Danger: Toxic Company

The problem isn't that loyalty is dead or that careers are history. The real problem, argues Stanford's Jeffrey Pfeffer, is that so many companies are toxic — and that they get exactly what they deserve.

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According to Jeffrey Pfeffer, when it comes to the link between people and profits, companies get exactly what they deserve. Companies that treat their people right get enormous dividends: high rates of productivity, low rates of turnover. Companies that treat their people poorly experience the opposite — and end up complaining about the death of loyalty and the dearth of talent. These are "toxic workplaces," according to Pfeffer, 52, the Thomas D. Dee Professor of Organizational Behavior at the Stanford Graduate School of Business and the author of The Human Equation: Building Profits by Putting People First (Harvard Business School Press, 1998).

Pfeffer disputes much of the conventional wisdom in the current conversation about work and business. Loyalty isn't dead, he insists — but toxic companies are driving people away. There isn't a scarcity of talent — but there is a growing unwillingness to work for toxic organizations. Pfeffer also disputes the idea of the end of the career. "I don't believe that people are looking to go flitting from one job to the next," he says. "People are looking for the opportunity to have variety in their work and to tackle challenging assignments. The best companies are figuring out how their employees can have both opportunities — without leaving." When Fast Company interviewed the plain-talking, provocative Pfeffer in his Palo Alto office, he offered the following observations about the primacy of people in the new economy and about how you can detoxify your workplace.

The one guaranteed way to get a 30% to 40% productivity gain.

It mystifies me that so many companies think they can get a cheap competitive advantage by purchasing something on the open market! Anything that you can purchase on the open market is also available to your competitors. So the question is, How can you distinguish yourself in a world in which your competitors can copy everything you do?

The answer is, all that separates you from your competitors are the skills, knowledge, commitment, and abilities of the people who work for you. There is a very compelling business case for this idea: Companies that manage people right will outperform companies that don't by 30% to 40%. This principle even applies to the current IPO market: IPO firms that value their people have a much higher five-year survival rate than those that don't. Similar studies of the steel industry, the oil-refining industry, the apparel industry, and the semiconductor industry all demonstrate the enormous productivity benefits that come with implementing high-performance, high-involvement management practices.

Most people immediately understand this point. It's not as though I've discovered some mysterious black magic. There is conclusive evidence that holds for all industries, regardless of their type, size, or age. The results are the same. If you don't believe me, look at the numbers.

"Welcome to the toxic workplace! We fire at will!"

There is a lot of turnover in Silicon Valley, because there are so many toxic workplaces in Silicon Valley. These are companies that create the conditions that they deplore.

Companies say to me, "Nobody who comes to work for us stays for any length of time. Loyalty is dead." Let's accept that premise for a moment — even though it's wrong. But if we do accept that premise, the question becomes, If loyalty is dead, who killed it?

Companies killed loyalty — by becoming toxic places to work! Start with the interviewing and recruiting process. What happens on a new employee's first day? The company asks the employee to sign an at-will employment contract that gives the company the right to fire the person at any time and for any reason. The document was prepared by a lawyer; the company tells the employee to have it reviewed by a lawyer before signing it.

Think about it: It's your first day on the job, and I've already told you that you don't have a permanent employment relationship with me, that your job is based on a contractual relationship — and then I wonder why, on your second day, you're not approaching me with a long-term perspective and a feeling of trust!

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A place where people come to work to get rich enough to quit.

Here's another example of a practice that creates the conditions that companies deplore: stock options. David Russo, the head of human resources for SAS Institute, gave a talk to my class. My students were dumfounded to learn that this successful software-development company doesn't offer its people stock options. David said, "You must know lots of people who have gotten stock options. Why do they want them? Explain the logic."

Finally one of my students raised his hand and said, "I can tell you the logic. For most people, stock options are like the lottery. People are hoping to strike it rich and then quit." David smiled and said, "What an interesting thing! We've built an organization in which your motivation for coming to work is to make a lot of money — so that you can get the hell out of the organization."

