10

Ethically Engaging and Empowering Employees

CHAPTER OUTLINE

- Extent and Benefits of Employee Engagement
- Ethically Engaging Employees
- Ethically Empowering Employees
- Empowering Through Teams
- Empowering Through Group-Based Financial Incentives
Chapter 10: Ethically Engaging and Empowering Employees

What Would You Do?

Unproductive Senior Manager

After graduation, you obtain a job with a consulting company. Three years later, you are promoted to manage a team working on a large government contract. All hours worked are charged to the appropriate client contract and audited annually.

Bill, a senior manager, has been assigned to your seven-member team. Bill sacrificed and contributed a great deal during the company’s early formation. Unfortunately, Bill has lost his enthusiasm and works slower than everyone else. His work ethic and abilities have declined over the past 2 years, and he’s not keeping up with the latest technology. Officially, Bill has a “project manager” title, but he no longer manages details well. This is awkward because Bill has been with the company for 20 years and does not plan to retire for another 5 years. He is one of the company’s highest paid employees, and his salary is 100 percent charged to your government consulting contract.

More and more, other team members have to spend a greater amount of their time finishing Bill’s work and correcting his mistakes. His large salary has a significant negative impact on your budget, and his modest work efforts are detrimental to overall product quality. From your perspective, you would rather that another, lesser paid, employee be given the work that you’ve assigned to Bill and that Bill be transferred to another part of the company.

When you meet with the senior leaders to discuss Bill’s performance and your budget concerns, they seem to listen well. Senior leaders meet with Bill to discuss his insufficient contributions to the contract and encourage him to keep up to date and do more work. Bill promises to do so but does not follow up on his promises.

You again assign Bill to manage a specific project on the government contract. After 3 weeks, it is clear that Bill is already floundering. You can let him fail and use his failure to document poor performance with the hope that he’ll be removed from your team. Or you can do what you’ve done in the past, which is to somehow reassign Bill’s work to already overextended team members to ensure that the work is done on time and with high quality.

Learning Objectives

After reading this chapter, you will be able to

10.1. Explain the extent and benefits of employee engagement.
10.2. Describe different ways to ethically engage employees with their work tasks.
10.3. Compare and contrast how to ethically empower employees who possess each of the three different work attitudes and behaviors.
10.4. Facilitate an effective team problem-solving process.
10.5. Describe how five group-based financial incentive systems operate and empower employees.
Critical Thinking Questions

1. What would you do?
   a. Continue to hold Bill accountable for the assigned work, which will negatively affect contracted performance but provides documentary evidence of his poor performance
   b. Delegate his work to other, already overextended, team members, which constrains budgeting and resource allocations
   c. Something else (if so, what?)

2. Why is this the right option to choose?

3. What are the ethics underlying your decision?

A high-performing ethical organization is a community of people where each employee has a sense of belongingness and ownership, and feels respected and accountable. According to the Gallup Organization’s 2017 State of the American Workplace report, highly engaged employees perform better and are less likely to quit than are less engaged employees. Unfortunately, only 33 percent of American workers reported being engaged in their work. Among the 2016 Gallup Great Workplace Award winners, however, a much more desirable 70 percent are engaged.

How do great workplaces achieve better results? As discussed in Chapters 3 and 4, the first steps in creating high-integrity organizations consist of selectively hiring ethical job candidates and engaging them with a meaningful and transformative code of ethics. High-performance employees are also deeply engaged with their work tasks and assignments and committed to accomplishing goals. These employees are provided information necessary to perform their jobs well, are empowered to control their immediate surroundings, and have the authority to do what needs to get done. At Google, for instance, managers trust software engineers to use 20 percent of their time on unapproved projects.

Some management systems treat nonmanagement employees with greater respect than other systems do by actively involving employees in the decision-making process. Organizations with engaged and empowered employees emphasize two-way communication with participative management processes. These trusting relationships, accompanied by a strong sense of meaningful work, literally increase energy at work by stimulating the production of oxytocin in the brain, resulting in a happier, more productive and loyal workforce. Conversely, researchers report, top-down one-way communication and decision-making processes make subordinates passive and reactive, rather than proactive.

This chapter examines how to ethically engage employees by meeting essential human needs, ensuring organizational justice, and providing meaningful work. The chapter also explores different types of work attitudes and how to ethically empower employees by giving them decision-making authority, providing relevant information about organizational operations, and sharing the financial benefits generated by their efforts.

EXTENT AND BENEFITS OF EMPLOYEE ENGAGEMENT

LO 10.1: Explain the extent and benefits of employee engagement.

Organizations need talented employees committed to task performance, organizational goals, and the organization itself. Employee engagement is an emotional bond or attachment an employee has to the work task, organization, and its members. For engaged employees, work is a meaningful experience they feel...
passionate about. Engaged employees perform at high levels and are less likely to quit because of high levels of job satisfaction.

A strong link exists between ethical organizations and employee engagement. Researchers at the Ethics Resource Center and the Hay Group report that employees in organizations whose managers and supervisors have high ethical integrity, open and honest communications, and high levels of accountability are more engaged in performing work tasks. Engaged employees are more likely to report ethical misconduct, which reduces the company’s ethical risks.

Many people in the American workforce, however, claim that they possess low levels of employee engagement. Since 2000, the Gallup Organization has annually monitored employee engagement. The 2017 report is based on data collected from more than 195,600 U.S. employees.

For 2016, Gallup reports that only 33 percent of employees are engaged in their work, whereas 51 percent are not engaged and 16 percent are actively disengaged. The most engaged employees are managers and executives (38 percent), and the least engaged are manufacturing workers (25 percent). Organizations with less than 25 employees have the highest levels of engagement (41 percent), and large organizations with 5,000 or more employees the lowest levels (29 percent). A disheartening 51 percent of the U.S. employees surveyed are actively looking for a new job or watching for job openings. Common explanations for wanting to leave are career growth opportunities, pay and benefits, manager or management, company culture, and job fit.

How does level of employee engagement associate with organizational performance? Gallup researchers compared the performance of the top 25 percent highest engaged business units with the lowest 25 percent. They found that the top 25 percent had

- 21% higher profitability
- 20% higher sales
- 17% higher productivity
- 40% fewer quality defects
- 41% lower absenteeism

**ETHICALLY ENGAGING EMPLOYEES**

**LO 10.2:** Describe different ways to ethically engage employees with their work tasks.

How can managers organize work so employees are more engaged with job tasks and organizational goals? This section explores how to engage employees by meeting human needs, improving job satisfaction, ensuring organizational justice, responding to unethical bullies, and providing meaningful work.

**Human Needs**

Some developmental psychologists and organization theorists maintain that individual behaviors are driven by the desire to fulfill fundamental human needs. Respecting others requires that managers recognize and address fundamental human needs at the workplace.

**PAUL LAWRENCE.** Paul Lawrence, using evolutionary and brain science research findings, suggests that our decisions are greatly influenced by four innate, subconscious drives: (1) the drive to acquire objects and experiences that improve our status relative to others; (2) the drive to defend ourselves, our loved ones, our
beliefs, and our resources from harm; (3) the drive to bond with others in long-term relationships of mutual care and commitment; and (4) the drive to learn and make sense of the world and ourselves. These four drives, which contribute to our general sense of happiness, need to be balanced. Our emotions tell us when one of these four drives is deficient or in excess.

These four employee drives require managerial attention. Employees are driven to expand and defend their spans of control, which can cause turf battles and excessive growth. Employees want to bond with others at work, learn new things, and apply what they know. Failure to do so leads to dissatisfaction, poor performance, and turnover.

According to Lawrence, misguided chief executive officers (CEOs) and managers fulfill some drives, and suppress others. The drive most often suppressed is the drive to bond, a key employee engagement factor. The worst CEOs and managers, Lawrence notes, are those who suppress their own drives to bond by not associating with employees hierarchically lower, and by preventing subordinates from bonding with each other. These misguided CEOs and managers are often concerned with fulfilling only their own drives to acquire, defend, and learn, not those of other employees, which is detrimental to everyone’s moral development.

