

# Delivering Profitability

## *A Consultant's View*

Chapter 4 - Leadership: Prioritizing and inspiring the team to  
produce the desired outcome



by David Wagstaff

## Leadership and Structures: Inspiring the team to produce the desired outcome



Excellent leadership skills are important to inspire employees to do their best.

It may be cliché to read “employees are our greatest asset” or similar thoughts in a company’s strategic documents, but the fact is, most businesses struggle to consistently achieve high levels of performance from their employees. Leadership which leads to actively engaged employees is often the difference between an energized growth company and a company which struggles to survive. Employee performance impacts everything from the cost

to deliver products and services to the customer’s satisfaction with the products and services, and indeed, the company itself.

Employee engagement isn’t about simply getting the right employees on board and the wrong ones off. While those actions are at times necessary, employee engagement begins with effective leadership. It’s about leaders truly leading the way by demonstrating in word and deed why employees should care. It’s about leading in such a way that it inspires and gets both employees and customers excited by what separates their company from the rest of the pack.

### **Leadership: a unique vision, employee and customer engagement.**

A few years ago when meeting with top performing financial institutions, I was amazed by the difference in the excitement level of the employees at the top companies. ING Direct and Commerce Bank both stood out. The leaders I met with at these companies thought of themselves as on a unique mission. They truly believed their company was better than all others in the industry and they were excited to be a part of the difference. This wasn’t just true of one or two employees but seemed to be the common bond among all of them. These employees believed in their leaders and believed they were making a difference for their customers. Another interesting observation is that both these companies also had very loyal customers who were happy to sing the company’s praises at every opportunity.

Of the over 8,000 banks in the United States, these financial institutions were part of a very small group who were able to grow significantly without acquisitions. Both organizations consistently produced solid returns for their shareholders and experienced organic growth due to inspiring leadership.

While adequate compensation and risk of job loss can temporarily get an employee to produce

something, neither one are likely to inspire and employee to provide their best work. While each employee is different and what motivates one employee may not motivate another, excellent leadership recognizes these individual differences and motivators and uses a variety of methods to encourage employees to strive toward the desired results.

*“Leadership is the art of mobilizing others to want to struggle for shared aspirations.”*

James M. Kouzes and Barry Z. Posner, *The Leadership Challenge*

Most employees are not born with a desire to bring an organization down, nor do they want to be a drag on everyone and everything around them. However, we have all been in situations where we have had contact with employees who are hindered from achieving at their optimal ability.

### **Leadership: adding to a challenging environment.**

This example illustrates how in challenging environments, even when one has good intentions, a bad day and mounting pressure can lead to a cascade of leadership problems.

A number of years ago, I had a client who had experienced many years of losses. The environment created many challenges for management and staff alike. Everyone in the organization had to take on more than one job, including the CEO. Often, the person doing a job wasn't doing it because it was their area of expertise, but rather because they had assumed the responsibility when someone else left.

The CEO was understandably frustrated with the continued losses and an inability to obtain accurate financial information for decision making. Facing increased pressure from the board for answers, the CEO told a senior financial person they would be fired if they couldn't produce the information he needed by the end of the day.

