Hard And Soft Utility: A New Way To Think Of Cultural ROI

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Imagine you had a different job. You now work at what you would consider a "typical" company in your industry, which requires an identical amount of work as your current role. If the culture at your current company is great and you love your job, it's likely you wouldn't want this imaginary typical-but-identical job, and you'd need to be paid more to take it. However, if you hate your job and the company culture, you'd probably be willing to work for less than you're making now.

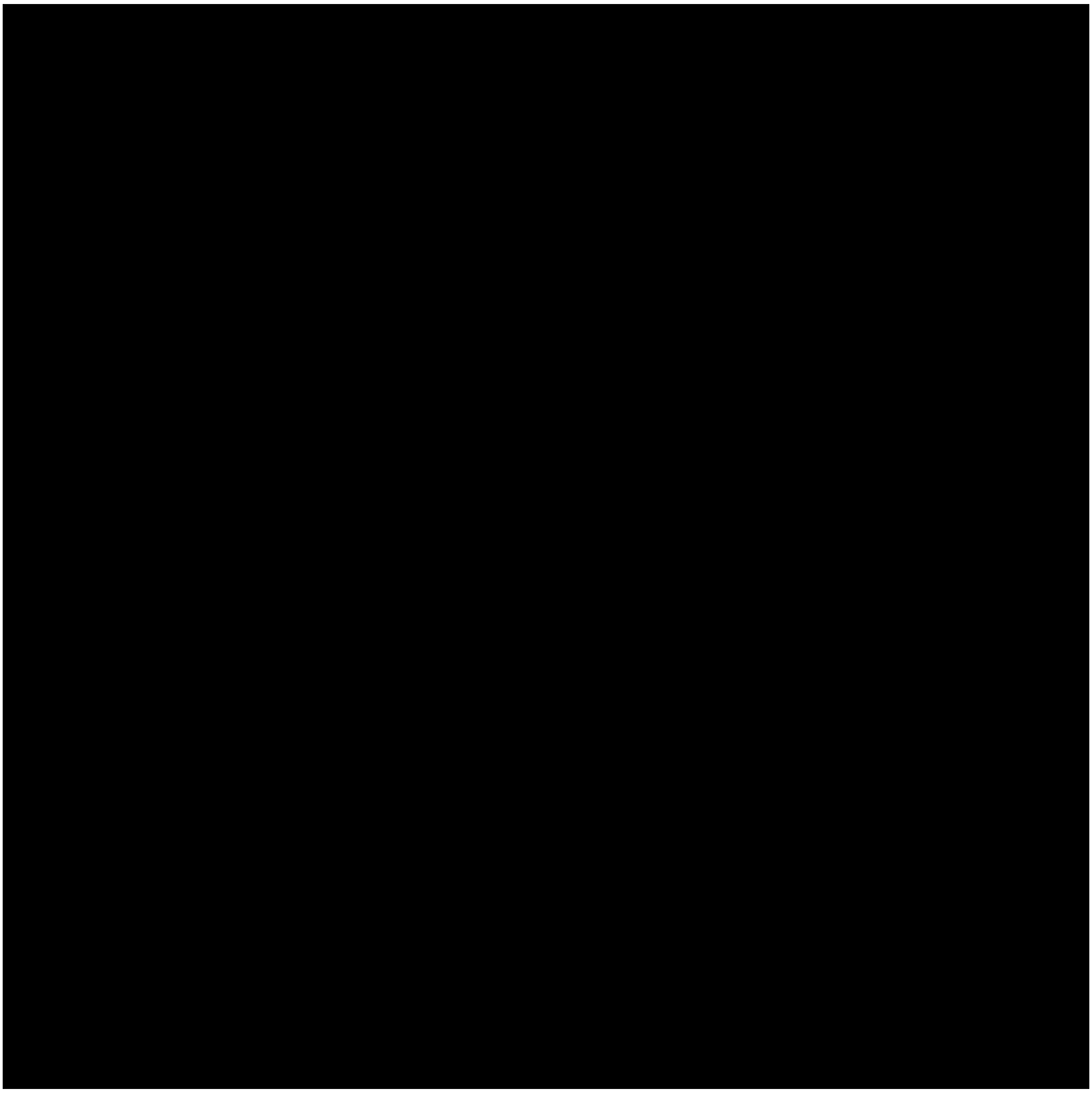
So how much more or less would your compensation have to be to switch to this imaginary job?

