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The Economics of Putting People First
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White Paper



The Economics of Putting People First



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Executive Summary

The empirical data is inarguable: there is a direct relationship between employee happiness, customer satisfaction, and bottom-line profitability. Fred Smith, founder and CEO of FedEx, wisely revealed the order of sustainable organizational success when he penned the FedEx credo: People-Service-Profits. The three-fold order of his success formula rightly began with People and not Profits.

The purpose of this white paper is to encourage you to consider the order of your corporate philosophy, so that you can achieve greater growth potential. I will showcase three compelling stories that demonstrate the immediate and long-term economic impact of putting your employees first in importance ... which is *the* critical driver for sustainable profitability.

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White Paper

Happy Employees = Happy Customers ... Period!

I recently chatted with a man who works for Southwest Airlines, a company widely known for its positive culture ... and its dramatic success. The man's face lit up as he described the things that Herb Kelleher, Southwest's founder, had done to create a culture that celebrates people and their successes. He said that he and his friends *love* working for Southwest. "It's the quality of our leadership," he told me; "if they were selling underwear, I would buy their underwear!"

He was being humorous, but the comment stuck with me. What creates that kind of passionate employee loyalty and respect? Would you say that Herb Kelleher introduced a business philosophy that is the root of which my friend's enthusiasm is the fruit? Or does such a culture happen by chance?

It certainly didn't happen by chance at Southwest. The company's NASDAQ symbol is LUV, short for "Love." All their airplanes are emblazoned with a heart symbol. And Southwest doesn't talk about love for marketing copy; building a culture of love is part of the way they do business. Here's how the company's website explains their philosophy: "Happy Employees = Happy Customers. Happy Customers keep Southwest flying." Southwest's mission statement includes these words: "Employees will be provided the same concern, respect, and caring attitude within the organization that they are expected to share externally with every Southwest Customer."

Southwest's employees appreciate the investment that is made in them. The LUV company ranked #12 in Glassdoor.com's 2013 Employees' Choice Awards Best Place to Work. OK, so the company has a great culture, but does that translate into profitability? As a matter of fact, it does! Southwest recently announced its 40th consecutive year of profitability. Let that sink in for a minute: *forty consecutive years* ... and that's working in an industry that has been bludgeoned by skyrocketing fuel costs, terror threats, and economic malaise.

Economics and the Southwest Experience

I have asserted for decades now that **building a winning culture will translate into sustainable profitability**. I tell business leaders, "Put people first and profits will follow." Creating a work environment which causes employees to wake up in the morning saying, "Yay! I *get* to go to work"—rather than "Yuck! I've *got* to go to work!"—is not ancillary to success; it's an integral component of it! Putting people first isn't a "happy-clappy," feel-good issue; it's a matter of sound economic policy.

Let me explain. **Economics is the science of human choice, necessitated by the circumstances of limited means**. Choice presupposes preferences; preferences are the manifestations of one's goals, motives, and means. Southwest Airlines has maintained 40 years of profitability because their customers prefer the Southwest experience—which is a clear reflection of the Southwest culture—and choose to book their flights with that airline.



PEOPLE FIRST®

We Are The Product of Our Preferences

Think of a person who is making a choice; what motivates that choice? Choice comes from a person's preference, and our preferences are determined by what will satisfy our self-interest.

Now, when we hear the term *self-interest*, we frequently assume that it means *selfishness*, but that assumption is not always correct. If our self-interest includes the self-interest of others, we're not being selfish. Dr. John Robbins explained this distinction in his magnificent book, *Freedom and Capitalism:*

> What about the missionary? He acts in his self-interest by enduring hardships because he has a different conception of his interests from most people.
>
> How about the mother? She acts in her own interest because her conception of her own interests includes the well-being of her children.[1]

Dr. Robbins was highlighting the truth that two people we might think of as acting selflessly—a missionary and a mother, both of whom are laboring for the good of others with little or no remuneration—are still acting in their self-interest. That's because **they have voluntarily expanded the realm of their self-interest to include the interests of others**. They have freely chosen to embrace the age-old exhortation, "Let no one seek his own, but each one the other's well-being."