To me, that's an operational definition of a toxic workplace: It's a place where people come to work so they can make enough money so they can leave. Dennis Bakke, of Applied Energy Services Corp. (AES), likes to point to a photo of the top 20 people at his company. The photo was taken more than a decade ago, and today 17 of those 20 people are still there. They're all plenty wealthy — because AES has grown tremendously. They all could have quit. The fact that they didn't says a lot about that company.

Toxic flextime: "Work any 18 hours you want."

Another sign that a company is toxic: It requires people to choose between having a life and having a career. A toxic company says to people, "We want to own you." There's an old joke that they used to tell about working at Microsoft: "We offer flexible time — you can work any 18 hours you want."

A toxic company says, "We're going to put you in a situation where you have to work in a style and on a pace that is not sustainable. We want you to come in here and burn yourself out — and then you can leave." That's one thing that SAS manages brilliantly: When you take a job there, you don't have to ask yourself, "Am I going to be a successful and effective SAS employee, or am I going to know the names of my children?"

What's the difference between a factor of production and a human being?

Another sign of a toxic workplace is that the company treats its people as if they were a factor of production. At a toxic workplace, the managers can reel off all of the various economic factors: "We've got capital that we invest, we've got raw material that we use, we've got the waste from the manufacturing process that we recycle — and, in the same category, we've got our people." It's a workplace that doesn't see people as people, but rather sees them as factors of production. And that's ironic, because what we celebrate as a competitive, capitalistic practice actually reflects a Marxist orientation: People are seen as a factor of production, from which a company has to extract an economic "surplus."

There is a huge difference between that perspective and the way AES, for example, looks at its people. Dennis Bakke even objects to the term "human resources." Dennis says that fuel is a resource — but that people aren't. Underlying this difference in language is a difference in philosophy that guides much of what a company does. If a company looks at you merely as a factor of production, then every day it must calculate whether your marginal revenue exceeds your marginal cost. That's how it decides whether or not to keep you.

If your company is so great, why doesn't anyone want to work there?

You hear a lot about the shortage of talent. The thing to remember is that, for great workplaces, there is no shortage of talent. Companies that are short on talent probably deserve to be! Anyone who is smart enough to work in a high-tech company is too smart to work in a toxic workplace. And if they do work in one, as soon as they have a choice, they choose to leave.

For example, according to David Russo, SAS Institute had a 3% voluntary-turnover rate in 1997. SAS almost never loses one of its people to a competitor, he says. When it does lose people, it's usually because of a lifestyle change or because someone at the company has to move to a place where there is no SAS facility.

That kind of things is happening across the economy. Hewlett-Packard has lower turnover than many of its competitors. The Men's Wearhouse has lower turnover than many other companies in the retail industry. Starbucks has comparatively lower turnover than other companies in the fast-food business. Of course, none of these companies is perfect. But a company that says, "We want to create a place that attracts people, that makes them want to stay," will have lower turnover than places that say, "We don't care about our people's well-being or about whether they stay." And then, when these toxic companies conduct themselves in this way, they wonder why people leave.

Which is better business — paying signing bonuses or treat-

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ing people right?

High turnover costs big money. First of all, it costs money to go out and replace all of the people you've lost. If the companies in Silicon Valley that are losing people would stop paying $50,000 signing bonuses, and instead do what's necessary to keep the people they've got, they would be much better off economically. Along with incurring replacement costs, when you lose people, you lose knowledge, you lose experience, and you lose customer relationships. Every time a customer interacts with your company, he or she sees a different person. I like to go to my branch bank because I know that I'll always make a new friend there: The turnover is so high, I'm always meeting new people!

There is nothing soft and sentimental about this part of the argument. This is simple economics. David Russo did a calculation in my class one day: A student asked him why SAS does so much family-friendly stuff. He said, "We have something like 5,000 employees. Our turnover rate last year was 3%. What's the industry average?" Somebody said 20%. Russo replied, "Actually, 20% is low, but I don't care. We'll use 20%. The difference between 20% and 3% is 17%. Multiply 17% by 5,000 people, and that's 850 people. What does turnover cost per person? Calculate it in terms of salary." The students estimated that the cost is one year's salary and that the average salary is $60,000. Russo said, "Both of those figures are low, but that doesn't matter. I'll use them. Multiply $60,000 by 850 people, and that's more than $50 million in savings."

