnings, and using critical-number scoreboards to track progress will empower and motivate workers. Naturally, this will lead employees to value their company and their work. Companies that have financial transparency and teach business literacy successfully make business a game that brings numbers to life and therefore inspires teamwork and productivity.

Opening the lines of communication between the management and employees is a prerequisite for establishing a culture of ownership. If practiced over time and repeated, financial-planning meetings, mid-year sales-and-marketing summits, monthly training seminars, and in-house workshops are proven to boost the performance of employees, and that of the business as a whole. Weekly forecasting meetings help employees identify corrective measures they will need to adopt to reach their financial goals. These short but focused meetings use critical-number scoreboards to discuss performance

issues. On-the-job, customized job training seminars work best because of the hands-on approach they provide. As the subject matter is already somewhat familiar and relevant, the lessons tend to stick. In essence, these tactics unleash an individual's competitive nature to become more successful. What's more, open communication and motivational energy that accompanies it will establish trust within different divisions and segments of a company, and will unify the employee base under a common mission: increasing revenue and profit. In summary, if management communicates openly with their employees, those employees will come up with progressively better ideas.

Providing a stake in the outcome of performance measures is also a key motivational tool. Hence, another important component of the GGOB is implementation of an equity and/or gain sharing program to adequately link business goals with personal financial goals. Equity programs can include traditional ESOPs, stock option plans or stock appreciation rights. Sharing equity will lead employees to view profitability in an entirely different light. Employee shareholders who understand how their company makes money and is valued by the financial markets will naturally work towards expanding corporate profits. These employees are taught that true wealth creation and retirement savings are tied to stock price appreciation. Gain sharing programs are short term and should be targeted to improved financial results. These programs can include departmental games or competitions, team based awards or quarterly bonus plans. It goes without saying that all of these financial programs must be accompanied by consistent recognition for good performance which gives employees a sense of pride and leads them to become more engaged in the business.

Naturally, the GGOB attracts skeptics, thus it is important to address the questions people may have regarding the feasibility of implementing these practices upfront. For example, financial transparency does not require sharing every detail, such as individual compensation; an income statement which lumps salaries and benefits in one statement is enough. Teaching employees to be business literate does not happen overnight. It takes time and a consistent emphasis from leadership. Since open communication and fostering a culture of teamwork becomes more difficult as the size of the company grows, it is important to break down the organization into smaller divisions, many of which form organically. While it is not an easy program to initiate, the rewards yield enormous benefits that are proven, not only for morale and motivation, but also for financial returns. A research study conducted by the National Center for Employee Ownership (NCEO) concluded that companies that practiced financial transparency experienced a one to two percent annual increase in sales growth. It has been called the most significant management trend in the United States today.

Gephardt Group's Labor Advisory Services can assist you in tailoring an implementation approach based on these operating principles for the specific needs of your organization. We help executives manage the complex relationship between

companies, employees, and at times, union leaders. The United States' most significant competitive advantage today is not limited to a specific sector or area of expertise – it is innovation. Therefore, long-term success and America's ability to remain a leader in the global economy requires innovative, new approaches to management that will inspire employees. Gephardt Group can show you how to build a fiercely motivated workforce that is energized and committed to meeting and overcoming the most daunting challenges a company can face.