I've been obsessed with this idea my whole career. As a CEO myself, I've come to believe there is a monetary value to the company culture that the employees internalize as real-dollar compensation. The proof that it is real compensation, to me, is in the fact that the employee would likely demand to be paid more if they were expected to generate the same work output in a company of poorer culture. And while this doesn't justify a tactic of providing poor cash compensation, many employees might actually prefer to be underpaid by a company with a great culture than to work for a company with a negative culture. In fact, according to recent research by LinkedIn, 70% of professionals surveyed would not work for a leading company if they had to tolerate bad company culture.

This relationship between employee and employer is essentially an Econ 101 supply curve from my perspective, where increases and decreases in supply are represented by shifts to the left (decreases) or right (increases) of the supply curve.

What happens when pay or satisfaction increases?

As compensation increases, an employee should be willing to push harder and more creatively to generate a higher quantity of work product: output. But output can become very inelastic on the right side of the graph. That's because there is an upper limit on the total output an employee is humanly capable of generating. Consequently, trying to "buy" that behavior with hard-dollar compensation could be extremely expensive.



Relationship between compensation and output GABRIEL KRAJICEK

Luckily, compensation needn't be 100% generated by cash. The culture itself and the meaning the employee derives from the work are forms of compensation. Companies that create environments that employees love can generate higher output than compensation alone would provide. To that end, a 2015 study completed by a professor at the University of Warwick's Centre for Competitive Advantage in the Global Economy found that happy employees (based on "short-term 'happiness shocks'") are up to 20% more effective in the workplace than their unhappy counterparts. Conversely, this suggests that culture-anemic companies may have to pay more than output would justify; in other words, the employees are "taxing" their employer. According to 2013 Gallup research, disengaged workers cost organizations between $450 and $500 billion annually due to massive losses in productivity.

We can think of the cash compensation as the “hard utility,” the cultural compensation as “soft utility” and the sum as the total compensation. Soft utility can have a positive or negative value. It can drive higher output or lower. Older engagement research by Gallup, on the other hand, suggests that pay level makes no significant difference in employee engagement. This suggests that hard utility is not the primary factor driving output.

Companies such as Southwest Airlines and Google have enjoyed tremendous success -- by my observation, they did this by creating cultures that bring out the best in their people. Southwest Airlines has never laid off a single employee or docked their pay, according to CNBC. This year, the airline marked its 45th consecutive year of profitability. Because the employees reportedly find benefits like meaning in their work, I believe they may also behave as if they’re being paid far more than they are. Additionally, a 2016 study by ADP Research Institute, titled "The Evolution of Work," found that 81% of respondents had a positive perception of the workplace trend of preferring to work on things that will impact society or projects related to their personal interests.

The “stack” of hard and soft utility is a lot like Maslow’s hierarchy of needs. At the top of the pyramid are self-actualization, esteem and love and belonging. These are all concepts of soft utility. The bottom of the pyramid is where we find safety and physiological needs. These are hard utility needs.

How can managers utilize this insight?

Managers can think of hard compensation as what provides the basics -- the food, shelter and safety for an employee. To tap into the powerful motivators at the top of the pyramid, an employer must rely on soft utility.

Admittedly, this mental model is not perfect. But it does provide a useful construct for managers to visualize what impacts they have on their employees and their willingness to generate the results the company needs. Drivers of soft utility are often free. Giving employees the ability to provide honest feedback to their manager and leadership team can create a culture of openness and safety that may encourage employees to hold themselves to a higher standard. Leaders can also focus on building an accepting, inclusive and diverse workforce where team members can easily create positive social connections at work. Working relationships can impact job satisfaction, turnover rates and productivity, so fostering positive social connections can produce immense value at little to no cost to your organization. Additionally, providing regular constructive feedback sessions could generate real change in the work output an employee will give.

Likewise, I believe it's crucial that your organization avoids behaviors that withhold soft utility. Strained internal communication and an unsupportive atmosphere can prevent a culture of innovation if employees are scared to share their ideas. Micromanagement and extreme competitiveness could also have an adverse effect on your employees' output because of the additional pressures they bring to everyday tasks. Unsafe or threatening work environments could cause employees to pull back and withhold value from their organization.

What a waste that'd be when it's so easy to do it right.

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