Fairness, Loyalty and the Corporate Trojan Horse

Excerpt Published – Atlanta Journal Constitution – December 31, 2004 Kevin Donovan

A recent behavioral study demonstrated that animals understand and react to the concept of *fairness*. In the study*, monkeys were given unequal rewards for the completion of equal tasks. The result was groundbreaking. The monkey receiving the lesser of the two rewards ceased participation in the activity after observing the unfair treatment.

From a human perspective, such behavior is not unusual, but most human claims of unfair treatment when it comes to rewards are invariably labeled as subjective and petty. After all, a reward is always a good thing when compared to the many negative alternatives, right?

Tell that to the monkeys.

The implications for the corporate world are noteworthy, especially for those who are unable to connect the dots between the value of fairness and the consequences encountered by many thousands of holiday travelers when US Airways was forced to cancel hundreds of flights.

The struggle of executives to "transform" their enterprises into viable businesses rarely grasps the importance of fairness as an essential component of their transformation. More often, a simplistic slash and burn model is applied to meet the short term demands of Wall Street at the expense of the long term needs of the employees and customers. Management argues that such actions are a matter of survival – a long term need for everybody – but in reality, if fairness is not a doctrine of these actions, even survival is unlikely. The disconnect has its roots in the failure of management to truly understand two underlying principles of fairness. The first is that it is a matter of individual perception that holds the power of collective consensus; that is to say, what matters is what the majority of people think is fair, not the minority. The second is that people, at a certain unseen critical point, will *stop* working when treated unfairly (oh, and by the way, so will monkeys).

Of course, the specter of unemployment keeps people working, but it does not address the gap between doing the minimum to keep working and doing what will help a corporation succeed. And that brings us to the concept of loyalty.

It must first be pointed out that there is a critical difference between a loyal employee and a *lifelong* employee. Whereas the latter has only a financial stake in the company and may fill out their days to retirement by just showing up, a loyal employee has a personal stake and will do everything in their limited power to help the corporation succeed.

A personal stake in a company? Isn't that just a case of bad judgment?

It's tough to argue against this in an age where disloyalty and transience are actually rewarded, but for better or worse, the reality is that personal fulfillment is important to many millions of people. If the corporation provides their worker with financial fulfillment and nothing else, then that worker will do the minimum to ensure that their financial stake is protected and as a result, they may very well remain a lifelong employee. But if the value exchange between company and worker also includes personal fulfillment, then the result will most definitely be a *loyal* employee, and loyalty is the bridge between doing the minimum and doing what is necessary to help the company succeed over the long term.

Personal fulfillment? Isn't that a bit much to ask of a corporation? Why isn't a paycheck enough?

No investment in the workforce is too much to ask if there is a return on that investment, and this is where the objectives of even the most elitist of executives will intersect with those of his or her subordinates. Personal fulfillment does not mean a corporation should be expected to provide their employees with the highest levels of self-actualization. On the contrary, the average worker is willing to assume responsibility for much of their own fulfillment and requires only that the basic conditions be in place for them to pursue it. Undoubtedly, the most important condition that must exist for this to occur is the condition of *fairness*.

Consider that the large majority of the workforce has a deep and sincere desire to like who they work for, to be aligned with the goals of their company and to ward off any dissonance between why they get up to go to work every morning and what they want out of life. This is the default setting for the workforce, and aside from that very small segment of the employee base who, for whatever reason, do not belong in their jobs, only management can destroy this wonderful predisposition of the average American worker. If the condition of fairness is eliminated, the unseen erosion of loyalty will be set in motion, and because fairness is a dichotomous concept - something is either fair or unfair and nothing in between - this erosion can occur rather swiftly.

In further defining loyalty, it must be noted that this attribute should not be confused with the "loyalty" that is extorted through so-called executive retention packages. There is no personal stake in such a relationship; it is a comparatively short-term business arrangement based on a contract between an executive and a company. However, if we accept the premise that monetary reward is the single most important incentive throughout corporate America, what kind of return on investment should an executive ascribe to his or her worker's loyalty? Why should this be a concern to the executive who can leap to another corporation in a year or two, or choose to deploy their golden parachute with a pension and benefits package eternally beyond the reach of the lifelong and loyal worker bees?