ABRAHAM MASLOW. Developmental psychologist Abraham Maslow conceptualized a hierarchy of needs that differentiated five categories of needs every individual has: physiological, safety, social, self-esteem, and self-actualization. Maslow maintained that these five needs exist in the form of a hierarchy in which individuals first seek to fulfill lower-level needs, beginning with physiological needs, and then incrementally progress up the hierarchy, culminating in fulfilling self-actualization needs. As shown in Figure 10.1, all of these needs can be addressed at the workplace.

Maslow’s needs hierarchy can be applied to life in organizations. An engaged employee, one who has an emotional bond to the work task and organization, is typically experiencing the three highest-level needs—social, self-esteem, and self-actualization—at work. But, the higher-level needs that contribute to employee engagement are difficult to tap into unless the first two levels of needs—physiological and safety—are experienced.

Employees, for instance, need rest breaks to replenish their bodies and adequate wages to purchase essential goods. If the organization does not meet these basic needs, most employees will quit when a better-paying job opportunity becomes available. After physiological needs are met, the employee becomes more concerned with safety needs: safe working conditions, job security, and retirement benefits. A fully engaged employee, however, is someone who develops friendships at work, is recognized for personal achievements, and undertakes challenging and meaningful work, which deepens an employee’s identification with the job task, work unit, and organization.

Chip Conley, founder of Joie de Vivre Hospitality, condensed Maslow’s five needs levels to three: survival, success, and transformation. Physiological and safety levels represent “survival,” which creates employee security. The minimum wage amount necessary for surviving economically in modern society remains a contentious issue (see “Up for Debate”). Social and esteem levels represent “success,” which creates employee loyalty. Self-actualization represents “transformation,” which creates inspiration, where work is a calling, not just a job or career. Conley applied this model to create peak experiences for employees, customers, and investors.

DAVID MCCLELLAND. The work of David McClelland differs from that of both Lawrence and Maslow. Instead of balancing needs, or a hierarchy of needs, McClelland noted that individuals have three types of needs—affiliation, achievement, and power—and the desire for each need may differ and can
be rated high, moderate, or low. For instance, some people might have a high need for achievement and power and a low need for affiliation, whereas others might have a high need for power and affiliation and a low need for achievement.

Managers can best engage an employee by matching the individual’s most dominant need with its associated motivating factor. Generally,

- Employees with a high need for achievement are motivated by challenging work.
- Employees with a high need for power are motivated by managing other people.
- Employees with a high need for affiliation are motivated by collegial work environments.
A need mismatch can result in suboptimal performance and dissatisfaction. An employee with a low need for collegiality may not perform well on a team, and those with a low need for power may not desire a promotion and might perform poorly when given a leadership opportunity.

**Job Satisfaction**

As discussed in Chapter 1, human beings are pleasure seekers and desire to experience happiness. Employees will not maintain long-term engagement if they are not satisfied with their jobs. The Conference Board has been monitoring employee satisfaction since 1987. Its 2016 survey reported that 49.6 percent of Americans were satisfied with their work, which also means half are not. One third or less were satisfied with their performance review process, recognition, and possibility for future growth.

Job satisfaction is an essential aspect of work. The relationship between job satisfaction and employee productivity, however, is complex. Satisfied employees may work hard, but some employees may have high job satisfaction because they don’t have to work hard. Make sure that your best, not worst, employees are satisfied. Job dissatisfaction leads to turnover as dissatisfied employees search to experience more personally rewarding work elsewhere.

Frederick Herzberg examined factors that contributed to job satisfaction and dissatisfaction. He concluded that job satisfaction is not a linear concept whereby the presence of some factors results in job satisfaction and their lack contributes to job dissatisfaction. Instead, factors contributing to job satisfaction are separate and distinct from factors contributing to job dissatisfaction.

Job satisfaction factors, which Herzberg called “motivation factors,” are related to what people do at work. As shown in Table 10.1, motivation factors are primarily psychological in nature and employees become satisfied when their jobs are psychologically enriching, such as providing a sense of high achievement, recognition, and responsibility. Job enrichment programs engage the employee’s mental processes, thus improving the individual’s psychological well-being and overall job satisfaction. A lack of motivation factors, however, does not necessarily result in job dissatisfaction.

Job dissatisfaction factors, which Herzberg called “hygiene factors,” are related to the work environment, such as unfair policies, low wages, and poor relationships with supervisors and coworkers. A good

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**UP FOR DEBATE**

**$15 Minimum Wage**

In 2017, the federal hourly minimum wage was $7.25. In 2015, the National Low Income Housing Coalition determined that $15 an hour was necessary for a full-time (40 hours a week) employee to maintain a normal standard of living. Several cities have passed ordinances to gradually increase the legal minimum wage to $15 an hour. Some individuals claim that if businesses were required to pay a $15 an hour minimum wage, many could only maintain economic viability by raising consumer prices and hiring fewer people.

**Critical Thinking Questions**

1. Should the federal minimum wage be gradually increased over several years to $15 an hour?
   a. Yes: The minimum wage should be gradually increased to $15 an hour.
   b. No: The minimum wage should not be increased to $15 an hour.

2. Why is this the right option to choose?

3. What are the ethics underlying your decision?
Chapter 10: Ethically Engaging and Empowering Employees

Working environment, however, rarely contributes to sustained job satisfaction. Employees appreciate higher pay, but the satisfaction associated with higher pay is typically of short duration because employees become accustomed to the higher pay.

Organizations rated highly on Fortune magazine’s “100 Best Companies to Work For” annual list are those that successfully address Lawrence’s conception of employee drives, Maslow’s needs hierarchy, McClelland’s three needs, and Herzberg’s job satisfaction and dissatisfaction factors. These workplaces provide employees with good wages and a safe working environment, which eliminate dissatisfactions and offer a nurturing work environment and psychologically rewarding jobs, which motivate employees to achieve superior performance.

**Organizational Justice**

Employee engagement is more likely to occur when employees perceive organizational policies, procedures, and outcomes as fair or just. As discussed in Chapter 5, justice is the most essential moral value. Unabated injustice results in the collapse of communities. Employees disengage from job tasks and the organization when workplace injustices occur and managers do not respond appropriately. Ethical managers must ensure that justice is a highly valued attribute of organizational operations.

Organizational justice is a multidimensional concept. Scholars distinguish among four forms of organizational justice—procedural, informational, interactional, and distributive justice:

- **Procedural Justice:** Decision-making procedures are fair. Employees can provide input, procedures are unbiased and applied consistently, and decisions can be appealed.

- **Informational Justice:** Information is conveyed fairly. Employees receive relevant and accurate information in a timely manner.

- **Interactional Justice:** Employees treat each other fairly. Employees are treated with dignity by supervisors, peers, and subordinates.

- **Distributive Justice:** The distribution of outcomes is fair. Pay, benefits, promotions, and workloads reflect individual capabilities and efforts.

Researchers report that organizational justice is influenced by ethical leadership. Relative to developing virtuous character and behaviors among employees, formal justice systems, such as fair performance...
appraisals, must be supplemented by informal justice experiences, such as coworkers being fair with one another. A strong sense of organizational justice by employees generates organizational citizenship behaviors and commitment to supervisors. Employees are more willing to help coworkers who have heavy workloads, or are struggling with work-related problems, when they themselves have been treated fairly and with integrity.

Unjust managers, conversely, inspire deviant and retaliatory behaviors from employees, including production disruptions and theft. Employees treated unjustly claim that the organization no longer deserves their best efforts and disengage from organizational activities. For instance, employees become de-motivated when managers give comparable or higher pay to those who do not work as hard or accomplish as much, or when they observe managers treating other employees or customers unjustly.

**Unethical Bullies**

Unethical bullies create a range of injustices at work. Employees usually cannot perform at peak productivity when they are being bullied by peers, subordinates, or supervisors. The Healthy Workplace Bill describes bullying as repeated verbal abuse, or abusive conduct, that is threatening, intimidating, or humiliating. Rudeness is not the same as bullying. For instance, it may be rude to interrupt people or show little interest in the opinions of others, but these are not necessarily bullying behaviors.

