

Loyalty between the company and its employees adds value

A loyalty model applied on empirical studies of employee engagement in German and Estonian Companies

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Abstract

A lack of employee commitment in companies can have various reasons: goal conflicts, non-supportive attitudes and a lack of performance appraisal, to name only a few. However, as corporate success depends on its employees' performance, wanting commitment and engagement is not acceptable. Based on the analysis of two empirical studies about deficiencies in commitment and attitude of employees in Estonian and German companies, options to overcome these obstacles to corporate performance are discussed and subsequently applied to a model of intra-corporate loyalty. This loyalty model is a process-driven approach to coordinate individual and corporate objectives. It allows for bilaterally successful cooperation in a company even in case of conflicting objectives or non-supportive attitudes. For this reason, the loyalty processes are suitable to overcome the obstacles of cooperation, which have been identified in the studies on the behaviour of employees in Estonia and Germany.

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1 Corporate human resources are decreasing

In quite a few companies, the engagement of employees is increasingly at risk. The reason is a more and more globalised competition, in which the focus is on shareholder value, and which enterprises often can only meet successfully through drastic restructuring and downsizing programmes. In the year 1996, Kotter already diagnosed: “Powerful macroeconomic forces are at work here, and these forces may grow even stronger over the next few decades. As a result, more and more organizations will be pushed to reduce costs, improve the quality of products and services, locate new opportunities for growth, and increase productivity.”¹ Not much has changed since then.

1.1 The challenge of change management in times of shareholder value management

In this context, companies and their employees quite frequently face fundamental and transformational changes, which do not only affect an organisation’s strategy, structure and human resources. Much more important, these restructurings also influence the internal leadership- and cooperation-processes and even the organisational culture, because not only those employees, who are directly threatened by unemployment, are ridden by anxieties about the future. Even the ‘survivors’ of restructuring processes are faced with a significant threat potential, because due to limited information they hardly can predict the future stability of their own work place. Furthermore, particularly employees in lower ranks often have only limited potential to influence corporate restructuring and reorganisation activities directly. And even out-performing employees often cannot predict the consequences of general restructuring activities on their own career. This is the reason, why employees often view corporate restructuring programmes as a ‘force majeure’. Change programmes, that follow the social-darwinistic philosophy of ‘survival of the fittest’, thus can destabilise staff attitude, if employees are not adequately regarded as stakeholders of their own rights.

Due to this individual uncertainty, commitment to the organisation and its objectives tends to decrease, which ultimately leads to opportunistic behaviour. Because when enterprises dislocate or even cut jobs, even though individual performance has been excellent, then this equals an invitation to employees to take advantage of external opportunities regardless of the company’s needs. In the end, employees reduce their engagement for organisational objectives to a minimum that just about allows for the satisfaction of their own needs. This is a vicious circle of organisational need for efficiency on the one hand, and individual need for stability on the other hand, which can only be broken through, if individual engagement for the company is worth individuals while.

1.2 The particular challenge of change management in transition countries

In some post-socialist European countries, that managed the transition from a planned economy to a market-economy, this general problem of dealing with corporate restructuring processes is worsened by the fact, that there are different attitudes

¹ Kotter 1996, p. 3

towards the enterprise and its responsibilities concerning the workforce, as Alas and Vadi point out at the example of Estonia: “the heritage of 50 years of Soviet occupation has left Estonia with a divergent workforce with differing attitudes toward change in society and in organisations. People have started their careers and formed their work-related attitudes in different economic systems – some during a planned economy and some during the recent economic reforms.”² Moreover: “the results of the current research indicate more favourable attitudes toward change and task-orientation of organisational culture among the younger employees, who already started their careers during economic reforms. The older members of organisations (those with soviet work experience) do not support organisational goals as much as younger members.”³

However, lacking commitment for the organisation’s goals is not acceptable from a corporate point of view. Because due to ever increasing competitive pressure, the resulting need for constant adaptation and transformation of business processes, and last not least due to the (legitimate) demands of shareholders; enterprises are dependent on the entire workforce’s contribution to business success.

Incalculable human resources have the same inevitable effects on businesses in Western Europe and in European transition countries, because all companies compete on the same international markets, and have to comply with the same criteria for shareholder value. However, the reasons for the instability of corporate human potential are quite different: West European companies have to deal with opportunistic high potentials, who are latently ready to change jobs externally, and whom Sattelberger⁴ for this reason tellingly characterised as “itinerant workers” and “portfolio virtuosi”. In contrast, companies in transition countries have to come to grips with a wanting willingness of a quite substantial number of employees to adapt to economic demands of today’s management.

In both cases, the question is how companies can cope with, or overcome low individual commitment to organisational goals. This question will subsequently be answered, based on empirical studies about the reasons for the instability of corporate human resources.

2 A comparison of empirical findings on employee commitment

The above-mentioned two studies deal with reasons and consequences of inadequate employee attitude and engagement in Estonia, respectively in Germany:

- The Estonia-focused study on “the impact of organisational culture on attitudes concerning change in post-soviet organisations” by Alas and Vadi⁵ shows that Estonian companies have to deal with market-adverse attitudes of employees and ascribe this to after-effects of the socialistic economic system.
- Gallup’s “Engagement Index 2006 Germany” reveals overall low emotional connections of employees to their companies in Germany, even though according to Gallup there is no significant difference in engagement between employees in ‘West’- and ‘East’-Germany.⁶

² Alas / Vadi 2004, p. 21

³ Alas / Vadi 2004, p. 34

⁴ cp. Sattelberger 2003, p. 41 (translation: von Schubert)

⁵ cp. Alas / Vadi 2004

⁶ cp. press release, Gallup GmbH, Potsdam, 2006

Starting with Gallup's Engagement Index for Germany, the comparison of the two studies will show that, despite the different reasons of wanting commitment of employees in Estonian and German companies, the effects for the companies are the same: they cannot rely on their human capital. Based on the conclusions derived from the comparison of the studies, an integrated concept for the stability maintenance of corporate human capital will be outlined and introduced subsequently. This concept, which focuses on the advantages of intra-corporate loyalty for both, the company and the employees, is applicable to companies in a purely market-economic environment, whose main concern is the opportunistic behaviour of "itinerant workers" and "portfolio virtuosi", as well as to companies in the economic post-soviet era, which have to deal with market-adverse attitudes.