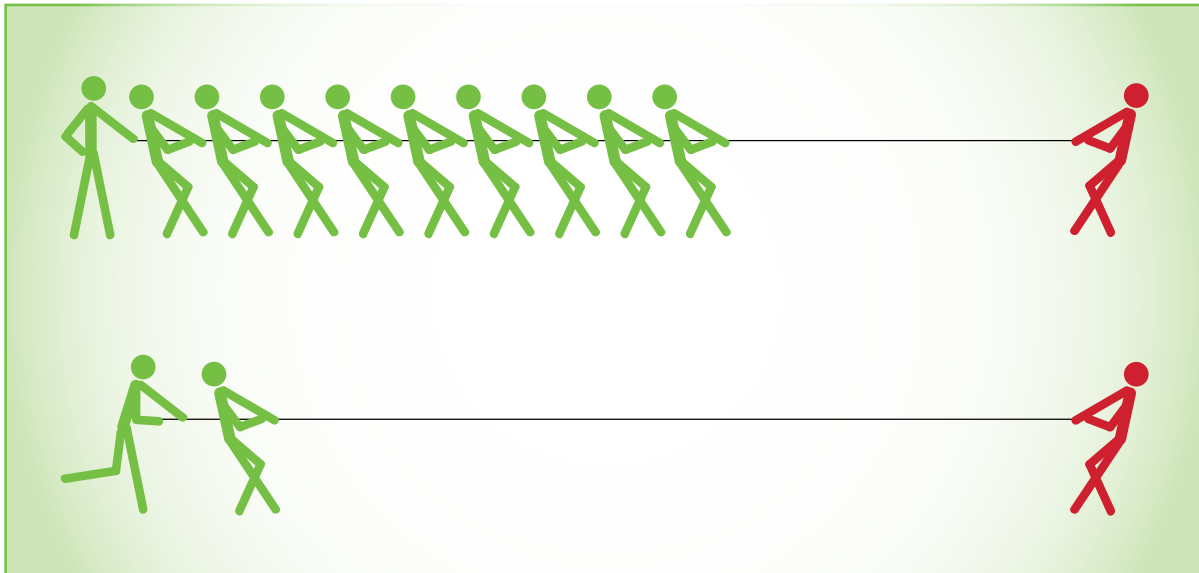
Without a doubt, it's a challenging environment and that type of threat may produce a short-term satisfactory result. Although the CEO may not care if the employee leaves, have they considered the possible consequences if that employee chooses to stay? Could they become actively engaged in blocking the CEO from turning around the organization? Does this leadership behavior produce a loyal employee who will go the extra mile to produce the massive changes necessary in this organization? What impact does that have on other employees who will hear the story?

## **Gallup on Employee Engagement**

The Gallup Organization has conducted some very interesting research on Employee Engagement and its impact on Financial Performance. In their definition, engaged employees provide their best effort to help the company achieve its goals. Actively disengaged employees actively take actions against the organization or its managers. In other words, the company is paying people to work toward making it fail. Below is a little sample.

## A Leading Indicator of Financial Performance

Gallup's engagement ratio is a macro-level indicator of an organization's health that allows executives to track the proportion of engaged to actively disengaged employees.



Actively disengaged employees erode an organization's bottom line and break the spirits of colleagues in the process. Within the U.S. workforce, Gallup estimates this cost to be more than \$300 billion in lost productivity alone. In stark contrast, world-class organizations with an engagement ratio near 8:1 have built a sustainable model. As organizations move toward this benchmark, they greatly reduce the negative impact of actively disengaged employees while unleashing the organization's potential for rapid growth.

### Linking Employee Engagement to Critical Business Outcomes

Gallup's latest meta-analysis (an analysis of data from more than 152 organizations) shows dramatic differences between top- and bottom-quartile workgroups on key business outcomes. Beyond the significant differences engaged workgroups show in productivity, profitability, safety incidents, and absenteeism versus disengaged workgroups, it has been proven that engaged organizations have 3.9 times the earnings per share (EPS) growth rate compared to organizations with lower engagement in their same industry.

Source: <http://www.gallup.com/consulting/52/Employee-Engagement.aspx>.

## Employees: Three keys to profitability

With regard to employee engagement, the best place to begin is to determine what is happening and why. Good managers should be able to start these conversations with their employees but

sometimes in larger organizations a human resources function can be helpful. There is no way to adequately cover the topic of enabling great performance in one chapter, but to improve business profitability, three keys to remember are:

- Employees are critical to a company's success,
- Inspiring leadership encourages employee engagement, and
- Handling challenging employees tactfully sets the stage for growth on both an individual and organizational level.

Excellent leadership is a cornerstone in motivating employees to provide their best. Other supporting building blocks include utilizing the organization's human resources in a way which engages them in providing their best effort, and an efficient organizational structure which enables the desired outcome.