According to the Workplace Bullying Institute’s 2014 survey of 1,000 employees, 27 percent of the respondents had been bullied and another 21 percent have witnessed it. If extrapolated over the 139 million labor force, then 37 million U.S. workers have been subjected to abusive conduct. Among those bullied, 49 percent were bullied by managers, 29 percent by peers, and 14 percent by both managers and peers, with 61 percent of the victims either quitting or fired. Most of the bullies were males (69 percent).

Bullying can take many forms, including hostile and insulting remarks about appearance or lifestyle, hurtful jokes and pranks, taunting, excessive teasing and ridicule, continual false accusations, public criticisms, and angry tantrums. Bill Gates, for instance, was prone to publicly calling Microsoft employees “stupid idiots,” although some insisted the hostile name calling was an endearing term that inspired them to work harder.

What are the most common types of bullying? The 2014 CareerBuilder representative sample survey of 3,372 full-time, private sector workers across industries, found that 28 percent of the respondents reported being bullied, similar to the Workplace Bullying Institute survey. Some of the most common forms of bullying experienced by the respondents are reported in Table 10.2.

<table>
<thead>
<tr>
<th>Type</th>
<th>Percent</th>
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<tbody>
<tr>
<td>Falsely accused of mistakes he/she didn’t make</td>
<td>43%</td>
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<tr>
<td>Constantly criticized by the boss or coworkers</td>
<td>32%</td>
</tr>
<tr>
<td>Belittling comments were made about the person’s work during meetings</td>
<td>29%</td>
</tr>
<tr>
<td>Yelled at by the boss in front of coworkers</td>
<td>27%</td>
</tr>
<tr>
<td>Picked on for personal attributes (race, gender, appearance, etc.)</td>
<td>20%</td>
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</table>
Bullying has many negative impacts on overall organizational performance. Bullying is associated with low levels of job satisfaction, organizational commitment, and morale, and high levels of absenteeism, psychological distress, and turnover. Bullying can lead to illegal forms of harassment and discrimination, and it can threaten employee safety. Unethical bullies create stress among recipients and witnesses. Victims feel frustrated and anxious, which can lead to clinical depression.

Rudeness, or incivility, also has negative employee engagement and performance outcomes because employees’ passion for work declines due to anxieties and dissatisfaction. In a survey of 800 managers and employees in 17 industries, among workers treated in an uncivil manner:

- 80% lost work time worrying about the incident
- 66% said that their performance declined
- 47% intentionally decreased the time spent at work
- 25% admitted to taking their frustration out on customers

What can managers do about bullying and incivility? First, managers should become aware of their own uncivil or bullying tendencies. Perform a self-assessment and obtain feedback from others. Model good behavior and benchmark your progress. Next, ensure that civility is a hiring criterion and addressed as an expectation in training workshops. Respond quickly and decisively, yet fairly, when employees report bullying. Managers must counsel bullies and hold them accountable through the ideal employee performance evaluations discussed in Chapter 9. Reward good behavior, and penalize bad behavior. Then address the issue again in departure interviews.

What if you are being bullied and have no power over the bully? You should always be forming coalitions with ethical coworkers. Appeal to that group for assistance and brainstorm your strategic options. Determine who has power over the bully and who the bully respects or listens to. Contact that person and try to have an honest discussion about the issue.

Workplace bullying legislation has been proposed in 30 states. The legislation would allow employees to sue organizations for creating an “abusive work environment.” No state has yet passed the legislation.

**Meaningful Work**

Every job task and organization can be a meaningful experience. What does meaningful work mean? **Meaningful work** is typically defined as spending time at work to achieve something that is personally desirable. Meaningful work has been conceptualized as a fundamental human need, not just a personal preference. When work is personally meaningful, an employee passionately engages his or her entire intellectual, physical, and emotional energies in the work that needs to be done because it is what he or she feels destined to do. Employees feel usefully alive in a way that benefits the organization and their own personal development, and they feel pride in their accomplishments.

Mihaly Csikszentmihalyi refers to this phenomenon as a person’s “flow,” wherein an employee can invest his or her entire self—mind, body, emotion, and spirit—in work. Life makes emotional and logical sense, the individual feels at peace with the situation, and the employee’s job fits his or her self-determined destiny.

An individual’s job task is aligned with his or her “self-concept.” Imagine a manager, salesperson, or janitor so wrapped up in work that the job task reflects and becomes the core of his or her being. Such meaningful work can be experienced in any job an employee finds enriching and at any level of organizational operations.
Organization scholars Marjolein Lips-Wiersma and Lani Morris provide a broad conceptualization of what makes work meaningful using a $2 \times 2$ matrix (see Figure 10.2). These four distinct themes were derived from discussions with employees working for a wide range of organizations.

According to Lips-Wiersma and Morris, the following are four sources of meaningful work:

1. *Serving others* by making a difference in their lives and meeting the needs of humanity
2. *Experiencing unity with others* by working together, sharing values, and having a sense of belonging
3. *Developing and becoming self* through moral development and personal growth, and by being true to self
4. *Expressing one’s full potential* by creating things, achieving tasks, and influencing others

Combined, these four sources of meaningful work contribute to the development of a highly motivated and engaged workforce. As diagrammed in Figure 10.2, the four sources can be understood along two continuums: (1) being and doing and (2) self and others. A tension exists along each continuum that requires carefully balancing the two extreme positions.

For instance, employees need time for reflection (being) and action (doing). In addition, employees must care for their own self-actualizing needs (self) and for the needs of coworkers and customers (others). Always acting for the benefit of others can contribute to employee burnout. Always reflecting about self can lead to employee isolation and disengagement. All four concerns are essential to experience a deep sense of meaning and purpose at work.

The four sources in Figure 10.2 are encircled by “Reality.” As emphasized throughout this book, we do not live in an ideal world. Reality is such that every person and organization has a unique set of flaws and weaknesses. Many times managers cannot implement the ideal solution to a problem because of limitations in employee capabilities and organizational resources. The desire for a meaningful existence, however, motivates engaged employees to move the organization toward the direction of the ideal.

**Measuring Employee Engagement**

Marcus Buckingham and Curt Coffman explored the Gallup Organization’s extensive employee engagement database to determine what talented employees wanted most from the workplace. More than any other factor, what they desired most was to work for an excellent manager. The relationship talented employees had with their immediate supervisors mattered more than anything else.

The Gallup researchers then analyzed the survey responses to determine the attributes that differentiated “excellent managers” from “average managers.” According to the most talented employees, an excellent manager treated every employee as an individual, focused on an employee’s strengths rather than weaknesses, and measured and rewarded outcomes. Excellent managers selected talented job applicants, established high expectations, and then developed their subordinates for advancement within the organization.

The researchers interviewed excellent managers about their techniques for managing people. They heard a common refrain about their subordinates:

*People don’t change that much.*

*Don’t waste time trying to put in a person what was left out.*

*Try to draw out of a person what was left in.*

*That is hard enough.*
According to Buckingham and Coffman, “Excellent front-line managers had engaged their employees and these engaged employees had provided the foundation for top performance.” The researchers concluded that 12 core elements must be experienced at work to attract, engage, and retain talented employees.

The 12 core elements appear in Survey 10.1 as an employee survey that can be administered to determine if a workplace fully engages its employees. The first two items are referred to as basic needs, items 3 through 6 as individual needs, items 7 through 10 as teamwork needs, and the last two items as growth needs. The survey results can serve as a benchmark for continuous improvement and compared with Gallup’s 2017 national database.40

Similar to the theorists discussed earlier in this section, the Gallup Organization researchers found that pay is not among the most important motivational factors contributing to employee engagement and productivity. Pay matters, but the most productive workers can usually obtain equivalent or higher pay elsewhere. Talented employees remain with an organization because they are fully engaged in their work tasks and workplace relationships.
PART III: Managing Internal Operations

ETHICALLY EMPOWERING EMPLOYEES

LO 10.3: Compare and contrast how to ethically empower employees who possess each of the three different work attitudes and behaviors.