2.1 Employee Engagement in Germany

The problem of enhancing the commitment of itinerant workers and portfolio virtuosi is mainly a question of matching corporate objectives with the employees' individual goals (assuming the worst-case scenario of organisational and individual opportunism), in order to assure the engagement of employees for the organisational objectives at least over a certain period.

This question is addressed by the research and consulting institute 'The Gallup Organization' in the empirical study on the emotional connection of employees to their workplace, the so called "engagement index"⁷, which is published yearly since 2001. Gallup measures the engagement of employees, based on 12 questions (cp. Figure 1), which are mainly related to leadership aspects.

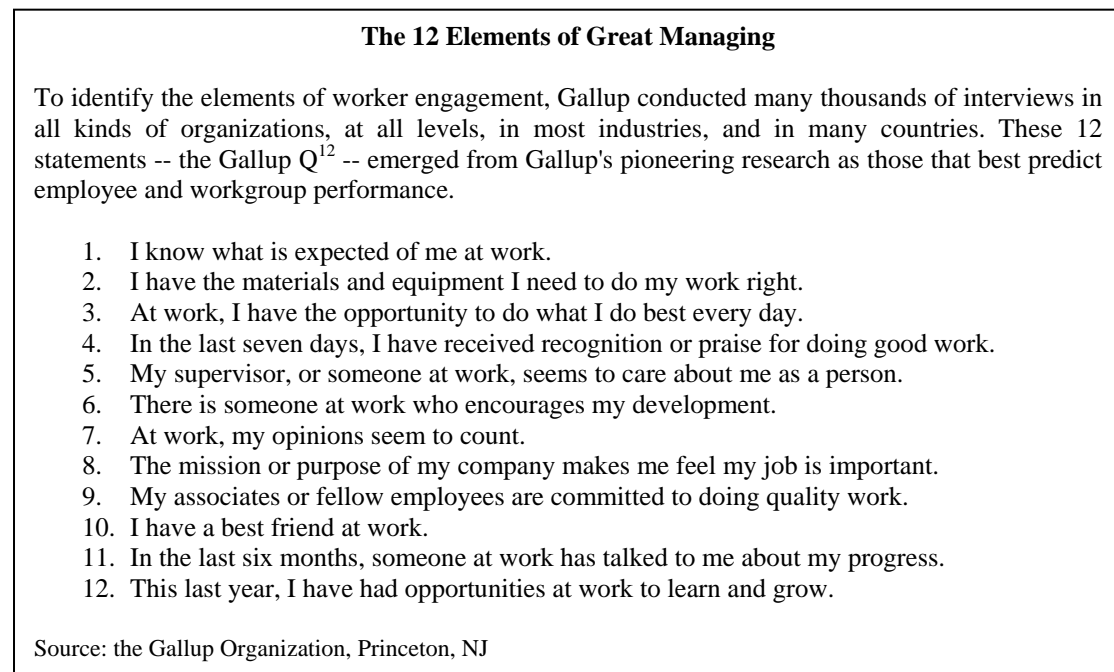


Figure 1: employee engagement – the Gallup Q12⁸

⁷ cp. press release, Gallup GmbH, Potsdam, 2006

⁸ <http://gmj.gallup.com/content/default.aspx?ci=811> (11.06.2007)

From the analysis of the reaction on these 12 statements, employees are subdivided into three groups, depending on their emotional connection to the organisation:⁹

- Employees with strong emotional connections to their workplace are emotionally committed to their workplace (i.a. loyal, productive, few days absent, low fluctuation).
- Employees with low emotional connections to their workplace work to rule. They are generally productive, but are only limited emotionally committed to their employer (i.a. more days absent, higher fluctuation).
- Employees without any emotional connection to their workplace work actively against the interests of the organisation, and might already work under inner notice (physically present, but not mentally; are unhappy with the situation at work and let their colleagues know that)

The results for the year 2006 of the study are alarming, as Figure 2 shows. Because according to the study 87% of the employees in Germany do not sense any true commitment to their work, 68 % of all employees just work to rule, and 19 % even already work under inner notice, whereby as already mentioned a significant difference between West- and East-Germany cannot be spotted.

Further details of the study reveal that the low emotional connection of employees in German companies has direct economic implications. Because wanting emotional connection has an impact on the number of days absent and it results in an increased likelihood of quitting within the following year.

Particularly the latter has considerable economic consequences for the company. Not only do exits result in a loss of knowledge and are associated with significant costs for recruitment and subsequent job training. Much more risky for the company is the period before the actual quitting, because it can no longer rely on the person's willingness to perform to standards, let alone to outperform them.