The truth is that worker loyalty does have a significant financial value, but it is almost never understood or even visible until it is no longer there. Loyalty is long-term and hard to quantify, and unlike the lifelong employee - whose quantifiable minimum standards set accurate expectations for management - the cost of losing a loyal employee is the workforce equivalent of a Trojan horse. They are physically showing up when they have to, but their heart is at war with their company.

Consider almost any frontline worker in the commercial airline industry. In a service industry such as this, each employee makes many hundreds of unsupervised, seemingly minor decisions each day on behalf of their company and each decision is in small part a projection of their relationship to their company. For instance, if I am a *lifelong* baggage handler who normally unloads a 4:30 p.m. flight before I leave work at five o'clock, I will not be there if the flight is late and arrives at 5:05 p.m. But if I am a *loyal* baggage handler, my personal stake transcends my financial stake and I will be there to finish the job because I care about my company and its customers (which, by extension of my stake in the company, become my customers).

Indeed, the case can be made that the financial stake is protected if the lifelong baggage handler stays longer or does not call in sick on a holiday, but because this is a matter of perception, the unsupervised decision that he makes will be driven by his perception of fairness. If executives are getting paid bonuses independent of tangible performance (i.e. profitability), and baggage handlers are being laid off even when they exhibit loyal behavior that is above and beyond the call of duty, it is not a stretch for the worker to believe that any such performance on his part is more connected to the reward of the executive than anything he will receive. Add to that the realization that their CEO is probably getting paid around 400 times** more than they are and it suddenly becomes very hard to stay past five o'clock.

This is just one scenario, but multiply it by thousands of people making hundreds of thousands of unsupervised decisions each day and the cost of losing employee loyalty translates into real damage. The decisions of the loyal employee suddenly morph into those of the lifelong employee. A sense of entitlement replaces shared investment. Those who would never call in sick will max out their sick days without guilt. Those who would donate to a charity or participate in a community activity on behalf of their company will spend their time and money elsewhere. Those who once spoke with pride to others about their company will now change the subject or even discourage patronage. And those who in the past would have never considered joining a union might now see it as the only way to preserve the remaining (financial) stake they have in the company. In short, they will begin to do the minimum and will cease participating in the success of the corporation once it is perceived as unfair, and this is a case where perception is reality.

In the case of US Airways, hundreds of employees made an unsupervised decision to call in sick on Christmas Day – a decision that they were legally entitled to make but one which reveals the destruction of their personal stake in the success of their company or a belief in its long term viability. The Trojan horse of severed loyalty arrived in Philadelphia right behind Santa and his reindeer.

The oft heard response to claims of unfairness is "life is unfair", but from a business standpoint, this position is about as meaningful as arguing with a monkey. The bottom line - and this is a *financial* bottom line - is that the fostering of loyal employees is a good business decision over the long term. But there is a final hurdle, and that is the temporal disconnect between executives and workers. Loyalty is a long-term concept in a short-term world. While executives are typically rewarded based on a calendar year, loyalty reaps rewards over an entire career. Consequently, the benefits of being loyal are almost universally misunderstood, ignored or even in conflict with the 12-month benefits to the executive leadership.

What to do? It is very simple: Align the objectives of your highest level worker (i.e. your CEO) with that of your lowest level worker (i.e. your baggage handler), and your company will succeed. Cap executive compensation at a reasonable multiple of the average employee salary and tie it to that through thick and thin. If one gets a pay cut, they all get a pay cut. If one gets a bonus they all get a bonus. It is not just profit sharing - it is loss sharing as well. Flush out the perks (stock options, helicopter rides, corporate apartments, etc.) and build them into the visible total compensation so that everybody shares both the pain and the wealth. Pep rallies, sloganeering and silly morale building initiatives will not do it; there must be substantial and perceived *fairness*, in the simple form of a shared stake in the success or failure of the corporation.

Difficult? Oh yes. This is challenging and some would say unrealistic, but it is not impossible, and in fact for some companies it will be the only alternative to the once unrealistic option of bankruptcy. The recent proclivity of corporate leaders to move in lockstep has imposed a thick wall of inertia against change, but done correctly, this simple act of mandating *fairness* will change the DNA of the company, inoculating the enterprise against the insidious effects of lost loyalty. More importantly, it is a tangible demonstration of long term investment; something the holy triad of stakeholders - customers, employees and investors - all desire now more than ever.

Even the monkeys would approve.

*Brosnan, S. F. & de Waal, F. B. M. Monkeys reject unequal pay. *Nature*, **425,** 297 - 299, (2003).

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