Employee engagement contributes to, but does not necessarily require, employee empowerment. Engagement is an emotional connection to the job task, work unit, or organization. Empowerment refers to giving employees decision-making authority, which can be further solidified with an ownership stake in the organization. “Ethics in Action” provides a list of empowerment mechanisms implemented by Whole Foods Market.41

Empowering Go-Getters, Fence-Sitters, and Adversarials

Before deciding how to empower employees, managers must first decide which employees to empower. Not all employees should be, or want to be, empowered. Each employee has different capabilities and attitudes toward work. As discussed in Chapter 9, some employees are more competent and committed to the organization than are others. Being fair means providing all employees with the opportunity to be empowered based on meeting certain workplace criteria.

SURVEY 10.1 12 CORE ELEMENTS OF EMPLOYEE ENGAGEMENT

Instructions: Please use the 1-to-5 scale below to assess the following 12 statements. The more honest you are, the more helpful the information we will receive.

1 = Strongly Disagree; 2 = Disagree; 3 = Neither Agree nor Disagree; 4 = Agree; 5 = Strongly Agree

<table>
<thead>
<tr>
<th>Statement</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
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</thead>
<tbody>
<tr>
<td>1. I know what is expected of me at work.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>2. I have the materials and equipment needed to do my work right.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
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<tr>
<td>3. I have the opportunity to do what I do best every day.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
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<tr>
<td>4. In the last week, I have received recognition or praise for good work.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
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<tr>
<td>5. My supervisor, or someone at work, seems to care about me as a person.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
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<td>6. Someone at work encourages my development.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
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<tr>
<td>7. My opinions seem to count at work.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
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<td>8. The mission/purpose of my company makes me feel like my work is</td>
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<tr>
<td>important.</td>
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<td>9. My coworkers are committed to doing quality work.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>10. I have a best friend at work.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
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<td>11. During the past 6 months, I have talked with someone about my</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
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<tr>
<td>progress.</td>
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<td>12. During the past year, I have had opportunities to learn and grow.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

Add the 12 scores:
Some managers design systems to control for underperforming employees and, in the name of fairness, erroneously impose the same control system on all employees. When this happens, best performers quit for employment with an organization that will treat them with the respect they deserve. Best performers deserve to be treated differently, such as providing them with more autonomy and decision-making authority—they have earned it. Provide greater decision-making authority to underperforming employees only after they meet or surpass expectations.

As shown in Table 10.3, employees can be categorized according to three types of workplace attitudes and behaviors:

1. Go-getters, who are fully engaged with the work experience
2. Fence-sitters, who put in a good day’s work for a good day’s pay
3. Adversarials, who have an unfavorable attitude to both the nature of work and authority

Organizations of high integrity and superior performance are able to attract and retain a large number of go-getters. The average organization, however, typically consists of a handful of go-getters, many fence-sitters, and a handful of adversarial employees. Managers should manage the three employee groups differently.
### Table 10.3 Workplace Attitudes and Behaviors

<table>
<thead>
<tr>
<th>Type</th>
<th>Prevalence</th>
<th>Attitude &amp; Behavior</th>
<th>How to Manage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Go-Getters</td>
<td>Some</td>
<td>Task oriented&lt;br&gt;Can-do attitude&lt;br&gt;Enjoy working</td>
<td>Freedom and autonomy&lt;br&gt;New challenges&lt;br&gt;Leadership positions&lt;br&gt;Praise and extra rewards</td>
</tr>
<tr>
<td>Fence-Sitters</td>
<td>Many</td>
<td>A job is a job&lt;br&gt;Meet performance expectations&lt;br&gt;9–5 then punch out</td>
<td>Increase performance expectations&lt;br&gt;Team up with go-getters&lt;br&gt;Separate from adversarials</td>
</tr>
<tr>
<td>Adversarials</td>
<td>Some</td>
<td>Managers are ignorant&lt;br&gt;Work is a nuisance&lt;br&gt;Convert fence-sitters</td>
<td>Confront and discipline&lt;br&gt;Team up with go-getters&lt;br&gt;Separate from fence-sitters</td>
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**Go-Getters.** Go-getters are task-oriented employees with a “can-do” attitude. They enjoy working, are proactive, and appreciate new challenges. They tend to be exemplary organizational citizens. Go-getters are satisfied with their jobs, deeply engaged with their work, trust supervisors, and perceive fairness in organizational procedures and outcomes.\(^\text{43}\) They have plenty of ideas for continuous improvement and want the freedom to implement their creative solutions.

Empower go-getters and groom them for managerial positions. Many go-getters prefer to work on their own or with other go-getters. They find fence-sitters uninspired and adversarial employees too negative. Empower go-getters to work with fence-sitters and adversarial employees. Go-getters can teach fence-sitters easier ways to perform their work tasks and offer adversarial employees a more constructive way to frame organizational events and apply their energy.

Go-getters may embody all three types of attitudes and behaviors. An employee can be a go-getter for tasks and meetings they find desirable, do the minimal possible for tasks they believe others can or should perform, and adversarial when they believe their time is being wasted. Go-getters may be impatient for promotions and should be mentored by a manager.

**Fence-Sitters.** Fence-sitters meet managerial expectations and go no further. Unlike go-getters, fence-sitters do not try to self-actualize through work. A job is a necessary burden to pay expenses. Enjoyment is to be experienced outside work hours, not during work hours. Fence-sitters put in a solid work effort and meet performance expectations to avoid termination. Fence-sitters watch the clock and count down the minutes until departure.

Empower fence-sitters only under restricted conditions. Challenge fence-sitters by continually increasing performance expectations. The more that is expected of fence-sitters, the more they will accomplish. Go-getters can show fence-sitters how to achieve results effectively and efficiently. Separate fence-sitters from adversarial employees, who typically try to distract fence-sitters from putting in a good day’s work.

**Adversarial Employees.** Adversarial employees do not like work and possess negative attitudes toward others, particularly managers and go-getters. They often slack off when not under managerial observation and encourage fence-sitters to do likewise. Adversarials view managers as the enemy and criticize managers whenever possible. Adversarial employees find creative ways to not perform work tasks, leave work early when they can, and then brag about it to one another and the fence-sitters.
Do not empower adversarial employees. Instead, confront and discipline them. Otherwise, they will not change their attitudes or behaviors. Sometimes an employee is adversarial because the job fit is inappropriate. In this case, assign the adversarial employee to a different task, work group, or manager.

Closely supervise adversarial employees because they cannot be trusted to act with the organization’s best interests at heart. Document the behavioral impacts of their negative attitudes, such as failure to cooperate with managers or go-getters. Require that adversarial employees receive counseling through the organization’s employee assistance program to get at the root of their negative work attitudes, which may be grounded in childhood experiences. Develop a jointly determined deadline for adversarial employees to change and dismiss them if the agreed-upon change does not occur.

An adversarial employee can be rebelling against being overly controlled. Within clearly defined parameters, managers can experiment by giving an adversarial employee more responsibility and see what happens. If the adversarial employee does not respond as hoped, end the experiment.

Adversarial employees have leadership skills, though they are currently directed toward the wrong ends. When adversarials do change, they can become go-getters. Reformed adversarial employees are very grateful for being given another chance.

Lastly, go-getters can be adversarial at times. For instance, a go-getter assigned to a meaningless committee or job task may disengage from the work that needs to be done. They too need to be confronted when this happens. Rarely is anyone a go-getter or fence-sitter or an adversarial all the time. An individual's work attitude may fluctuate based on context, which requires careful managing.

### Measuring a Manager’s Empowerment Behaviors

Empowerment techniques go beyond just providing employees with the authority to make decisions. They also entail delegating specific tasks, providing access to relevant information, and allocating appropriate resources and funds. Empowered employees develop the mind-set of a manager by taking on some managerial responsibilities and accountabilities.

A wide range of management behaviors that fosters employee empowerment appear in Survey 10.2 as an assessment instrument. The survey can be applied to all direct supervisors, from a first-line supervisor to the CEO.