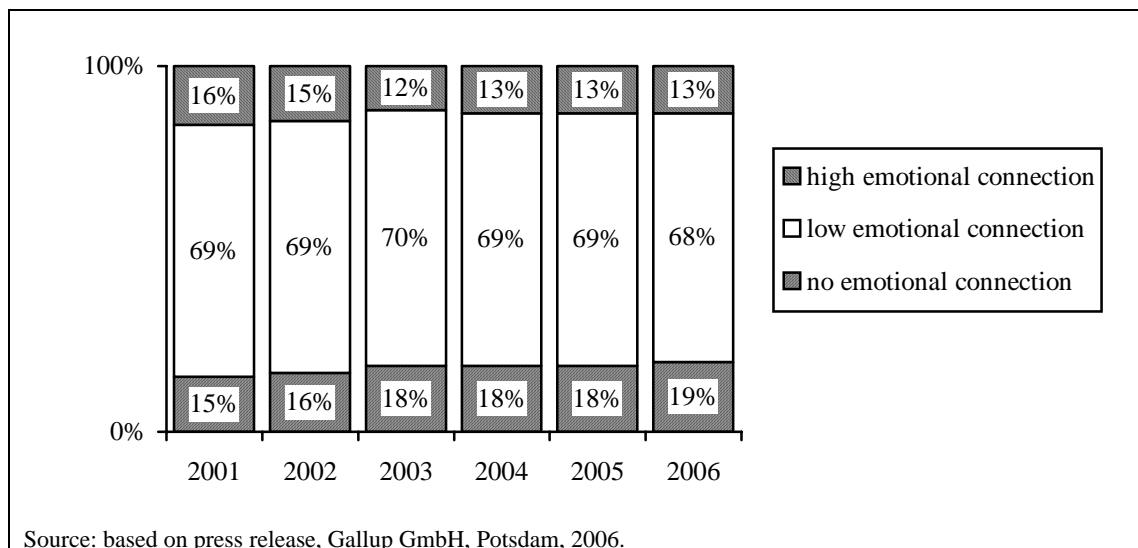


Figure 2: Emotional connection of employees to their workplace, results of the Gallup Engagement Index 2006 for Germany

⁹ Wood 2006, p. 4 (translation: von Schubert)

The interesting question is what organisations actually can do to overcome the threats from low emotional connections. The above-mentioned study by the Gallup Organization identified considerable shortcomings in the leadership behaviour of superiors. As in the previous years, in 2006 a significant proportion of the interviewees stated, that they are missing recognition and praise for a good job, that personnel development is missing out, that there is no feedback on personal improvements, that they carry out tasks they are not really up to, that nobody in the company really cares about them, and that their opinion has no weight.¹⁰

The bad news is that the mostly low and sometimes even entirely missing emotional connection not only inflicts immediate economic damage on the enterprise, but also significantly increases its future economic risk. The good news is that executive managers can influence the level of emotional connection of their people to the company by applying good leadership practices, because the request for support of personal development and for job-related feedback is nothing else, but the desire to be taken seriously with individual needs and wants. For employees will only be engaged for the company and its goals, if this helps them to realise their own individual objectives, whatever these comprise: career development, personal relationships, or else.

Basis for the individuals' commitment to organisational goals therefore is appraisal of the organisation for their work and particularly for their individual goals. Because the employees' striving for responsibility, recognition and job-related forecast reliability on the one side, and the companies' striving for flexible employment relationships and ultimately for staff adaptations reductions on the other side, basically have the same reason: increasing intensity of competition and cost pressure on the worldwide markets.¹¹

Necessary pre-condition for an enhancement of the employees' emotional connection with the organisation and thus the safeguarding of the organisation's human capital, which is so important for competitiveness, therefore is a mutually (for the enterprise and its employees) verifiable and predictable goal orientation, which of course always includes the goals of the respective partner. This at least applies to all private-sector enterprises and their always economic acting, i.e. self-interest maximising, employees.¹²

But how can companies benefit from the organisational human capital, when the employees are alienated by economic goal orientation, due to their socialisation in a not market-driven economic system – as it is the case with employees that started their career during the Soviet era?

2.2 Attitude and Employee Engagement in Estonia

Whilst the “Gallup Engagement Index Germany” reveals a general goal-orientation of employees in Germany, and the primary question is how individual and organisational goals can be harmonised, the study of attitudes of employees in Estonia by Alas und Vadi, gives an entirely different picture. This study shows that employees, who began working during soviet times, are not necessarily entirely inline with corporate, market-driven goals.

¹⁰ cp. press release, Gallup GmbH, Potsdam, 2006

¹¹ cp. also Marr / Fliaster 2003, p. 55

¹² to verify the validity of the assumption of individual economic behaviour in organisations compare Becker 1993, and von Schubert 2007, p. 73 ff.

To come to this conclusion, Alas and Vadi measured ‘task orientation’ and ‘relationship orientation’ of employees in Estonian companies, using a „Questionnaire for Measuring Organisational Culture”¹³, and for this purpose introduced the following definitions:

- “The *task orientation* of organisational culture reflects the extent to which all members are willing to support the achievement of common goals. A certain degree of freedom, acknowledgement for good work and the occurrence of constant positive change inspires organisational members. It makes people think more about the needs and objectives of the organisation.
- The *relationship orientation* of organisational culture indicates belongingness. People assist each other in work-related problems and discuss all the important topics with each other. People know how to communicate with each other and there is a strong feeling of unity in difficult situations.”¹⁴

Their findings indicate “more favourable attitudes toward change and task-orientation of organisational culture among the younger employees, who already started their careers during economic reforms. The older members of organisations (those with soviet work experience) do not support organisational goals as much as younger members. [...] We understand that those people have some difficulties due to their previous experience. During the Soviet period, companies had slack resources, because the state was responsible for guaranteeing work for everyone. [...] Organisational cultures promoted stability and people were not expected to differentiate from others. Avoiding failure was more important than achieving success. When the transition of Estonian society started, older people had a certain package of working habits and attitudes toward organisational tasks. However, this is somewhat different from the understanding of what organisations need nowadays.”¹⁵

In times of rapid and transformational change in almost all industries in Europe, it is of course not acceptable that a significant part of the workforce does not fully support organisational goals. The question however is which conclusions for future organisational behaviour and managerial action to draw from these findings.

