

The Business Ethics Center of Jerusalem

ONLINE HI-TECH MAGAZINE: The Ethics of Employee Loyalty

Introduction

Following the major downsizing of companies in the late 1980s and early 1990s, employee loyalty became an increasing problem. It was in these roots that the traditional employee - company bonds grew weaker and eventually shattered. The last few years have seen an unprecedented number of Hi-Tech jobs being created by Internet and New Economy companies, and an unemployment rate at an all-time low throughout much of the world. Due to these factors, Hi-Tech companies throughout the developed world, including Israel, are increasingly having problems finding and retaining good employees. In this issue, we will focus on defining the topic of employee loyalty and its issues, and provide examples of best practice from across the world.

Important Facts about Employee Loyalty

- The unemployment rate in the U.S. is at a **30-year low**. (New York Times, 31/5/00)
- **Europe** in 2000 will have **1.3 million unfilled IT jobs**. (Business Week, 27/12/99)
- Nearly one quarter of all jobs created in 1999 in the U.S. were **Internet-related** (Business Week, 6/6/00)
- Many Hi-Tech companies in the U.S. have an **annual turnover** rate of **30%** and it can cost **5 times an employee's salary** to fill a position. (Computerworld, 28/6/99)

Across the world and in every industry, and especially in Hi-tech, employee loyalty is dropping sharply, as employees jump from one company to another to pursue higher pay and more perks. Despite the recent bad times for technology stocks, Hi-Tech companies are still having trouble finding and retaining good workers. (New York Times, 12/6/00)

Many ethical problems are created by this situation. Employees who plan on working for a company for only a short amount of time are often not as effective as long-term employees, as their focus is not on their current, but their future, employer. Companies spend money to train their employees and provide for them, and an employee who "jumps ship" can be considered to be cheating the company. Companies are also guilty of loyalty problems, pushing their employees to exhaustion and then discarding them when a younger, more able employee comes along.

Examples of Best Practice

Nearly every modern manager is familiar with the story of Aaron Feuerstein, the owner of Malden Mills in Massachusetts. When a fire burned down his factory in December of 1995, Feuerstein took the unprecedented step of keeping all 1,000 workers on the payroll. In addition to this single event, Feuerstein's longtime devotion and loyalty to his workers,

and a keen knowledge of their needs, has created an employee retention rate above 95% at his factory! ([Fortune, 11/11/96](#))

Beyond this well-known example, here are examples of two other companies which have taken strong measures to retain their workforce:

Federation: Making Employees Feel Part of the Company

A core belief of Federation, an Israeli start-up company focusing on Internet solutions, is that its employees are the most important asset of the company. At Federation this is not empty rhetoric but an important part of the daily activities of the company. Due to this policy, the company has been successful at attracting and retaining good workers.

The goal at Federation is to make all of its employees feel like they are a part of the company. Everyone, from the CEO to the secretaries, has options in the company. The company goes out of its way to make employees feel good about coming to work, and requires all critical R&D meetings to take place before 7PM to allow workers with families to go home. The company also encourages its employees to come in earlier and leave earlier, to allow employees to spend time with their families. Worker complaints are routinely aired at HR meetings, and are considered by the HR director and/or company management.

To create team unity, the company takes all of its employees (including its international employees) and their families on an annual retreat, and offers regular getaways and day trips for employees. The company has a quick hiring policy, to find the right people and to make them feel a part of the company as fast as possible. Federation provides subsidies to allow all of its employees to have a hot lunch in the company cafeteria, and provides food for employees who are staying late. All of this is with the goal of making employees feel positive about coming to work.

Calico: Attuned to Workers' Needs

One of the most remarkable cases of employee retention is that of Calico Commerce Inc. Despite the fact that its stock price had fallen 80% from its high last November, the company has been able to keep nearly all of its workers. The turnover rate in the company this year is only 12%, half of the average turnover rate in Silicon Valley companies.