### EMPOWERING THROUGH TEAMS

**LO 10.4: Facilitate an effective team problem-solving process.**

Every work unit is a team or small community. Teams need to be engaged and empowered. Management consultant Gary Hamel asks, “When in life have you felt the most joyful and the most energized by work? . . . Whatever the particulars of that episode in your life, I bet it involved a group of people who were bound by their devotion to a common cause, who were undeterred by a lack of resources and undaunted by a lack of expertise, and who cared more about what they could accomplish together than how credit would be apportioned. In short, you were part of a community.”

### Empowering Effective Teams

Some teams are very effective; some are not. According to Patrick Lencioni, ineffective teams suffer from five dysfunctions: absence of trust, fear of conflict, lack of commitment, avoidance of accountability, and inattention to collective results. Conversely, the most effective teams consist of members who (1) trust one
Lencioni maintains that each factor is a necessary condition to accomplish the succeeding factor. Trust serves as the foundation for effective team performance. Managers must create a safe environment where employees are free to ask for help or admit shortcomings and deficiencies without it being held against them. Teams will not effectively accomplish the goal if members do not trust one another. Trustworthy team members are honest, capable, and caring, and their words can be acted upon without concern about misrepresentation or a hidden agenda.

Employees who trust one another are psychologically safe to express differences of opinion. Engage employees in constructive conflict rather than artificial harmony. When disagreements arise, focus on the issue at hand rather than on personalities or inconsequential concerns. The time to raise concerns about a
decision is during the constructive conflict stage of team development, not after the decision has been made. Make sure that all concerns are addressed respectfully. Individual team members need to understand why their ideas or recommendations are being rejected.

Goal commitment occurs when team members believe that all of their concerns have been addressed. It is difficult for a team member to commit to a goal or strategy that he or she disagrees with. By expressing their disagreements, team members deepen their understanding. Otherwise, trust evaporates. If it becomes clear that the team decision is wrong, then raise the issue again at the next team meeting.

Team members committed to a goal can be held accountable for their behaviors and accomplish the collective results. It is difficult to hold people accountable if they have not fully committed to goal accomplishment. Once held accountable, the likelihood of achieving the collective result increases.

Conflict is normal in both simple and complex organizations. Highly engaged and committed employees will disagree about the best way to manage a situation. The pinch theory technique is a useful tool for preventing team conflicts from escalating.47 A pinch situation is one where there is a difference between people regarding expectations, values, opinions, or goals. Both parties enter the following 10-step planned reconciliation process. The first six steps help clarify the conflict and the last four steps help resolve the conflict.

Conflict Clarification

**Step 1:** Party calling the “pinch” goes first—“I’m calling this pinch because you always give me your project work to review late in the afternoon. Sometimes I find things wrong in your analysis, but we all make mistakes so that is not why I’m calling this pinch. The problem is that when I find mistakes in your analysis, I end up having to work late.”

**Step 2:** Second party repeats the information—“You said that I make mistakes in my project work, which makes you have to work late.”

**Step 3:** First party confirms or clarifies the repeated information—“That’s close but not quite what I said. You always give me your project work at the end of the day. So when I find mistakes, I end up having to work late.”

**Step 4:** Second party gives his or her side of the story—“I don’t mean to make you work late. I just have a very busy schedule. I usually wait until late in the day to complete our project work, which is why I give it you at the end of the day. Sorry about that.”

**Step 5:** First party repeats the information—“You said that you’re a busy person and wait until the end of the day to do the project we’re working on together.”

**Step 6:** Second party confirms or clarifies the repeated information—“Yes, and I also said that I was sorry about this causing you problems.”

Conflict Solution

**Step 7:** First party proposes a solution—“If you can give me your project work at 3:30 instead of 4:45, I wouldn’t have to stay late to finish my portion of our project work.”

**Step 8:** Second party accepts or offers a different solution—“Getting the project work done by 3:30 is pushing it for me. It’ll create extra anxiety and stress for me. I feel more confident about getting you the project work by 4:00 instead of 4:45.”
Step 9: First party and second party continue to offer solutions until a resolution is reached—“Here’s what. If you know it’s going to be later than 4:00, let me know by 3:45 so that I can reorder my own end of the day work tasks and still finish on time.”

Step 10: Upon agreement, the parties write out the solution, sign the document, and keep it on file—“Tom agrees to drop off his project work no later than 4:00. If running late, he will give Teresa a warning by 3:45.”

Many work problems can be solved effectively and efficiently by a well-coached team of subordinates. Managers must obtain relevant ideas from all team members. Employees have diverse personalities. Extroverts are very willing to publicly share their ideas, while introverts are reticent to speak and tend to be more sensitive to criticism. If not appropriately managed, team discussions will be dominated by the viewpoints of extroverts.

A team problem-solving process involves two or more employees working together to find a solution to a problem. The team problem-solving process discussed next helps access each member’s unique knowledge—that of introverts as well as extroverts—and generates solutions with the highest likelihood of achieving superior performance.

The process below begins with a nominal group technique (first four phases), subjects that information to a brainstorming technique (phase 5), filters that information through an affinity grouping technique (phase 6), and assesses that outcome using a devil’s advocate technique (phase 7), to generate the best possible solution (phase 8).48

Phase 1: Present the problem. Present the problem to all team members and address clarifying questions so all key issues are understood.

Phase 2: Define individual solutions. Each team member individually writes down possible solutions to the problem.

Phase 3: Present individual solutions. Each team member reads his or her solution to the entire team and the list of potential solutions is recorded. Team members listen carefully without responding.

Phase 4: Clarify individual solutions. Each team member explains his or her solution in greater detail and responds to clarifying questions. The solutions are not judged as good or bad. Criticizing solutions during this step will inhibit introverted people from further participation.

Phase 5: Brainstorm. For three minutes, team members should spontaneously propose as many solutions as possible, no matter how odd or impractical they might initially seem. New ideas can amend solutions already mentioned. Do not critique these new solutions yet. This step is likely to be dominated by extroverts. Make sure that introverted people are given an opportunity to express their new ideas.

Phase 6: Group and prioritize solutions. As a team, organize the list of potential solutions according to common themes and prioritize them according to the greatest likelihood of success or greatest impact. Consider ease of implementation and costs, or impact magnitude, when prioritizing the solutions. Develop action plans for implementing the best solutions.

Phase 7: Play devil’s advocate. Assign one team member the role of devil’s advocate. This person should state all the reasons why the highest-priority solution is likely to fail. Other team members should respond to these concerns and develop plans for how these obstacles and shortcomings could be managed.
Phase 8: Implement and monitor. Have teams implement high-priority solutions that fall within the boundaries of their authority and monitor the outcomes. Team members should present complex and costly solutions or solutions that affect the operations of other work units to the appropriate manager for further analysis.

Open Book Management

Employee empowerment requires providing them information they need to make individual or team decisions. Information sharing and transparency are essential elements of trust building. Open book management is a technique whereby managers share relevant financial and operational information with non-management employees so they can better understand the organization’s financial situation and operational issues and make better informed decisions. Open book means what the term implies—opening the financial books to all employees. The information shared could include balance sheets, revenue, profit, cost of goods, customer returns, on-time shipments, and so on.

Trusting nonmanagement employees with previously confidential financial and operational information enables them to behave more like managers. More than 10,000 companies use some form of open book management, including units at Allstate Insurance, Sprint, and Amoco, and highly rated small businesses.

A global travel-management company piloted open book management for one year in three of its multiple branches. Whereas none of the other branches met budget numbers, the three branches with open book management exceeded profit goals by 10, 17, and 20 percent, an accumulation of more than $1.7 million in extra earnings.

Determine which data are critical for the employees to know. Meet with teams to jointly establish challenging goals aligned with organizational goals for the key variables. Display scoreboards in public areas that measure progress toward targeted goals. Consider complementing open book management with other incentives to improve an organization’s financial performance.