Firstly, management could try to cope with the (not necessarily market-driven) attitudes of those employees with Soviet work experience. For instance, “managers could preserve some practices that people valued in socialist organisations in the past in order to emphasise that the well being of people is important to management”; or they could “encourage people to get to know each other better by organising space and work in this way, that these people have the possibility to communicate more”, e.g. by assigning “special time and space [that] could be planned for coffee breaks”¹⁶. Whether or not these suggestions are practical and wise with regard to the commitment of other employees, probably at other locations within the (international) organisation, the question remains for how long one can preserve these ‘comfort zones’.

Secondly, management could help “those people with a Soviet heritage to develop a social identity and self-concept that fits the new environment”¹⁷. One way

¹³ cp. Vadi et al. 2002

¹⁴ Alas / Vadi 2004, p. 28

¹⁵ Alas / Vadi 2004, p. 34

¹⁶ all quotes in this sentence: Alas / Vadi 2004, p. 35

¹⁷ Alas / Vadi 2004, p. 36

would be “to get people to unlearn hold habits and to learn new skills, behaviours and also attitudes”¹⁸. However, changing behaviours and particularly changing attitudes is a quite difficult task, because particularly under the circumstances of quick, radical and furthermore continuous transformational change in the competitive environment, there is just not enough time for most organisations to change their employees’ attitudes until they fit into the organisation and fully support the organisation’s goals. The question, which is subsequently addressed, therefore is how organisations can cope with non-supportive, but stable attitudes of their employees and still succeed in today’s market-driven environment.

2.3 How to cope with “wrong” attitudes and limited employee engagement

Fishbein and Ajzen remark that „attitude is viewed as a general predisposition that does not predispose the person to perform any specific behaviour. Rather it leads to a set of intentions that indicate a certain amount of affect toward the object in question.”¹⁹ If therefore it is impossible, to change people’s attitudes short-term, because these are general and thus stable predispositions, and if at the same time it is not possible to conclude certain beliefs and attitudes of employees from their behaviour, because behavioural intentions are only linked to *a set* of attitudes and not *one specific* attitude, the organisation should instead of trying to influence people’s attitudes, rather focus on their behavioural intentions and adapt the managerial circumstances to these intentions by matching organisational objectives with individual goals, because from the actual behaviour of employees, the organisation can very well conclude their future behavioural *intentions*, as „each of these intentions is related to a specific behaviour”²⁰, as Figure 3 shows.

Under the assumption, that the employees’ behaviour first and foremost serves the realisation of their own individual goals, an enterprise best plans for the realisation of its organisational goals by primarily focussing on the realisation of the employees’ individual goals, even if these are temporarily in conflict with the organisational objectives. Because this will lead indirectly though, but nevertheless reliably to the realisation of the corporate goals; and management is exempted from the need to try to change the employees (anyway stable) attitudes. Concretely this means:

1. If the focus on corporate goals of every single employee cannot be taken for granted, due to certain (affective) attitudes,
2. if a change of individual attitudes is unlikely within an acceptable period of time, due to the ever faster changing competitive environment,
3. but the enterprise is dependent on the realisation of every single corporate goal, particularly because of the intense competition in a market-driven business environment,
4. and the enterprise cannot exchange the employees in question,

then the enterprise should not try, to change the affective and normative foundation of individual conduct, in order to reach its goals. Rather the company should accept these stable preconditions of individual behaviour and on its part seek to identify the

¹⁸ Alas / Vadi 2004, p. 36

¹⁹ Fishbein / Ajzen 1975, p. 15

²⁰ Fishbein / Ajzen 1975, p. 15

individuals' behavioural intentions and to realise the underlying personal goals of these employees.

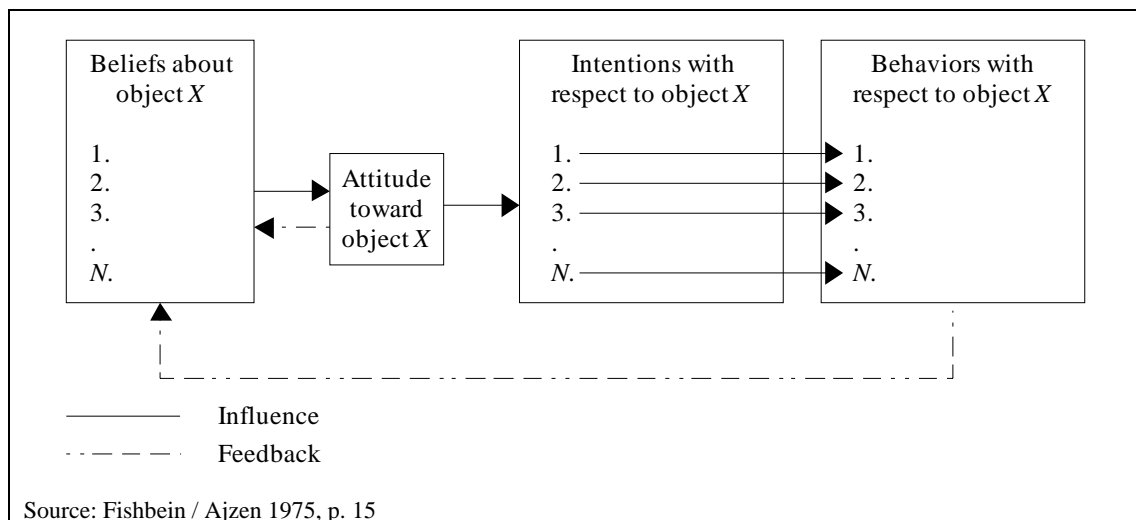


Figure 3: Schematic presentation of conceptual framework relating beliefs, attitudes, intentions, and behaviours with respect to a given object.