What has led to Calico's high retention rate while other companies have lost scores of workers? While other companies rely solely on financial perks and stock options to attract and retain workers, Calico has shown their workers more than just dollar signs. The company has a deliberate policy of combining the open workplace and the perks common in Hi-Tech companies with a high level of respect for the lives of their employees.

Calico's CEO Alan Naumann has led the move toward building employee loyalty. He holds monthly company-wide meetings to inform employees about the current state of the business. Throughout the company, the focus is on disclosure and communication, which show workers that they are valued players in the firm. Honesty is an important part of the daily business of the company, making employees feel more empowered. This allows them to grow in their jobs, leading to a higher degree of loyalty to the company.

The company also goes out of its way to help employees during personal crises, a move that is missing at many other Hi-Tech companies. The company's strong HR department and its management take an active role in this effort, which goes a long way in securing employee loyalty. Calico's

"Employees are the proletariat of the industry- they are well paid, but work long hours, and sit in front of computers for much of the day," Cecile Blilius, HR Director of Federation, says. "The company tries to keep them from becoming machines, to make them feel like they're being taken care of." To achieve this goal, the company goes out of its way to make them feel like a valued part of the company. The company has been very successful with its policies, and has a low turnover rate to show for it.

Based on an interview with Cecile Blilius, HR Director of Federation

management differs somewhat from most Internet companies in that many of the managers have years of experience in traditional business. Whereas many start-up companies are filled with young managers who know the Internet but don't necessarily know how to manage and care for workers, Calico's managers are well versed in understanding the needs of their employees. This too has increased employee involvement in, and loyalty to, the company.

While many companies have lost key workers to competitors who dangle stock options and higher salaries, Calico has excelled at creating a corporate culture of which workers want to be a part. The company keeps its workers well-informed and involved in corporate decisions. But most importantly, the workers are seen not just as cogs in a giant machine, but as individuals with specific needs.

Source: "In Silicon Valley, Loyalty Means Paying a High Price," (New York Times 28/5/00)

Extracts from JCT Seminar on Employee Loyalty in Hi-Tech

The Center for Business Ethics held a seminar on 18 May 2000 at the Jerusalem College of Technology, focusing on the topic of employee loyalty in the Hi-Tech sector. Following are selected extracts:

Employee Loyalty: Its Impact on the Labor Market & Vice Versa

Professor Noah M. Meltz (University of Toronto & Netanya Academic College)

The extent and nature of employee loyalty is determined by the mutual expectations of employees and employers, and by the state of the labour market. Both parties need to understand this changing relationship in order to continue to successfully work together.

The 1996 Lipset-Meltz survey indicated that in Canada and in the United States, more than half of all employees consider themselves to be very loyal to their employers. Even more employees take a great deal of pride in their work (80 and 91 percent, respectively). However, only one-third responded that they were treated very fairly by management, and more than half of the employees in both Canada and the U.S. were afraid to speak out at work for fear of being fired. This suggests that while many employees take pride in their work and see themselves as loyal to their employers, many of these same employees are concerned by the treatment they receive from management.

There is a two-way relationship between employee loyalty and the labour market, with each influencing the other. Japan is a strong example of this, with its relatively low rate of labour turnover. This is the result of the mutual understanding, or social contract, between employers and employees. These factors send a signal to the labour market that companies place a premium on workers who are loyal, hard working and committed to the employer. The impact of the labour market on employee loyalty arises when the labour market is tight, i.e. when unemployment rates are low and there are a lot of jobs that need to be filled. Employers must respond by being loyal to their employees, in order to hire and retain the best.

The MIT Management Guru Lester Thurow observed the impact of differing loyalty policies. Singapore and Israel, two equally small countries, have different views of loyalty and have thus achieved different levels of success. Singapore placed its bets on order and loyalty, and Israel placed its bets on individual brilliance. Both are successful, but thus far Singapore is more successful, because Israel has trouble harnessing its strong employee talent. However, employers and employees and their representatives have to be concerned with both fairness in the workplace as well as with efficiency.