Open book management is particularly useful during recessionary periods or a slowdown in the business cycle. Greater access to planning and budgeting information enables employees to foresee the need for change. Employees usually assume the organization is earning substantial profits and are often surprised when they see small profit margins or operating losses. At one company, employees were shocked to learn that heating a warehouse cost $5,000 a month and they made changes that reduced the amount to $900 a month.

Employees and business entities sensitized to the company’s cost structure may offer solutions to reduce costs or increase revenue that cross legal boundaries. Managers need to carefully review these solutions, and do so in a manner that inspires more suggestions, not less. The “Ethics in the News” real-life situation highlights this tension.

Appreciative Inquiry

A key task for managers is to empower employees by aligning employee strengths with the organization’s mission so that employee weaknesses become irrelevant. Appreciative inquiry is a team-based management technique that focuses on the strengths of both the employee and the organization, rather than dwelling on weaknesses. What are the employee’s and organization’s strengths, and how can these strengths be leveraged to achieve superior performance?

Appreciative inquiry is a four-phase process where employees: (1) identify organizational processes that work well (discover), (2) envision processes that would work well in the future (dream), (3) plan and prioritize processes that would work well (design), and (4) implement the proposals (destiny). Appreciative
inquiry has been applied in all types of organizations—large and small businesses, manufacturing facilities, retail stores, hospitals, churches, nonprofits, and government agencies.

The heart of an organization’s mission is to serve customers. The following eight-step appreciative inquiry workshop can empower employees to achieve superior customer service based on organizational strengths:

**Step 1: Individually reflect on superior customer service [Discover].** Each employee independently responds to the following prompts. Describe

- A situation when you received superior customer service.
- A situation when you provided superior customer service.
- A situation when a coworker provided superior customer service.
- Other ways the organization has provided superior customer service.
- Other ways the organization can provide superior customer service.
- Changes that have to be made in the organization to achieve this.

**Step 2: In a small team, determine the essential elements of superior customer service.** Each team member shares stories about receiving superior customer service, providing superior customer service, and observing others in the organization providing superior customer service. Then determine the most important elements mentioned in these stories that enabled employees to achieve superior customer service and share with the larger group.

Generic Drugs

Generic drugs enter the market after an original drug patent expires. They account for more than 80 percent of all prescriptions sold in the United States, and their lower prices save consumers and taxpayers billions of dollars. In the pharmaceutical industry, executives of competing companies regularly invite each other to diners and social events at industry gatherings. Some generic pharmaceutical company executives, before selling a new generic drug, meet with rivals in hopes of reaching an agreement to artificially inflate prices, rather than competing against each other on price, to ensure profitability.53

Critical Thinking Questions

1. If you were a generic drug company executive, what would you do if approached by a competing generic drug company executive about reaching an agreement on a high price for a generic drug both companies would be selling?
   
   a. Agree to sell the drug at similar inflated prices and earn higher profits
   b. Reject the offer and compete on price
   c. Inform federal authorities
   d. Something else (if so, what?)

2. Why is this the right option to choose?

3. What are the ethics underlying your decision?
Step 3: Develop a collective vision of what is needed to achieve superior customer service [Dream]. Each team member describes other ways the organization can provide superior customer service and changes that would have to be made to accomplish this. Develop a compelling image of how the organization can achieve superior customer service in the future, and share with the larger group.

Step 4: Create a draft of a new organizational mission statement that emphasizes superior customer service at every level of operations. Each team member independently composes a one-sentence mission statement and presents it to the team. Achieve consensus on a one-sentence mission statement that meets the following four criteria:

1. Would you want it?
2. Is it stated in affirmative and bold terms?
3. Is it clear and achievable?
4. Does it challenge the organization in a desired direction?

Share the mission statement with the larger group.

Step 5: Determine the organization’s current “positive core.” Each team member independently determines two or three core aspects of the organization that already support the mission statement and superior customer service. For each aspect, provide an example. Reach consensus on the core aspects, and share with the larger group.

Step 6: Make personal commitments [Design]. Each team member independently lists what he or she will do more of, or differently, to deliver superior customer service. Share this information with team members and the larger group, and hold each other accountable.

Step 7: Make organizational action recommendations. Each team member recommends initiatives for how the organization can achieve superior customer service. How can the vision and image (Step 3), mission statement (Step 4), current strengths (Step 5), and personal commitments (Step 6) become a highly integrated reality? Further develop these recommendations and share with the larger group.

Step 8: Have management follow up [Destiny]. As an example of superior customer service and accountability, managers commit to providing feedback on this information within a reasonable time frame.

Open Book Management
To optimize open book management success, provide employees with

1. Relevant financial and operational information for decision-making purposes
2. Training to understand the numbers critical for tracking organizational performance
3. Training to understand how their daily activities affect the financial and operational targets
4. Authority to make decisions that will enable the work unit to reach the targets
5. A financial stake in the organization’s success, such as a bonus tied to meeting targets or profit sharing
Daily Performance Huddles

Empowered team members should address problems as they arise and participate in long-term planning, and also share their daily accomplishments and lessons.

Team “huddles” often occur at the beginning of the work day to motivate employees. Schedule a team huddle 10 to 15 minutes at the end of the day for each team member to process daily events and make preparations to manage ongoing problems the following day. Have one employee address all four issues below, and then the next employee does likewise until all team members have shared:

1. A performance accomplishment or satisfaction experienced during the day
2. A problem that arose during the day and was solved
3. A lesson learned from the accomplishment or problem that might benefit other team members
4. A problem that still needs to be addressed

Beginning the daily performance huddle with a success story makes other team members aware of how each employee made a difference in organizational operations. Discussing how a problem was solved, and lessons learned, deepens employee empowerment. Concluding with an ongoing problem allows others an opportunity to offer potential solutions, and gives the employee hope that the situation can be resolved soon.

EMPOWERING THROUGH GROUP-BASED FINANCIAL INCENTIVES

LO 10.5: Describe how five group-based financial incentive systems operate and empower employees.

Employees can also be empowered to behave as managers and owners by providing financial incentives that reward them as if they were managers and owners. Researchers examining the “100 Best Companies to Work for in America” application database report that firms with group financial incentives have higher levels of employee engagement, information sharing and trust in supervisors, and a more positive workplace culture. Five group-based financial incentives to consider are Scanlon-type gainsharing plans, profit sharing, stock option and stock purchase plans, employee stock option plans, and cooperatives.

Scanlon-Type Gainsharing Plans

Scanlon-type gainsharing plans empower employees by delegating institutional responsibility and accountability for improving operations to employee teams. Work unit teams elicit, evaluate, and implement continuous improvement suggestions. Cost savings for surpassing historical performance standards are then shared between the organization and its employees based on an agreed-upon formula.

Gainsharing plans were initially implemented in manufacturing facilities and spread to other types of organizations, such as restaurants and government offices. The New Jersey Hospital Association obtained approval to use gainsharing for hospitals and physicians serving Medicare fee-for-service patients. During the first 2 years, the 12 hospitals that joined the program saved $89 million from more efficient supply chain management, improved adherence to pharmacy protocols, better optimization of bed management in intensive care units, and reduced length of patient stay. Five Scanlon-type gainsharing plan features are a gainsharing coordinator, suggestion system, gainsharing team, review board, and group-based financial bonus.
Chapter 10: Ethically Engaging and Empowering Employees

Gainsharing coordinator. The gainsharing coordinator is responsible for managing the gainsharing system. The coordinator is typically a go-getter nonmanagement employee or human resources manager. Nonmanagement employees tend to trust the gainsharing system more if a member from their group is managing the system. Coordinator duties include managing the suggestion system process, training team members, attending team meetings, and maintaining records. This can be a full-time position or amended to an employee’s current job duties.

Suggestion system. Employees submit written suggestions to the gainsharing coordinator on how to improve efficiency, reduce costs, and increase revenue. The suggestions are listed in a computer file and sent to the appropriate work units.