This means, that goal orientation is in a sense put upside down. Instead of urging the employee to change his attitude in order to fulfil the organisational goals, rather the enterprise should recognise and realise the employee's goals. This might not change the older people's negative perception of market-driven economic objectives, but it steers his behaviour in favour of the enterprise by matching individual and organisational goals and putting individual goals ahead of all others. Following these suggestions, then the achievement of corporate objectives is an admittedly indirect, but still instantaneous consequence. Basically, it is the concept of 'common security': 'I will be safe, if I plan and act for the safety of my counterpart.'

Comparing the engagement problems in Western economies like Germany with the ones in transition countries like Estonia, then it becomes apparent, that though the problem of low commitment of people with a soviet heritage in post-soviet enterprises is not so much a problem of individual and opportunistic goal orientation like for instance in Germany, but of an overall lack of support for market-economic goals, the result is the same: the organisation can not rely on its people's commitment and engagement for corporate goals.

This result however is not acceptable, because in modern knowledge society, in which individual qualification and performance have become key competitive factors, business success depends on the willingness of each individual co-worker to perform, in Estonia as much as in Germany. The question is how enterprises can improve their people's willingness to perform to standards:

- without compromising the organisation's economic efficiency through unreasonably high costs for staff retention,
- without jeopardising the employees' voluntariness, and
- without disregarding their individual attitudes and goals, which as obviously is a precondition to their willingness to perform.

The solution for this leadership problem is the same for enterprises in Western European economies and for enterprises in European transition countries, as the

following chapters will evince: management's focus on each employee's willingness to cooperate and to perform. This finally is a question of loyalty between the enterprise as an institution and its (key-) employees. But before introducing a loyalty model, that focuses on overcoming the above stated three hurdles, some comments on the rational for and particular advantage of employee-oriented management practices are necessary, because current management practices tend to forget the employees as key stakeholders and tend to focus primarily and almost exclusively on shareholder value.

2.4 Employees are important stakeholders

Sustainable corporate value added requires the cooperation and the engagement of all stakeholder groups. These are not only the shareholders, who usually enjoy particular attention, but also customers, suppliers and last not least employees.

Differences between these stakeholder groups exist only in the duration and intensity of their engagement, and in the number and value of options. Some stakeholders have almost no choice at all, because they can hardly exit from their engagement. The overwhelming number of stakeholder however do have a choice, and are only limited in their choice by eventual costs of exiting their engagement. As most stakeholders do have a choice, the question is how a corporation can assure the loyalty of their key stakeholders, which are not only investors and customers, but also and quite importantly their employees.

Stakeholders who usually have to bear the least exit costs and most often dispose of a huge number of alternatives are the customers. That is why Blanchard und Bowles²¹ emphasise out that companies are only successful, when they manage to keep their customers happy. To not only satisfy customers, but also to delight them through e.g. outstanding service is a necessary prerequisite for their lasting loyalty. Because in a highly competitive environment customer satisfaction might not be enough to differentiate from competitors. In this respect, satisfied customers might still exit the relationship, and only delighted customers will stay.

But doesn't that also apply to employees? Bill Fromm points out that: "customers are critical to any business's success. But, if you're a manager, you must make the transition in your thinking which places your people's interests ahead of all others. *Tell* your employees that the customer is king, but *show* them that they're royalty as far as you're concerned."²²

The type of leadership, which Fromm describes, is a necessary prerequisite for successful cooperation with customers. Because in our modern knowledge-society, competitive success does not primarily depend on the equipment, but on the corporate human potential. Particularly employees of outstanding professional and personal capabilities always have many (external) choices, and – from a corporate perspective – far too often make use of them, as Sattelberger observed: "more and more people, at least in the upper segment of the employment markets, regard themselves as modern 'portfolio virtuosi' and greatly demanded 'itinerant workers' in new career portfolios. A significantly higher transparency of the market for knowledge capitalists additionally stimulates their readiness for a change of jobs."²³ Companies depend on

²¹ cp. Blanchard / Bowles 2002

²² Fromm 1991, p. 14

²³ Sattelberger 2003, p. 41 (translation: von Schubert)

their ability to keep their most important employees loyal, because what applies to customers also applies to employees: satisfied employees might change the job, only delighted employees stay.

From these considerations, it becomes apparent that the goals of the most important stakeholders – investors, customers and employees – influence each other and that their achievement depends on the ability of the other stakeholder groups to achieve their targets. This means, that pure and short-term shareholder-value-management has come to an end, given the volatility and ephemerality of the stock markets. And it means that sustainable corporate success can hardly be assured without a higher-ranking stakeholder-value-management. Because short-term profits from cost-reduction-programmes can have destructive consequences for profitability on the long run, particularly when the costs are on account of less powerful stakeholder groups, like for instance the employees.²⁴

With regard to long-term profitability, corporations therefore are dependent on their ability to balance diverse and potentially even conflicting goals of their stakeholders, and in particular of their internal stakeholders – the employees. A loyalty-based management approach is inevitable for all enterprises that are faced with tough competition.

3 The ABC of intra-corporate loyalty: activate – balance – control

Given the fact, that there is an insuperable goal conflict between inevitable entrepreneurial flexibility and competitive power on the one hand, and desirable continuity of intra-corporate business relations on the other hand, then a management approach is needed that conduces both to the sustainability of business success in a competitive environment and to higher planning reliability concerning the individual's personal objectives. With regard to the personal objectives, it must additionally be taken into account, that these are not necessarily only focused on individual carrier development, but might also include personal, not market-relevant wishes and needs. The combination of both – the organisational and the individual objectives – is mandatory for long-term corporate success in ever faster changing business environments.

The following loyalty model can give an answer on how to management organisational and individual needs successfully at the same time. Generally speaking, loyalty of employees to their company depends on the acceptance of the following three major factors (at least as a worst case scenario, in which however cooperation must still be possible and successful):

- *Activate:* Employees are driven primarily by personal goals, business objectives are secondary.
- *Balance:* Employees are only committed to the organisational objectives, if their engagement simultaneously leads to the achievement of their own, personal goals.
- *Control:* Verifiability and predictability of both the employee's and the organisation's actions constitute the economic value adding potential of intra-corporate loyalty.

