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The Human Factor – The Most Important Factor in the Board Room

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"To finally answer the question scholars have wrestled with for centuries - why do human beings compulsively follow the same pattern of collapse again and again and again—we must come to terms with how we are wired to behave, irrespective of nationality, race, intelligence, wealth, or political convenience. We must look to the physiological capabilities, as well as the limitations, of the human organism itself." – Rebecca Costa

There are two related crises in today's world. The first and the most visible is the population/ environment crisis. The second, more subtle but equally lethal, is humankind's relationship to its extensions, ideas and relationships among the many individuals and groups that inhabit the globe.

Despite our faith in technology and our reliance on technological solutions, there are no technical solutions to most of the problems confronting human beings. Unless mankind transcends the intellectual limitations imposed by our philosophies and our cultures, we will remain stuck where we are and not progress further.

The Human Factor - that is, the impact of subjective experience on the way we process information, store information and run patterns of behaviour is perhaps the most important and least focussed on factor responsible for executive excellence and efficiency in the professional workspace.

Crises

When a company is performing to its potential, with the Executives playing a stellar role, the involvement of the Board is minimal, relegated to monitoring of the progress. However, in terms of crisis, it is the Board, which must swing into action. Whether a private or public company, a not-for-profit, a multi-national corporation or government agency, every enterprise will face a crisis sooner or later. When that crisis hits, the organization's ability to side-step disaster will be determined by the effectiveness of its response to that crisis and the manner in which the response is executed. The reputation, skills, commitment and judgment of its management and board of directors in this phase, are crucial.

Each crisis is unique – no two crises can be the same. If not anything else, the timings and the environment will differ. The cause and impact of the crisis will depend on a range of variables including the nature of the organization's operations and its governance, culture and resilience. Elements leading to the crisis vary from circumstance to circumstance but, as unique as they may be, there are common threads of crisis management that can be identified in those organizations that have successfully weathered the storm.

Decision Making

We may like to think that we are very rational in making decisions. That is simply not true - and the sooner you let go of that idea, the better.

Why? Because there's a humongous amount of research showing that our thought processes are riddled with bizarre mental glitches. Did you know that the weatherman is often blamed for bad weather? Or that tall men are more likely to get promoted? Or that the more attractive a presidential candidate is, the more likely he or she is to get elected?

None of those things is based on logic, but that doesn't make them any less true. If you're like most people, you're probably thinking, "I'd never fall for something like that. I make decisions based on logic." Everyone thinks that when they're first introduced to the research that supports our propensity for falling prey to such illogical thinking.

But the reality is that if you're a human being, then you're susceptible to the same mental glitches as the rest of us, and you probably succumb to them on a daily basis. What does all this have to do with business?

Let's take an example. When you optimize your website to gain the maximum returns from your Digital Marketing Consultant, what you're doing is finding ways to use these quirks of human psychology to your advantage. Of course, you still have to make a solid case for your product or service on an intellectual level. But purchasing decisions are influenced by a wide variety of things, from the layout of your website to the particular words that you use to the colour you choose for the “Add to cart” button. It's his job to figure out how to fine-tune each component of your page based on the applicable psychological research to convince more customers to convert.

Therefore, if you are putting out a strategy to increase lead generation, lead conversion and client retention, you are actually depending on these technological glitches of the human brain. Or, you are catering for *The Human Factor*. Failure to cater to the human factor can be disastrous for your business.

Reality and Perception

Why do people do what they do? They do, because it makes complete sense to them. If we could got into the world of that person, looked at how the situation occurred to him, we would experience that the same actions that we were questioning were completely and absolutely the perfect and correct thing for him to do.

Each person assumes that the way things occur for him or her is how they are occurring for everyone else. This is where the Board can figure out the 'whys' and therefore start the 'hows' to get a company back on its feet, or prevent it from sliding down in the momentum of loss.

Given the different positions that well-informed, intelligent people often take on a situation, there is a significant difference between the objective facts of the matter and the way these facts occur to each of us. Our actions relate to how the world occurs to us, not the way someone else may be imagining it to be. Therefore, Board Members need to have the holistic perspective to take all points into consideration prior to deleting or dismissing data.

History is replete with examples of important decisions that seemed absolutely crazy at that time (because they defied logic) but since The Human Factor mattered, they completely changed the destinies of companies. Some of them are:-

(a) **1997. Apple bringing back Steve Jobs as CEO**. Sometimes boards are too quick to jettison a founder in favour of professional management. But for all a company might gain from bringing in a pro, it risks losing the magic and entrepreneurial vigour that only a founder can bring. Jobs proved true to the trust placed on him and Apple turned around a $1 billion loss in 1997 to a $300 million profit in 1998. And thereafter Apple skyrocketed.