Gainsharing team. Depending on the size of a work unit, a gainsharing team consists of either all nonmanagement employees in a work unit, or work unit representatives voted to the team. Teams can be determined based on common job tasks (a nurse team, physician team, facility team) or location (everyone on the third floor of a hospital). Teams meet weekly or monthly to review relevant suggestions and brainstorm solutions. The teams are allotted a monthly budget to implement suggestions that fall within their domain. Suggestions that exceed the team’s monthly budget, or that affect other work units, are forwarded to a review board.

Review board. The review board consists of one representative from each gainsharing team, the gainsharing coordinator, and relevant managers. The nonmanagement representatives report on changes their team implemented and respond to questions. Review board members reach a consensus on whether a team should implement a suggestion that exceeds its monthly budget or involves another work unit.

Group-based financial bonus. A group-based financial bonus calculation is devised that compares projected costs and actual costs for a given period of time, usually a month. The projected costs are based on historical performance, usually an average of the previous 3 years. The cost calculation can be broad (e.g., the total value of goods and services divided by labor costs) or narrow (e.g., electricity costs divided by labor costs). When actual costs are lower than the projected historical cost, the financial difference is shared between employees and the organization, typically on a 50/50 ratio.

Half the nonmanagement employees’ share is then distributed as a bonus for that month. The other half is set aside in a year-end reserve pool that accounts for months when actual costs exceed projected historical costs. Any amount remaining in the reserve pool at the end of the year is distributed among the nonmanagement employees.

Profit Sharing

Providing employees with a share of company profits is also ethical, motivating, and empowering. When the company does well, the employees benefit financially. As a result, employees feel empowered to work as if they are owners. Researchers report that profit sharing has positive impacts on employee cooperation, turnover, productivity, costs, and profits.60 Profit sharing also positively affects organizational commitment in all sizes of firms, and strongest among small firms.61

Profit-sharing plans are governed by the Employee Retirement Income Security Act (ERISA). Employer contributions cannot exceed an average of 15 percent of an employee’s salary during any 2-year period. Employers can deduct profit sharing as a business expense.

Profit sharing supplements, but does not replace, an employee’s base pay. Employees earn wages based on skills and labor market conditions and then participate in the distribution of profits generated by their work efforts. Sharing profits with all employees is a natural extension of sharing financial information through open book management and involving employees in the decision-making process.62

Profit-sharing companies set aside a percentage of profits beyond a targeted amount into a bonus pool. Some companies distribute profits as a percentage of compensation, under the assumption that higher-paid
employees contribute more to the financial outcome. Other companies create a multifactor calculation that allows bonus fluctuations based on team and individual accomplishments.

Profits are distributed in cash or stock at the end of the fiscal year, or as deferred compensation. The deferred compensation is not taxed until accessed by the employee, usually upon retirement, death, disability, or employment termination. Employees can borrow money against their profit-sharing accounts.

Profit-sharing plans enhance organizational loyalty by lengthening the time required for an employee to have full access to the funds. Typically, an employee is fully vested after 3 to 6 years. If an employee leaves the organization before being fully vested, the amount remaining in the employee’s profit-sharing account is redistributed to the other plan participants.

**Stock Option and Stock Purchase Plans**

According to the 2014 General Social Survey, 22.9 million American workers own stock in their companies through a 401(k) plan, employee stock option plans (ESOPs), direct stock grants, or similar plans, and 8.5 million people hold stock options. Stock options, historically reserved for executives, are now offered by many public and private companies to all employees. Among companies with stock, 34.9 percent of their employees own the company’s stock. More than 10,000 Microsoft employees have become millionaires through the company’s stock option plan.

Stock options give an employee the right to purchase a specific number of company shares at a fixed price by a particular future date, typically 10 years. The number of stock options an employee receives is based on a formula, usually determined as percentage of compensation to total payroll and performance accomplishments. Employees earning higher pay, and more accountable for profitability, have access to, and can afford to purchase, more stock options. Employees often have full vesting rights after 3 to 5 years and are taxed on the profits earned when they buy and sell their stock.

An employee stock purchase plan is slightly different from a stock option plan. Under an employee stock purchase plan, employees request to have deductions taken out of their pay and put into an account to purchase stock at a discount, usually 15 percent, by a specified date. Some companies will match a certain percentage of the employee deduction. If an employee decides to not purchase the company’s stock by the expiration date, the employee gets his or her pay deductions back.

Some privately held companies, whose stocks are not sold on the open market, offer employees phantom stock. An independent appraiser determines the phantom stock value of privately owned companies. Publicly held companies that do not want to dilute the ownership rights of existing shareholders can also issue phantom stock.

Similar to stock options, phantom stock has a specified expiration date and can be structured in different ways. Many companies use the phantom stock as an employee bonus linked to firm profitability. Employees earn a cash bonus equal to the increase in the phantom stock’s value between the day issued and the day exercised.

**Employee Stock Option Plans (ESOPs)**

ESOPs take stock options one step further in empowering employees. The company gives all full-time employees over the age of 21 a significant equity stake in the company. Unlike stock option plans, all full-time employees must be included as ESOP members. A KSOP is an ESOP wrapped around a 401(K) plan where the employer matches any contributions that employees make to the ESOP plan with stock instead of cash.

ESOPs were legally established in 1957. In 2016, there were 6,717 ESOPs covering about 14 million employees. Most ESOPs have between 20 and 500 employees. The 100 largest ESOPs range from
1,100 to 182,500 (Publix Super Markets) employees. Among ESOPs, 22 percent are in the manufacturing industry, 18 percent professional/scientific/technical service industry, and 17 percent in finance/insurance/real estate industry.

ESOPs have a high representation among firms applying for “100 Best Companies to Work For” honors. The best-performing ESOPs provide employees with daily operational decision-making authority, but this is not required. A National Center for Employee Ownership study compared 45 ESOPs with 225 comparable non-ESOPs and found that companies with a combination of ESOP and participative management culture grew 8 percent to 11 percent faster than did companies without them.

Although all full-time employees must be included to create an ESOP, an ESOP does not necessarily control the entire company. The average ESOP owns only 6 percent of a company’s equity. The United Airlines ESOP was granted equity shares accounting for 55 percent of the firm’s cash flow rights.

ESOPs provide owners a socially responsible exit strategy when a change of ownership is being explored. Rather than selling the company to an outsider, the owner can sell the company to employees. To create an ESOP, the company borrows money from a bank to purchase company stock that is then placed in a trust fund. The loan interest is tax deductible and paid off through dividends. Loan principal payments are deductible up to 25 percent of payroll. Employees do not purchase the company; the trust fund does. The stocks are then allocated into employee accounts according to a specific formula, typically based on compensation and seniority. Employees are not obligated to purchase their allotted ESOP shares.

The company makes annual tax-deductible contributions into the fund to purchase stock that employees then sell back to the company. Most of the trust fund money must be invested in company operations. The value of employee stock is independently appraised on an annual basis. Increases in stock value are tax deferred until sold. Employees can purchase their vested shares when they leave the organization—quit, fired, retire, or die—and must sell the stock back to the company or other employees within one year at the appraised value.

A board of directors that employs professional managers governs the ESOP. Employees can vote their ESOP shares on major issues. In publicly held companies, ESOP participants have the same rights as other stockholders.

**Cooperatives**

Producer, consumer, purchasing, and worker cooperatives are an alternative communal way to govern a business and raise capital. A cooperative is a voluntary association of people that meets their common economic, social, or cultural needs or aspirations through a jointly owned and democratically controlled business. In 2016, about 29,000 cooperatives in the United States totaled $652 billion in annual sales.

A producer cooperative, such as an agricultural cooperative, is owned by producers of commodities or crafts who pool their capital and resources for their mutual benefit. A consumer cooperative, such as a credit union or health care cooperative, is owned by customers for their mutual benefit. A purchasing cooperative is owned by independent businesses or municipalities to improve their purchasing power.

A worker cooperative is an organization owned by its employees and democratically governed—one vote per worker-owner. Thus, all owners are workers, and all workers are owners. Worker cooperatives can be found in a wide range of industries, including banking, food, coffee, health care, technology, and poultry.