²⁴ cp. von Schubert 2007, p. 17 ff.

3.1 Activate: self-interest creates engagement

Voluntary engagement of staff for the organisation's objectives is subject to the condition that this engagement allows for the realisation of the employees' individual, personal goals at the same time. Because like all people, employees in all ranks primarily concentrate on the realisation of their own vital interests. This applies to young professionals, who change jobs after only two years of experience, because of a promising external job offer. But it also applies to CEOs, who cut jobs to improve their company's current stock market value (and thus as a side effect also increase the value of their own stock options) even though they know, that for long term profitable growth their company is dependent on their people's knowledge, experience and relationships.

Economic, self-interest maximising behaviour in its various occurrences has become the principal concern. Intra-corporate loyalty therefore only adds value, if it recognises the principles of economic behaviour and allows for self-interest maximising behaviour as the foundation cooperation in the company. Pre-condition for voluntary engagement of employees therefore is knowledge, acceptance and active support of not only organisational but also individual, respectively personal goals.

3.2 Balance: engagement requires bilateral achievement of objectives

If self-interest is accepted as the basic rational of human behaviour in organisations, then mutually beneficial 'loyalty agreements', in which both parties – the key-employees and the company – accept certain obligations over a certain period of time, can be implemented without anybody perceiving this as a constraint. The underlying principle however must always be, to reward individual achievements strictly individually and to consequently refrain from group-based incentives and rewards.

Furthermore, loyalty agreements with individual key employees based on bilateral achievement of objectives are the means by which it is possible to overcome economically and socially highly inefficient general safe guardings, like for instance dismissals protection for entire business units. For general safeguarding against future imponderabilities is neither in the interest of the company, nor in the interest of outperforming key employees. The company thereby loses necessary autonomy of decision, and dedicated employees lower their expectations and thus their commitment to the company, if business decisions are made on a general basis and not on the basis of individual performance.

However, though reference to individual employees obviously is critical, it is at the same time difficult to achieve, because loyalty agreements shall provide concrete instructions on how to act with regard to both, organisational and individual objectives. These instructions impose high demands on executives as well as on human-resource functions that are concerned with personnel development issues, because they imply in-depth knowledge of the individual objectives of every single key employee, who is involved in the loyalty processes, in order to be able to guarantee imminent reference to their performance.

The following process-model suggests a step-by-step approach for the installation of intra-corporate loyalty even under the difficult but common conditions of conflicting corporate and individual goals and attitudes. The most important steps of this process-model²⁵ are:

²⁵ For more detail about the loyalty model and its implementation cp. von Schubert 2007, p. 123 ff.

1. *Esteem* of the company for the goals and behavioural intentions of employees, no matter on which personal attitudes these are based.
2. *Engagement* of the employees for the corporate goals in consequence of the organisation's appraisal for their individual goals.
3. *Trust* of both, the corporation and the employees, that the respective partner will support one's own goals, even if these might temporarily not be fully in line with the partner's goals.
4. *Bilateral willingness to invest*: both partners, the corporation and the employees, invest into the cooperative relationship in a way that the resulting commitment to the partnership is verifiable by the partner and that future actions are predictable.

Esteem, engagement, trust and the willingness to invest are only the corner stones of a more detailed model for the implementation of intra-corporate loyalty. However, these criteria are appropriate to exemplify the application of the concept of intra-corporate loyalty, even in the above outlined 'bad case' scenarios for Germany and Estonia.

3.2.1 Esteem is the starting point of all loyalty management

The first of the management processes to establish intra-corporate loyalty is the implementation of bilateral esteem for the objectives of the partner. Martin Bertrand defines the term 'esteem' as: "The basic principle of work relationship is the anticipation of a higher value added from the engagement of employees than without their engagement. This is adequately remunerated. This basic economic principle is in its soberness free from any relationship elements. Only by including the individual as part of the social community, by means of esteem for the person and the person's performance, the company enhances the basic element 'economic relationship for use of human resources' and creates – indirectly – personal connection"²⁶

Esteem in the herein after used definition of Bertrand therefore primarily is a one-sided activity on the part of the company. One could claim that esteem of the individual for the organisation and its goals is also necessary, in order to create a not unidirectional, but bilateral effective connection. That is of course right, but due to the disproportionate power ratio in favour of the organisation, esteem should first come from the organisation and then be replied by the individual. Bertrand states hereunto: „Part of esteem for the employee is openness, tolerance and integrity. These are preconditions for a working climate, which allows for creativity, innovation capability and entrepreneurial thinking of each individual co-worker. These virtues – which are part of the corporate culture – need to be experienced. Therefore they need to be lived and exemplified – by means of cooperative, fair and respectful interaction over hierarchies and borderlines."²⁷

General esteem for the needs and goals of all employees however is in itself not a sufficient precondition for loyalty-based cooperation processes. For in this case employees cannot relate the experienced appraisal to their own individual performance. At best highly committed employees take the general appraisal as a

²⁶ Bertrand 2004, p. 274 (translation: von Schubert)

²⁷ Bertrand 2004, p. 274 (translation: von Schubert)

confirmation of their work. But they might very well think over their engagement, because less committed colleagues benefit to the same degree from the unspecific appraisal. Unmotivated employees could even feel reconfirmed in their wanting willingness to perform, because they received the general appraisal together with the top performers. Reference to the individual is an important prerequisite for the effectiveness of esteem in the course of establishing loyalty process, for the goal of specifically loyal cooperation processes is a higher level of certainty to reach one's own goals, than it would be the case in a „normal“ cooperative environment.