That's how Russo pays for the SAS gymnasium, for on-site medical care, for all of the company's other family-friendly items. "Plus," he said, "I've got tons of money left over." If you can save $50 million a year in reduced turnover, you're talking about real financial savings. This is not tree-huggery. This is money in the bank.

When you look at your people, what do you see — expenses or assets?

You've got to ask a question that gets back to an old cliche: Do you walk the talk? It's easy for a company to say, "We invest in people. We believe in training. We believe in mutual commitments between the managers and the workforce. We believe in sharing information widely with our people."

Many organizations say those things — but in their heart of hearts, they don't believe them. Most managers, if they're being honest with themselves, will admit it: When they look at their people, they see costs, they see salaries, they see benefits, they see overhead. Very few companies look at their people and see assets.

In part, it's because of the financial-reporting systems that we've got. The fact is, your salary is an expense. If I buy a computer to replace you, I can capitalize the computer and then depreciate its useful life over many years. If I hire you, I take on an expense.

But there are other things that companies can measure. Whole Foods Market Inc. and AES, for instance, not only do employee surveys; they also take them seriously. I know of managers at Hewlett- Packard who were fired because they received such poor reviews from their employees.

Why nothing changes #1: Wishing doesn't make it so.

Everybody knows what to do, but nobody does it. For example, a lot of companies confuse talk with action. They believe that, because they've said it, it's actually happened. One of my students did a research project on the internship program at a large Wall Street securities company. Under the program, the firm hired interns right out of college; then, after a few years, the interns would go back to business school. But the program was catastrophic. The firm treated the interns like dog doo, and that had two bad consequences. First, the interns didn't go back to work for the firm after business school, so the two or three years that the firm had invested in them were wasted. Second, and even worse, when the interns arrived at Harvard, Stanford, Chicago, or Northwestern, they would tell all of the other business-school students that the firm was horse manure — which made its recruiting difficult, to say the least. At some level, people at the firm understood these problems. So the senior leadership asked my student, who had interned there, to help the firm fix its program.

After she had done a bunch of interviews, she told them, "You have a model that says you're going to treat people with respect and dignity. Let me tell you the 30 things — and that's a low number — that you do to your interns that violate your model."

When the top people at the firm heard her report, they said, "This can't be. The core values of this firm are respect for the individual, treating the individual with dignity, and teamwork. We believe in these values." In effect, they were saying, "Because we believe it, it must be happening." These were not bad people. They just thought that their wishes had become reality.

Why nothing changes #2: Memory is no substitute for thinking.

There's another reason why companies don't do what they

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know they should: They fall prey to the power of precedents. They do something once, and then they get trapped by their own history: This is the way we do it because this is the way we've always done it. They substitute memory ("We did it this way before") for thinking ("Is this a sensible way to do it?").

Not long ago, I went to a large, fancy San Francisco law firm — where they treat their associates like dog doo and where the turnover is very high. I asked the managing partner about the turnover rate. He said, "A few years ago, it was 25%, and we're now up to 30%." I asked him how the firm had responded to that trend. He said, "We increased our recruiting." So I asked him, "What kind of doctor would you be if your patient was bleeding faster and faster, and your only response was to increase the speed of the transfusion?"

But what this law firm knew how to do was recruit. Over the preceding five years, it had created 162 partners — and it had lost 163 people in the same period It preferred undertaking lavish recruitment efforts to dealing with the root causes of the turnover. People do what they know how to do. This law firm knows how to recruit — so it steps up recruiting. But what it hasn't thought about for five seconds is how to solve the underlying problem.

How to make something change: Start with you.

Where do you start? You start with a philosophy, and the rest follows from that. If you believe in training and developing people, you don't necessarily need a huge training budget. You begin by imparting knowledge in various ways — by holding meetings, by talking to people, by coaching them, by mentoring them. If you believe in reciprocal commitments, you start by building those commitments with the people you work with. If you believe in information sharing, you share information with the people you have the most contact with. In other words, you begin in your immediate sphere of influence. You start with your own behavior.

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