Wharton Professor Substantiates People First® Profitability

Seeking the well-being of others is not a mindset reserved for moms and missionaries; it works in the business world as well. *The New York Times* recently profiled Dr. Adam Grant, who, at age 31, is the youngest tenured professor at the Wharton School ... and also already the highest-rated.

Why was Grant profiled? His philosophy of giving of himself to others is attracting national attention. "Helpfulness is Grant's credo," *The Times* said, and went on to explain his philosophy this way: "The greatest untapped source of motivation, [Grant] argues, is a sense of service to others; focusing on the contribution of our work to other people's lives has the potential to make us more productive than thinking about helping ourselves."

This young academician is espousing the servant leader's philosophy, that it is more blessed to give than to receive. And Adam Grant is not speaking only to colleagues in the ivory tower; his reputation for excellence extends well beyond the world of academia. *The Times* quoted Prasad Setty of Google as saying that he contacts Dr. Grant when "we are thinking about big problems we are trying to solve."[2] What sets him apart? Adam Grant's success is predicated on his preference to be a giver and not a taker.

The Harvard Business Review has taken notice. The prestigious management periodical recently published an article by Dr Grant, in which he argues, "Organizations have a strong interest in fostering giving behavior. A willingness to help others achieve their goals lies at the heart of effective collaboration, innovation, quality improvement, and service excellence."

Grant buttressed his assertion with a study conducted by the University of Arizona, which found that "the link between employee giving and desirable business outcomes was surprisingly robust. Higher rates of giving were predictive of higher unit profitability, productivity, efficiency, and customer satisfaction, along with lower costs and turnover rates. When employees act like givers, they facilitate efficient problem solving and coordination and build cohesive, supportive cultures that appeal to customers, suppliers, and top talent alike."[3]

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[1] John W. Robbins, *Freedom and Capitalism; Essays on Christian Politics and Economics* (Unicoi, TN: The Trinity Foundation, © 2006), p. 417.

[2] Susan Dominus, "Is Giving the Secret to Getting Ahead?" *The New York Times,* March 27, http://www.nytimes.com/2013/03/31/magazine/is-giving-the-secret-to-getting-ahead.html?pagewanted=all&_r=2& (Viewed 4/24/13)

[3] Adam Grant, "In the Company of Givers and Takers," *The Harvard Business Review,* April 2013, http://hbr.org/2013/04/in-the-company-of-givers-and-takers/ar/1 (Viewed 4/24/2013)

A $6.2 Billion Grocery Store Chain "Gets" People First Economics

I don't know if Dr. Grant is aware of *People First Leadership;* I do know he is underscoring the acute importance of the economics of putting people first. Ancient wisdom literature exhorts us not to act out of selfish ambition or conceit, but to esteem others better than ourselves. We are to look out not only for our own interests, but also the interests of others. This is the philosophy Dr. Grant is espousing and it is the philosophy of People First.

And this philosophy of choosing to invest in the people on the front line of your business translates directly into a healthy bottom line. Wegmans, a privately owned supermarket chain that operates 79 stores in the Northeast, is another organization that has seized on the concept of servant leadership. "Our employees are our number one asset, period," Kevin Stickles, Wegmans' VP for human resources, told *The Atlantic* magazine. "The first question you ask is: 'Is this the best thing for the employee?' That's a totally different model."

"The Wegmans model is simple," *The Atlantic* reports. "A happy, knowledgeable and superbly trained employee creates a better experience for customers. Extraordinary service builds tremendous loyalty."[4] Clearly, Wegmans' customers like the business model; the readers of *Consumer Reports* ranked Wegmans as their favorite grocery store chain.[5]

Customer loyalty translates into profitability. Wegmans did $6.2 billion dollars of business last year and generated higher average daily sales volumes than any of its competitors across the east coast. "When you think about employees first, the bottom line is better," Kevin Stickles asserts.[6]

Operating in today's uncertain economy, business leaders are forced to challenge their employees to generate more output with fewer resources. Ten years ago, we were all hustling to "Grow the business, grow the margins, expand!" Now it's "Spend less, hire fewer, but do more!" The best way I know to enlist people in such a herculean task is to demonstrate that you care about them. As Adam Grant says, the greatest source for releasing untapped potential is service to others.