Employees who are on contract have shorter time horizons in their relationship with their employers. Whether workers are employees of a company or are self-employed, the key factor is mutual understanding – that is whether both sides recognize the nature and anticipated duration of the relationship. An important aspect is the professional integrity of the person under contract. Most workers have a job to do, take pride in their work, and don't simply hop from job to job. Statistics are needed to compare the extent of employee turnover in the high-tech sector, with other sectors of the economy, especially for people with equal professional training. Armed with this data, we will be in a better position to analyze the extent and nature of employee loyalty to the company, the company's loyalty to the employee, and employee turnover.

Industrial Relations and Employee Loyalty in Hi-Tech

Pinchas Landau (Economics Commentator & Consultant)

The new economy seems to reflect a genuinely new situation in the relationship between employers and employees. This trend can be clearly seen in several different areas.

The employee's position, in regards to his employer, has improved remarkably in today's economy. In the labour market, due to the rapid development of new technologies, there are acute labour shortages in specific fields and whole industries, so that the employee is in a stronger position than the employer. There has also been a dramatic shift in the perception and practice of employer-employee "social contracts", whereby neither side has any claim to the loyalty of the other, nor expects such loyalty to be shown to it. Does this represent an ethical issue or merely a management problem that HR executives must address as best they can?

Another important issue is the interaction between the capital market and the labor market, through the widespread use of shares, options etc. as a significant element in overall remuneration packages. This has caused large changes in both sides of the employee-employer relationship. A related change has come from macro-economic policy. In Israel, the scale of high-tech related capital flows is now on a scale to seriously interfere with the conduct of monetary policy.

Selected quotes from the panel discussion

- "I have worked in both the old and new economies. In each case I have found that the employees watch and take their cue for ethical and unethical behavior from their bosses. It is up to the employer to earn loyalty." -Shalom Menora, CEO of Tri-United Technologies
- "There needs to be symmetry - you can't have a situation where an employer offers no job security and yet expects loyalty from his employees. This is clearly unethical." -Yossi Tsuria, IVP of NDS Israel
- "A leaving employee should be encouraged [by his new employer] to do as little damage as possible [to his previous employer]. If this means that he has to stay on a little longer to finish a project, then he should do so." -Yaakov Ben Yaakov, CEO of Yazam

General Principles from Jewish Sources

Rabbi Dr. Asher Meir, Research Director, Business Ethics Center of Jerusalem

The rapid, even disorienting changes taking place in modern business are forcing firms to reconsider the proper parameters of employee loyalty. Judaism certainly recognizes the need for a balance between the worker's loyalty and his or her autonomy, but the balance is definitely weighed in the favor of autonomy. The guiding principle, echoed many times in our sources, is that we are servants of G-d, not servants of other human beings.

Therefore, Jewish tradition rejects pressuring an employee to remain on the job longer than he or she desires, which would be akin to servitude. The only exception is if the employee's unexpected departure would impose an immediate, significant and irretrievable loss to the employer.

Exactly because the worker may quit at will, during the period of employment Judaism expects scrupulous allegiance to the employer. This allegiance involves loyalty to the employer and avoidance of conflicts of interests and, above all, a high level of diligence. Jewish law warns an employee not to waste time, not to pursue other work during idle time on the job, and not to take a night job or other occupation which could make the worker too fatigued to work properly.

A fine example of the Jewish ideal is Yosef, who in our traditional sources is considered the model of a righteous person. Yosef was loyal to his father's command even though he knew it could endanger him to meet his brothers; was loyal to his Egyptian master even at the risk of his freedom; was loyal to the master of the prison to faithfully carry out all the needs of the prison; and was loyal to Pharaoh in helping him run the kingdom and consolidate his rule. The same tradition of loyalty and diligence made Jews indispensable to sovereigns everywhere they resided.

(Sources: Bava Metzia 10a, Tosefta Bava Metzia 4:12, SA CM 333, 337, Bereshit chapters 37-41.)