How are worker cooperatives organized? Each worker-owned cooperative creates its own unique set of rules. Generally, worker-owners vote on board members, managers, capital investments, wages, and company policies. In many large cooperatives, the employee-elected board of directors determines major strategic decisions.
issues and hires managers. What about profits? Typically, profits are reinvested in the organization, set aside in reserves, and distributed to worker-owners based on an agreed-upon formula.

Equal Exchange, founded in 1986 and headquartered in Massachusetts, is a worker-owned cooperative that sells fair-trade coffee, food, and other organic products produced by 75 farmer cooperatives in Latin America, Africa, and Asia. All employees have the right to an equal vote, the right to serve as a manager or board director, the right to information (open book management), and the right to freedom of speech within the organization. All employees have an identical share in the company and receive an equal share of profits or losses. Six of the nine board seats are reserved for elected worker-owners, and the remaining are outside directors. Approximately 97 to 98 percent of the annual sales revenue covers operating expenses. Profits are 2 to 3 percent of sales, and distributed the following way:

- 55% reinvested in the company
- 35% divided equally among the worker-owners, regardless of rank or seniority
- 10% donated to nonprofits or mission driven co-ops working to advance the fair-trade and co-op movements

The Mondragon worker cooperatives in northern Spain provide an even larger model. What later became the Mondragon Corporation began in 1956 as one small manufacturing worker cooperative. In 2016, it had grown to 101 cooperatives and 128 subsidiaries operating in 41 countries, with 60,200 worker-owners, 14,100 other employees, and $13.5 billion in revenue.

The Mondragon Corporation’s highly integrated democratic worker-owner cooperative system is guided by 10 principles, including workplace democracy, worker sovereignty, pay solidarity, group cooperation, and social transformation. Key features include these:

- **Investment Solidarity and Individualized Capital Accounts.** Upon employment, worker-owners provide an initial capital investment of about $17,000 that establishes equal ownership and shared financial risk. The money is borrowed from the cooperative’s credit union worker cooperative. Eighty percent of the investment is deposited in an individualized capital account available upon retirement. The remaining 20 percent is nonrefundable and deposited in the cooperative’s financial reserves.

- **Profit Solidarity.** Ninety percent of annual cooperative profits and losses are distributed between the business and worker-owners at a democratically approved ratio, and 10 percent is set aside for philanthropy.

- **Pay Solidarity.** In 2015, the agreed upon pay ratio between a cooperative’s lowest and highest paid worker-owner was 1:9. Job task points assigned for requisite skills, knowledge, and authority, among other factors, determines a worker-owner’s wage rate on the continuum.

- **Individual Worker-Owner Cooperative Structure.** The typical cooperative governance system includes a general assembly comprising all worker-owners that annually votes (one vote per member) on leadership positions, strategic and operational plans, and other pertinent issues. A 12-member governing council, elected to staggered 4-year terms by the general assembly, operates like a board of directors.

- **Divisional Structure.** The 14 divisions (e.g., home appliance, automotive, retail, finance) have governance structures similar to individual cooperatives, with divisional general assembly seats proportioned by a cooperative’s size.
SUMMARY

Superior-performing organizations place a high value on trust and responsibility. Employees in these organizations are deeply engaged in work tasks, empowered to make decisions, and committed to the organization. Trust increases when employees are treated like managers or owners, and the barriers between management and nonmanagement employees have been minimized.

This chapter explored a wide variety of management systems and techniques for involving employees in the organization’s decision-making processes and providing financial rewards for improved organizational performance. In an empowered organization, employees make and implement decisions on a daily basis that improve organizational operations and share in the cost savings and profits they help generate.

<table>
<thead>
<tr>
<th>Optimal Ethics System Check-Up</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate your organization or work unit against the following best practices in ethics management discussed in this chapter. Mark either “Yes, Sometimes, or No,” according to your current situation. Which is your strongest best practice, which is your weakest, and how can you transform your weakest into a strength?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Engaging And Empowering Employees</th>
<th>Yes (1)</th>
<th>Sometimes (0.5)</th>
<th>No (0)</th>
</tr>
</thead>
<tbody>
<tr>
<td>54. Employee satisfaction surveys are conducted and results used to inform continuous improvement efforts.</td>
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<td></td>
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<tr>
<td>55. Employees are passionate about their work and the organization.</td>
<td></td>
<td></td>
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<tr>
<td>56. Our managers request employee input on decisions that directly affect their work and work-life.</td>
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<tr>
<td>57. Our go-getters are provided autonomy and leadership opportunities.</td>
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<td></td>
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<tr>
<td>58. Our managers continually increase work expectations for fence-sitters.</td>
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<tr>
<td>59. Our adversarial employees are confronted by managers and plans are developed for changing behaviors.</td>
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<tr>
<td>60. Team members are trained in group dynamics and collective problem-solving techniques.</td>
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<tr>
<td>61. Our employees are provided with key data, including financial information, relevant to improving work unit performance (i.e., open book management).</td>
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<tr>
<td>62. Appreciative inquiry techniques are used to address organizational issues.</td>
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<td></td>
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<tr>
<td>63. At the end of the day, our employees reflect on their daily performance and develop plans for the following day.</td>
<td></td>
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</tbody>
</table>
PART III: Managing Internal Operations

KEY WORDS

Appreciative Inquiry  281
Bullying  270
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Employee Engagement 264
Empowerment 274
ESOPs 286
Hierarchy of Needs 266
 Meaningful Work 271
Open Book Management 281
Organizational Justice 269
Pinch Theory 279
Scanlon-Type Gainsharing Plans 284
Stock Options 286
Team Problem-Solving Process 280

CHAPTER QUESTIONS

1. How engaged are American workers and what are the benefits of employee engagement?
2. As a manager, how can you ethically engage employees with their work tasks?
3. Describe different techniques for managing go-getters, fence-sitters, and adversarials.
4. How would you facilitate a team problem-solving process? What are its advantages?
5. Explain how five group-based financial incentive systems—Scanlon-type gainsharing plans, profit sharing, stock option and stock purchase plans, ESOPs, and worker-owned cooperatives—operate and empower employees.

Engaging And Empowering Employees

<table>
<thead>
<tr>
<th></th>
<th>Yes (1)</th>
<th>Sometimes (0.5)</th>
<th>No (0)</th>
</tr>
</thead>
<tbody>
<tr>
<td>64. Our employees elicit and review suggestions for improved work unit performance, and have the authority, within reason, to make changes as needed (Scanlon-type gainsharing plan).</td>
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<tr>
<td>65. Our employees share in the profits they help to generate (i.e. profit sharing, stock options, ESOPs, or worker cooperatives).</td>
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</tbody>
</table>

Subtotal for Empowering Ethical Employees, items 54 through 65

Strength: Choose one strong best practice item from the list above and explain why and how it is a strength.

Weakness: Choose one weak (“No” or “Sometimes”) best practice item from the list above and explain why and how it is a weakness.

Improving the Weakness: For the “weakness” item noted above, explain what needs to be done, and by whom, to improve the organization or work unit’s performance regarding this one weak item.
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### DIGITAL RESOURCES

<table>
<thead>
<tr>
<th>Learning Objective</th>
<th>Digital Resource</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.1 Explain the extent and benefits of employee engagement.</td>
<td>TedTalk: Why We Do What We Do</td>
</tr>
<tr>
<td>10.2 Describe different ways to ethically engage employees with their work tasks.</td>
<td>Employee Engagement, TedTalk: Measuring What Makes Life Worthwhile</td>
</tr>
<tr>
<td>10.3 Compare and contrast how to ethically empower employees who possess each of the three different work attitudes and behaviors.</td>
<td>Team Direction, TedTalk: How Too Many Rules at Work Keep You From Getting Things Done</td>
</tr>
<tr>
<td>10.4 Facilitate an effective team problem-solving process.</td>
<td>TedTalk: What Makes Us Feel Good About Our Work</td>
</tr>
<tr>
<td>10.5 Explain how to empower employees through group-based financial incentives, and describe the six different types of incentives.</td>
<td>TedTalk: The Puzzle of Motivation</td>
</tr>
</tbody>
</table>