People Produce Profits

I've met people who mistakenly think that the *People First* philosophy discounts the importance of profits. That simply isn't true. I'm in business to make a profit. When I speak of the economics of putting people first, I'm not making a distinction between what is important and what's not important. Both people and profits are essential for sustainable development. I am *not* saying that people are important and profits are not, nor am I saying that profits are important and people are not. It's not an either/or prospect; it's a both/and philosophy.



I am however, making a clear declaration about *the order of importance*. With limited resources at our disposal, we must choose to put people first. The ability to maximize profits begins with an understanding of the value of the human spirit. **Business leaders shouldn't focus on profits as first in importance, because profits don't produce profits; *people* produce profits!** Even more importantly, we should highly esteem people more than profits because of the intrinsic value and worth of who people are.

[4] David Rohde, "The Anti-Walmart: The Secret Sauce of Wegmans Is People," *The Atlantic,* March 23, 2012, http://www.theatlantic.com/business/archive/2012/03/the-anti-walmart-the-secret-sauce-of-wegmans-is-people/254994/ (Viewed 4/25/2013)

[5] Geoff Herbert, "Wegmans named best supermarket by Consumer Reports; Walmart one of the worst," *syracuse.com,* April 3, 2012, http://www.syracuse.com/news/index.ssf/2012/04/wegmans_best_supermarket.html (Viewed 4/26/2013)

[6] Rohde, "The Anti-Walmart."

People are worth infinitely more than all the profits a company could ever make.

Perhaps you think I'm making an altruistic statement. I disagree; I believe I'm making a statement that resonates in the hearts of tens of millions of people! Whether it be a terrorist bombing in Boston or a killer tsunami in Thailand, Americans (and people all over the world) open their hearts and their wallets and offer their prayers in support of the victims.

In 1987, when 18-month-old Jessica McClure fell down a well in Midland, Texas, the entire world tuned in to watch the rescue efforts in real time. Two years ago, Jessica, now 27 and a mother of two children, was able to access a trust fund that was created from $800,000 worth of donations that poured in shortly after her rescue. "People First" is not my own idea; people truly enjoy giving to meet the needs of others.

Our ears are gifts so that we can listen with care and concern to the needs of others; our hands are gifts so that we can be helpful in carrying the burdens of others; likewise, our feet are given to us so that we can walk in humility to serve others. Consequently, people are the most fulfilled and the most productive when they are caring for, helping, and humbly serving others without expecting anything in return.

You Can't Impart What You Don't Possess

I will insist with my dying breath that the ennobling economics of putting people first are the key to sustainable development. At the outset of this article, I defined economics as the science of human choice; **sound economic policy dictates that you *choose* to put people over profits.** You *choose* to value people, first and foremost, as human beings. You *choose* to create trust-based, caring connections with people. When you love people—value them, honor them, and listen to them—you clearly communicate that you esteem them more than profits. And when people absorb that and believe that, they will pour their hearts into their work. They will engage with their hearts, not just their hands, because they will view their work with you as something more than a career—they'll see it as a calling.

What is the most obvious thing that so many business leaders are missing? Let me answer that question with another question: Why do people keep coming back to spend their dollars with companies like Wegmans and Southwest Airlines? It's because they love the experience! My good friend Tom Manenti, Chairman of the Board of MiTek Industries, Inc., a Berkshire-Hathaway company, often says that "People like to buy from people they like and trust." And customers like and trust people who live in a culture that celebrates likeability and integrity.

When customers see that members of that culture don't just treat each other well, but exceptionally well, customers will want to engage with that. A culture built on the foundation of truth, wisdom, and excellence will cultivate the exemplary qualities of love, joy, and peace. When the members of that culture seek to outdo each other in showing honor to one another, rock-solid, trust-based relationships are formed, and the quality of those internal relationships will inevitably spill over into joyful, genuine interaction with external customers. I've been saying it for years: ***Whatever you want your external customers to feel, your internal customers must feel first!*** You can't impart what you don't possess.

So what should they be teaching in business schools? Adam Grant is teaching it at Wharton: we should look to give to one another, rather than take from people or push past them. We should seek to serve one another, rather than to be served. "Let no one seek his own, but each one the other's well-being." This is the people first philosophy of servant leadership that has fueled dramatic success stories like those of Southwest Airlines and Wegmans.