When utilized to its fullest potential, the human resources function within an organization supports leadership and provides the resources employees need to be successful. In addition to fulfilling the role of trainer or educator, it may also serve as a buffer between employees and management. HR can listen to employee concerns and share those with management in a way that enables the employee to be heard in a safe environment. In the reverse, management can implement new policies and procedures and charge HR with the delivery of the those changes in such a way that it encourages employee compliance. Often, having this intermediary enables the organization to successfully navigate through transitions that could otherwise prove very difficult.

## Organizational structures and profitability

Over my years of consulting, I've worked to help many organizations develop structures that enable desired outcomes. I have found that efficient organization structures do matter. However, be aware that with any change there are likely unanticipated consequences. For example many organizations who seek greater efficiency look to shared services organizations. This provides one central location for certain functions and eliminates the need for their existence in each individual department or business unit. While this organization style does produce efficiency and is often the right answer for a company, shared services organizations can fail if proper procedures are not implemented to prioritize and handle the demands of the various business units. Care must be taken to ensure that these organizations do not lose their connection to the business units they support, so that they still feel they are part of the team.

In recent years, I have seen quite a few companies move toward centralizing their Strategic Sourcing or Purchasing functions. This type of move nearly always makes financial sense. However, organizations that mandate that every purchase must be made centrally often find the



process cumbersome and create challenges may offset the benefit of centralizing the function. Current best practices in this example include centrally defining purchasing categories, central policies and purchasing processes, centrally approved vendors, and standardized contracts, but once those policies are established, allowing business units to make many purchase decisions with ongoing support of the central department.

Overall, excellent leadership and supporting organizational structures are critically important in driving profitability.

## Prioritizing activities and the use of resources

While it's important for leaders to inspire, it's nearly equally important for leaders to prioritize the activities and resources of the organization. In the last chapter we covered Strategy, which is one of the key ways leaders prioritize activities and resources. Later in this ebook we will specifically address budgeting and planning, which is one of the ways leaders prioritize activities and use of resources. Other ways leaders prioritize what's important will also be covered elsewhere in this ebook, including reward and compensation systems, scorecards and management dashboards. Each of these tools and decisions tell employees what management values and how each impacts the results employees strive to achieve.

Below are additional topics related to leadership. We will cover some in later chapters and some you may wish to research on your own.

- Strategy
- Budgeting and planning
- Board of Directors role in leadership
- Directors, management and employee compensation and incentives
- Employee engagement, productivity and turnover
- Shared services organizations
- Employee performance
- Flexible employee working arrangements

## About ClarityFI

**Clarity FI** is a financial business management consulting firm offering Strategic and Financial Consulting, Part-time / Time Sharing Chief Financial Officer (CFO) Services and Financial Dashboards. We help organizations understand financial decisions and mine information and data to chart the clearest path to success. We partner with management to optimize customer experience, optimize product pricing, reduce costs, and engage employees and customers to produce tangible, achievable results. The bottom line? We want to help you increase income, save costs, and watch your profits soar.

## About the Author

Mr. David Wagstaff has twenty years of leadership, financial management and consulting experience providing business insights, strategic financial analytics, and executive leadership.

He is the Managing Principal and Founder of **Clarity FI**, focusing on strategic financial management, CFO Services and financial dashboards, analysis and insights. He has experience working with companies that range from large Fortune 100 businesses to entrepreneurial start-ups. Previously, Mr. Wagstaff served as a Managing Consultant, Senior Manager, Enterprise Business Solutions. His corporate responsibilities have been well balanced with successful personal ventures.

Mr. Wagstaff earned his MBA from the University of Maryland, Smith School of Business in College Park, MD, with a concentration in Finance, Accounting and New Venture Creation. He earned his BS in Economics and Business Management from Ithaca College in Ithaca, NY. He is an outstanding member in his community as an active member of the social services organization having served on the Board of Directors and Executive Committee of the board at both Time Out Youth and Family Services of Montgomery County. He is also proud to have been a NJ Foster Parent.

He currently resides in Collingswood, New Jersey with his Partner. He enjoys hiking in the mountains, the beautiful scenery of nature, swimming, water and snow skiing and sailing.