In addition, *specific* esteem fulfils another important function: it separates the wheat from the chaff. For only truly goal- and performance-oriented persons receive this kind of specific esteem for their work, whereby according to the philosophy of the loyalty concept in the beginning of establishing the loyalty processes it does not matter whether these are purely individual or also corporate goals. People who do not fulfil these goal- and performance-related requirements should not be considered as partners in loyalty processes altogether, because they would endanger the partner's target achievement. This of course applies to both partners. Executives, who do not adequately appreciate individual performance, do not come into consideration as partners in loyalty processes, nor should employees be considered who do not show adequate performance.

Specific esteem is the initial decision criterion for the selection of the right partner to establish specifically loyal cooperation processes. Selection of course means that not every employee within an organisation will get to know the promise of true loyalty on behalf of the company. And at last it means that some enterprises also might not be able to get their employees truly loyal, which then of course has internal reasons of misguided leadership approaches.

3.2.2 *Engagement despite of an indifferent attitude*

As personal engagement is based on the desire for the realisation of one's own goals, conflicts with other members of the organisation or even with the organisation itself are pre-assigned, as German and Estonian companies seem to already have experienced, and as Kupsch and Marr confirm: “in organisations conflicts emerge from differing preference-systems of the involved individuals. It is not possible to design role-, respectively goal-structures for all organisational subunits that are free of conflict.”²⁸

The question is how one can handle these conflicting interests without putting the individual engagement, respectively commitment at risk. In this context Meyer and Herscovitch offer a useful analysis of the effects of commitment in work-related relationships: “commitment is a force that binds an individual to a course of action of relevance to one or more targets. As such, commitment is distinguishable from exchange-based forms of motivation and from target-related attitudes, and can influence behaviour even in the absence of extrinsic motivation or positive attitudes.”²⁹ This definition has a significant relevance for the loyalty processes, because Meyer and Herscovitch prove that individual engagement is primarily influenced intrinsically by the corresponding individual goals. And they prove that even though incentives that shall generate motivation and identification can of course

²⁸ Kupsch/Marr in: Heinen 1991, p. 753 (translation: von Schubert)

²⁹ Meyer/Herscovitch 2001, p. 301

enhance engagement, they will still be without effect, if there is no adequate set of objectives, because commitment can only be predicted and thus included in the corporate calculus, if the individual's objectives are known to management. This in return means, that knowing the real personal goals that drive a person is an important prerequisite to avoid conflicts from divergent interests.

Altogether, calculatory commitment / engagement thus is an important criterion for loyalty and a precondition for the establishment of the subsequent loyalty processes: trust and the willingness to invest in the cooperative relationship.

3.2.3 Trust as an intermediate step

The assumption of calculatory engagement and of economic behaviour correlates with the previous considerations about the characteristic traits of the concept of intra-corporate loyalty. It leads to two of the main characteristics of intra-corporate loyalty: verifiability and predictability of the behaviour of each partner. However, this assumption at the same time complicates the integration of trust as one of the main principles of loyalty, because trust is not needed in a calculable 'entscheidungsproblem', which the above outlined type of cooperative relationship basically is. And still the principles of trust shall be introduced as one of the main criteria for intra-corporate loyalty:

Once cooperative relationships, that fulfil the requirements of loyalty, have been established, and both partners have agreed on bilaterally verifiable and predictable behaviour, trust is indeed obsolete. In the first initial phase of installing what one will thereafter refer to as loyalty, however, it is an indispensable condition. For in this early phase of cooperation, esteem and engagement are yet not sufficient prerequisites for the ability to judge the partner's intentions and future actions.

Trust therefore is the basis for the partners' ability to make the decision for a cooperative relationship, in which they subsequently tie themselves down to certain actions. In the context of loyalty, the purpose of trust therefore is not to reduce the complexity of choice.³⁰ Rather trust is a bilateral rational calculus.³¹

The definition of trust as a bilateral rational calculus is insofar appealing for the discussion of loyalty processes, as – unlike in the interpretation of trust just as a means of reducing complexity, which does not necessarily have any effect on other people – in this interpretation both partners decide on issues of cooperation, have several option, and are free of choice. The trusting person can decide independently, if he or she wants to trust, and the trusted person, can decide, if he or she wants to return the trust.

This raises the question, how one can prove to be trustworthy. The most simply option is, to invest into the relationship on one's own part, by giving the partner reason to be trusted. This bilateral investment into a trustful relationship is a simple but powerful guarantee that both partners will continue to be trustworthy. Reciprocity increases the likelihood of the continuance of a trust-based relationship, because it minimises the risk of a deliberate unilateral breach of trust. For a deliberate breach of trust would in consequence prove the partner to have made a wrong investment. In addition, it allows for the possibility of even higher gains from having trusted, when the cooperation continues over a longer period of time.

³⁰ cp. Luhmann 2000

³¹ cp. Coleman 1991

Strictly speaking, however, from the time of investment into the cooperative relationship trust is inevitably replaced by pure calculation. For this reason, trust can only be an intermediate step on the way to loyalty-based cooperation. It is a necessary condition to be able to establish the cooperative relationship. However, once both partners have decided to enter into a cooperative relationship, trust needs to give way to something more verifiable and predictable.

3.2.4 Bilateral investment as a reliable basis for loyal relationships within a corporation

All of the as yet mentioned intra-corporate loyalty criteria meet the same problem: their intended outcomes are only known to the person himself. And except in the case of engagement, their outcomes are even not measurable. The respective partner can at best anticipate the consequences of esteem and trust.

For loyalty-based relationships, which shall provide for economically relevant results within a given period, this is not good enough. Be the intended results as positive as they may, they do not lead to organisational and / or individual value added, if neither goals nor results are predictable and verifiable.