(b) **1993. Tata Steel downsizing by JJ Irani.** Irani's solution has proved to be one of the wisest decisions in the whole realm of employee relations and corporate culture. And it was startlingly generous. Workers under age 40 would be guaranteed their full salary for the rest of their working lives. Older workers would be guaranteed an amount greater than their salary, from 20% to 50% greater depending on their age. If they died before reaching retirement age, their families would keep receiving the full payments until the worker would have reached that age. While workers who took the offer would get their full salaries or more, that amount would stay constant until age 61 instead ofi increasing, as it would if they remained employed; nor would Tata Steel have to pay payroll tax or make retirement-plan contributions. Tata Steel's labour costs began to decline immediately. By 2004, Tata Steel's workforce had shrunk from 78,000 to 47,000, with about a third of the reduction from natural attrition. Lower labour costs, combined with over $1 billion of new investment, turned Tata Steel into a far more efficient, globally competitive firm.

(c) 1952. Boeing bets big on 707. Boeing, one of today's dominant makers of commercial aircraft, was a nonentity in the business of building planes for airlines after the Second World War. Boeing's famous B-52 bomber and a companion tanker had proved that the Seattle company had the right stuff when it came to jet aircraft technology. But for the airlines, jets weren't commercially viable: Converting to jet technology would require a massive investment that could pockmark their bottom line.

The safe choice for Boeing would have been to stick to its defence industry knitting. That, however, was not the plan of Boeing's post war President, William McPherson Allen, who made a prototypical great decision, a bet-the-company move on civil aviation in the form of a single product. In 1952 he persuaded the Boeing board of directors to invest $16 million in what would become the Boeing 707, the first U.S. transatlantic commercial jetliner and the plane that would alter the course of Boeing's history. The 707 grew to become as much a cultural icon as a transportation vehicle. Boeing invested $185 million in the 707. According to a 1957 article in *Fortune*, that was $36 million more than Boeing's net worth the previous year. It was just one plane, but it remade a company, an industry, and the very culture of its time.

(d) 1914. Ford changes worker's pay. The growing popularity of the Model T was causing him to rethink his ideas about mass production. He had introduced the moving assembly line at his Highland Park, Michigan plant in 1913, and it had worked far better than he could have imagined. The year before the assembly line was installed; he had doubled production of the Model T by doubling the size of his workforce. The following year he nearly doubled production again, but this time he did it with the same number of workers. The assembly line had made the plant so efficient that the Highland Park payroll actually fell.

The trouble was, employee turnover was accelerating at an alarming rate. The dispiriting, mind-numbing work on the line was causing workers to quit en masse. On Jan. 5, 1914, Ford summoned newspaper reporters to the plant to publicize changes in employment policies at Highland Park that they hoped would improve employee retention. First, the company would reduce the workday from nine hours to eight. Second, it was moving to three shifts a day instead of two, opening up lots of new jobs. But the big news came in the third announcement: Subject to certain conditions, Ford would more than double the basic rate of pay to $5 a day. The 11-year-old company was willing to spend an additional $10 million annually to improve productivity and the lives of its workers. Within a year, annual labour turnover fell from 370% to 16%; productivity was up 40% to 70%. Between 1910 and 1919, Henry Ford reduced the Model T's price from around $800 to $350, solidified his position as the world's greatest automaker, and made himself a billionaire.

These are just four examples out of the thousands of brilliant (and certainly thought to be crazy at that time) decisions which worked *because someone applied The Human Factor.*

Conclusion

So where do we go from here? Daniel Goldman tell us that leaders need 'Emotional Intelligence'. Steve Zaffron and Dave Logan call it the 'Laws of Performance', Jeff Olson calls it 'The Slight Edge.' Whatever you call it, key characteristics of leadership include self-awareness, understanding the needs of others, ability to comprehend the holistic picture and care for the team. The old fashioned CEO and his supportive Board had precious few of these characteristics and devoted even lesser time to this. The modern CEO and Board need to be heavy on these qualities; if they do not, they could be left behind in board effectiveness. As for us, those who take interest in business, we need to accept that numbers alone don't tell the complete story, humans are by nature emotional, and since the limbic system of the brain (the part that controls emotions) also control our decision making process, if we do not recognise and pay attention to *The Human Factor*, we are doomed to fail.

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