People First — a Life Philosophy

And please note that when I say "leadership," I mean that *everyone* in the organization should take the lead in building a culture of service and support. *People First* is not a unilateral philosophy, calling on leaders to serve and employees to sit back and enjoy being served. This is a life-philosophy for *all* people! Our organizations will grow stronger and more profitable when we seek the welfare of others first—when we all become givers, as Adam Grant suggests.

Givers and Takers

There are two types of people in the world: those that "get it" and those who don't. The ones who "get it" understand that life is all about giving. They have learned that what you give away multiplies; what you withhold diminishes. The givers are life-giving spirits to your organization. They are not selfish. Givers show up to lovingly serve, not to be served. These are the people you want to hire because profit, of necessity, can only come from a profitable human spirit. We can only express what we possess.

Those that don't "get it" live self-absorbed lives characterized by taking. Since the takers only live to serve themselves, they cannot produce long-term profit. Like Bernie Madoff, they may produce profit for a short period of time; however, it is always at the expense of some form of loss. However, the greatest loss is not measured in dollars and cents but in the loss of trust, respect, loyalty, and the loss of a good name. A bad root cannot produce good fruit. Hence, an unprofitable spirit will drain profits from your organization. Takers will always be true to their nature!

Therefore, to facilitate a giving philosophy in your organization, business leaders and mangers should sit down with the men and women who report to them and initiate a dialogue built around both parties asking and answering this question: "How may I better serve you?" Everyone in the organization, from the CEO to the newest hire in the facilities department, should lead the organization toward a reciprocity of showing honor, providing service, and offering support.

Will we all do this well all the time? Certainly not! No human being is perfect, and we must graciously allow for imperfection and irritation. Many of my clients have distributed T-shirts to all members of their teams which bear the words **Under Construction**. We're all still learning and growing, we're **under construction**, and there will be those times when I thoughtlessly tread on your toes and you tread on mine. But if we are truly focused on building a culture of serving each other, apologies will be sincerely offered and readily accepted. We will frankly acknowledge our own imperfections and freely forgive those that reside in others.

Build a Better Workplace by Seeking the Well-being of Others First

Let me close with this vitally important point: **People First is not merely a management system; it is a way of life**. If you want to live the best life possible, I encourage you to embrace the concept of "Let no one seek his own, but each one the others well-being." You won't merely be building a better workplace; you'll be building a better life!

Your home is the greatest lab in which to cultivate the economics of people first. There should be no disconnect between your attitudes and actions in the home and your demeanor at work. People First is not like a lab coat that we put on when we enter the workplace in the morning and deposit on a corporate coat rack when we go home at night. To the contrary, the mindset of seeking the well-being of others must begin in our home! Simply put, **the personal drives the professional**.

Too many of us pour our hearts into our work and then go home and give our loved ones cold leftovers. We must *first* choose to honor our loved ones; we must communicate our love and appreciation to them; we must consciously work to honor their dignity and worth and joyfully celebrate all their successes. When these behaviors become second nature to us at home, they will become standard operating procedure in the workplace.

The fundamental question business owners should ask is *not* "How should I run the business?" Instead, we should ponder this: "How shall I live my life?" I choose to put people first … at home and at the office. I choose to seek the well-being of others before I seek my own. Thus, if you choose to be a blessing to others wherever you are and whatever you are doing, this mental model will always serve you and others well. The years have taught me that this is a philosophy fit to live by, a life fit to live with, and a legacy fit to live for.

"If they were selling underwear, I'd buy it!" my friend said of Southwest's leadership. The bottom line is, it's really not about your product or service; sustainable profitability in the primary sense is about the quality of relationships of the people who stand behind those products and services. Therefore, the best way to learn how to be successful in business is to learn from the companies and individuals who are successful because they have figured out the inspiring and ennobling economics of putting people first!



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> "My message to my Senior Team is that this has the potential to have the most transformational impact on our lives and our company that we will ever encounter, and will create a culture gap between MiTek and our nearest competitor that is so wide, it will be inconceivable to imagine them ever coming near to us culturally."
>
> **Thomas J. Manenti**
> *Chairman and CEO*
> *Direct Report to Warren Buffet*
> *MiTek, Inc. – A Berkshire Hathaway Company*
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