The critical step to inter-subjective verifiability is each partner's investment into the cooperation. The willingness to invest into the cooperation is subject to the following conditions:

1. The company will invest into the cooperative relationship to one particular employee, when the employee's engagement gives reason to assume that the employee will invest into the successful ongoing of the cooperation himself.
2. The employee in turn will invest into the cooperative relationship only when the company's esteem for his performance gives reason to assume that the company will actually invest into the successful ongoing of the cooperation with this particular employee, without trying to confer the investment upon the employee shortly after.

It is important to understand, that only one's own objectives, and only these, are the underlying rationale for each partner's willingness to invest into the relationship. On this note, even the employee's engagement for organisational objectives might not necessarily be a consequence of commitment to the organisation and its goals, but could also be pure calculatory commitment with the individual / personal goals in the foreground. As long as both partners, the individual employee *and* the corporation, manage to achieve their respective objectives, this sort of egoism and probably even lack of support for organisational goals by "the older members of organisations (those with soviet work experience)"³² is by all means acceptable and still allows for the realisation of the targets of all concerned persons.

All in all, the investment-phase is the most critical phase in the process of establishing intra-corporate loyalty, because both partners need to prove advance performance at the same time. Above that, the investment-phase also is the most important phase, because at this point both partners disclose their *real* intentions and thus enable their counterpart to calculate, predict and verify their partner's intentions and future behaviour. Last not least, a loyal cooperative relationship is and must

³² Alas / Vadi 2004, p. 34

always be a partnership of equals, because both partners invest and will have to stand for their investment without trying to impose their outlay on the less powerful partner (usually the employee).

Under these conditions, intra-corporate relationships are sustainable, independently of attitudes, because the partners manage to overcome the obstacles of subjective interpretation and speculation, and generate a bilaterally measurable, predictable and verifiable set of activities.

3.3 Control: loyalty is “self-financing”

The economic advantage of intra-corporate loyalty lies first and foremost in the bilateral predictability of each partner's objectives and resulting actions. Loyalty-based relationships therefore constitute a higher level of economic efficiency for both the organisation and its members.

Predictability is a consequence of investment. Bilateral investment in this context means, that both partners – the organisation and its key employees – invest in their cooperative relationship equally and do not buy themselves off their obligations. The latter quite frequently happens, when a company makes an employee sign a contract that he will stay at the company for a certain number of years after he has finished, for example, an executive educational course, which the company paid for. Unilateral investments bear the risk that the other partner, who has not invested or who has imposed his investment on the less powerful partner, might take advantage of the one-sided commitment for his own benefit only. Therefore, unilateral actions will never lead to real loyalty.

Loyalty-based relationships are thus only sustainable, if they are not only associated with unspecific and quite speculative terms like trust and identification. Rather intra-corporate-loyalty adds value, if it is based on a measurable, verifiable and most importantly bilaterally predictable set of actions of both partners, in accordance with their respective objectives.

However, bilateral investments in loyalty can be mistaken as an expense factor that as such needs to be eliminated as quickly as possible. Quantification of the value of loyalty by counting up ‘service’ and ‘return service’ however is entirely contradictory to the loyalty-idea, because it reduces the value of loyalty to the value of single transactions. The real value added of intra-corporate loyalty though does not result from a reduction of transaction costs, but from increasing the overall level of efficiency and effectiveness on which future transactions are carried out. Higher efficiency and effectiveness of corporate processes and the resulting increase in profitability also increases each individual's chances to reach his or her objectives, and thus (temporarily) eliminates the need for exit options.

At last, it remains to note, that despite the value adding potential of intra-corporate loyalty it is not yet possible to justify investments in loyalty financially. Because from an accounting point of view, investments in loyalty to and from employees are nothing else than additional personnel costs. It would however be sensible to regard intra-corporate loyalty as an intangible asset, because it matter-of-factly increases the corporate human capital, which unchallengedly is the basis for future profitable growth.³³

³³ cp. von Schubert 2007, p. 191 ff.

4 Loyalty management adds value by balancing potentially conflicting goals

Due to the increasingly internationalised and highly competitive business environment, the risk involved in the engagement for an enterprise is ever more evenly spread on *all* members of the organisation. For in the mean time as 'entrepreneur on his own behalf' even the salaried employee carries a significant entrepreneurial risk. This becomes apparent in considerable job insecurity despite excellent individual performance on the one hand, and in common responsibility of all co-workers for corporate success and thus for their own success on the other hand.

This duality puts the problem of modern business administration in a nutshell. Employees on all hierarchical levels constantly weigh their personal goals, which are the main reason for their engagement in the company, up against the organisational goals, which as holder of organisational functions in the hierarchy they also have to respect and realise. From the analysis of the studies on engagement and attitude of employees in Germany and Estonia it has become apparent that these individual and organisational goals and even their underlying attitudes and intentions can be in conflict.

Nevertheless, an enterprise is at all times dependent on the unconditional engagement of their (key-) personnel over a period of time, which allows for the realisation of corporate goals, and in which this key-personnel deliberately does not make use of exit options, even if these might sound attractive. Above this an enterprise is also dependent on the engagement of employees that might not always support the corporate philosophy for reasons of attitude, but who for various reasons might be bound to their current job and are indispensable from a corporate view. Due to these bilateral dependencies, it is in the best interest of an enterprise to install loyalty processes, which safeguard individual engagement despite potentially conflicting goals and attitudes.

The question is how loyalty of employees can be generated without compromising corporate efficiency by imposing too high costs for employee retention, and without undermining the voluntariness of individual engagement, which is a prerequisite for true engagement and excellent performance. The above outlined loyalty processes are one way to allow for long-term profitability and for sustainable corporate growth. However, the loyalty model, which these loyalty processes are based upon, represents only intermediary results of an ongoing research project. Further empirical research with fellow-researchers and companies in different European regions is more than welcome, in order to determine regional difference and to derive further recommendations for managerial action.

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