Thinking about others: A route to greater efficiency

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In his new book, IESE Prof. Josep M. Rosanas argues that acknowledging the intended and unintended effects of our decisions on employees is a vital step toward achieving greater business efficiency.

The career of an executive is fraught with risk. One can never be sure that one's final decision is the right one.

When a company undertakes a big investment, its management must first weigh up a host of complex variables. And when it comes to making the final decision, managers cannot lose their nerve, pass the buck or hide behind the opinion of experts. What's more, there are no universal answers to complex business problems.

After calculating the risks of an investment and thoroughly analyzing the full range of alternatives available, the manager may conclude that the new investment will require added commitment and effort from staff. Should this be the case, implementing a decision will almost always run into an obstacle: people.

Contrary to what some theories on productivity state, IESE Prof. Josep M. Rosanas argues in his latest book, Beyond Efficiency, that keeping stakeholders in mind will increase business efficiency.

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People: The engine that drives a company

As difficult as it may be for executives to formulate decisions that meet with employees and other stakeholders' general approval, it is essential to keep them on side as far as possible.

Lest we forget, the main driving force behind a company's success is its people and the interactions between them. In essence, personal relationships are to an organization what transactions are to markets.

The way companies treat their workforce and other stakeholders is, therefore, decisive. Changes that might occur in a relationship will determine what interactions take place further down the line. Rosanas says this is the advantage that organizations have over markets: "To the extent that there is positive learning, trust between the two people will grow and transaction costs will fall."

Efficiency = Execution + Motivation

The efficiency of any relationship depends both on the extent to which a person carries out the action with which they have been entrusted and the ease with which they are able to execute it.

If the learning that stems from this relationship is positive, the people involved will be motivated to interact at lower costs. If it is negative, though, then failure is guaranteed.

Thus, as Rosanas states, you do not obtain something of real value from someone else through rewards and punishment, but rather by "inducing them to cooperate through identification."

Let's suppose, for instance, that a business owner tells the manager to implement an aggressive cost-cutting program that will impact negatively on the company's workers — all in the name of raising productivity. The manager, yielding to the owner's pressure and the lure of financial gain, eventually caves in and agrees to do the owner's bidding.

While results may improve over the short term, insubordination among the workers will almost certainly grow, resulting in a poorer quality product or service. If the owner and manager prolong or even intensify the cost-cutting program, the company's learning experience will be negative and the results over the long term disastrous.

Rosanas uses this example to stress the importance of considering what people learn when it

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comes to making decisions. If employee trust and motivation suffer as a consequence of a company's decision, then productivity over the long term will also suffer.

Managing motivation

As we have seen, people's response to interaction depends on their motivation. In labor relations, what have traditionally dominated are external or material drivers, such as salaries and bonuses.

This is a big mistake, as the current crisis has made clear: The incentive system encouraged shady professional practices aimed exclusively at boosting companies' share prices.

Nor is this simply a question of intrinsic motivation, such as an employee liking his or her job. A successful interaction requires motivations that go much further, such as the desire to enhance the well-being and career development of other people.

Crucially, to instill trust, one must first understand other people's system of values and not focus exclusively on serving one's own interests. Companies should, therefore, be mindful of the motivations of all stakeholders, in particular employees, and not let themselves be guided purely by share price concerns.

The three requirements for success

Any organization that wishes to prosper and grow should pursue the following three goals:

- **Efficiency**. Achieving concrete and tangible results.
- **Attractiveness**. Offering activities that can satisfy people's intrinsic motivations.
- **Unity**. Getting people to identify with the organization and its goals, winning over their trust through ethical behavior.

By meeting these three requirements, managers can minimize the risk of making the wrong decision, while also facing an uncertain future with greater security.

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