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The ultimate value of making employees happy

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Scott Scherr, CEO of Ultimate Software, a company that has made the Fortune 100 Best Companies to Work For list, poses with some of the winning years' banners in their Weston lobby.

Inside South Florida's Ultimate Software, where there's an indoor basketball court and smiling workers, you could ask the same question that is being asked about Google: Is the company successful because its employees are happy or are they happy because the company is successful?

This chicken or egg debate gets intriguing when you consider management philosophy and growth at both of these companies.

Google, whose offices abound with cool amenities, has landed as No. 1 on Fortune's List of 100 Best Companies to Work For four times, while at the same time its stock has soared 674 percent since its

inception in August 2004. Ultimate has been a rapid climber on the Fortune list, recently breaking into the top 10 alongside some of the biggest companies in America, while its stock has leaped to over \$100 a share and its revenue hit \$269 million.

In 2012, a fund of publicly traded companies in the Fortune 100 Best Companies to Work For list — including Google and Ultimate Software — performed twice as well as the Standard & Poor's 500-stock index, according to the Russell Investment Group. But experts are discovering the connection between happy workers and higher profits is about more than benefits and even contradicts everything surveys say about employee emphasis on work/life balance.

Ultimate, a developer of people management software, sprawls across eight buildings in Weston and offers perks most companies would call impossible. It covers 100 percent of health insurance for employees, their families and same sex partners. CEO Scott Scherr says that perk alone costs Ultimate more than \$25 million a year.

Employees are given stock in the company on their first day and Ultimate matches 30 percent of employees' contributions to their 401(k) with no cap (upper limit). Employees are not forced to sign non-compete agreements or employment contracts. There's an onsite wellness coach, masseur and visits from an ice cream truck and two company-subsidized commuter vans. Most employees also receive a paid weekend getaway each year.

Vivian Maza, Ultimate's senior vice president and chief people officer, says she has the green light from Scherr to continually look at what more she can do for employees. "I want to make sure we are touching every group and every type of employee."

Scherr says he believes strongly in taking care of his employees. "From a business standpoint I think it gives us a huge advantage. We get passionate employees who take care of customers and want to have the best product out there."

Scherr, 62, founded Ultimate in 1990 with a team of four and took it public eight years later. From the onset, he believed people perform better when treated well. It's a philosophy he learned from his dad and has clung to even as his company ballooned to more than 1700 employees. It now has IT, customer service, marketers, sales people and programmers all over the country.

Some will argue that companies like Ultimate that treat employees well do so because they are already successful and growing. Google, for example, has \$48 billion in cash on its balance sheet and its offices now abound with amenities. Leslie Caccamese, senior strategic marketing manager at Great Place to Work, which compiles the Fortune list, discovered that generous perks alone — at Google or anywhere else — don't mean workers are happy or will work harder. "Engagement" comes from creating high trust workplaces, she says. "They are places where employees have trust in management and pride in the company. Employees feel like they are informed of important business decisions and that they are vital members of the team."

Clearly, trust in leadership has been critical to the culture at Ultimate Software. Even during the worst of times at Ultimate, when the stock price plunged to \$2 a share and competitors were engaged in layoffs, Scherr refused to go that route. Employee benefits remained, too, and the company looked elsewhere to cut costs and strategized new ways to make money.

Maza says that built a crucial sense of trust. "Our employees know that Scott will do the right thing for them every day. It's tough to walk the walk. If you say employees are No. 1, you cannot cut benefits in hard times or your creditability is shot."

Maza says it's clear to everyone who works at Ultimate that maintaining an employee-driven, team culture is the guiding principle, which is why Scherr gives them stock on their first day, meets new hires and sends out an email update on company financial performance to employees after every quarterly earnings call. "Our employees are our partners."

And, those "partners" are more willing to put in the extra hours. At Ultimate employees are asked and expected to make work life sacrifices — come in on weekends, stay late to help a customer, travel on a moment's notice to assist with the implementation of software, or even cancel a vacation if a customer runs into a problem. "The idea is we take care of their family and it is their job to take care of our family," Scherr explains.

Employees don't seem to mind the work-life sacrifices. Scherr says the company has only 8 percent turnover — and only 4 percent of it is voluntary. Low turnover means good employees stay and are more productive. "Turnover kills. It's impossible to build a business if you have turnover all the time," Scherr says. If an employee doesn't vibe with

Ultimate's culture, they are cut loose. Of course, it's done gently with warning and severance.

At Ultimate, much like at Google, the business model pays off financially. Scherr explains: Customers want to do business with Ultimate. "They are betting on employees being passionate and our products and services always getting better." Stock analysts say Ultimate's 96 percent customer retention has surpassed the industry standard and the company has created opportunity to grab market share from competitors.

"If you talk to their customers, they have one of highest, if not the highest customer satisfaction scores I've seen," said Scott Berg, a senior analyst at Northland Capital Markets, which initiated coverage of Ultimate Software in late 2012. "It costs them more in staff and resources, but in the long term the return is higher. It is one of the more profitable companies in the space."

While every company that treats employees well doesn't outperform the S&P 500, those that do treat employees badly chronically underperform, researchers have found. And, some leadership experts assert that creating a workplace of happy employees also has costs, suggesting that these workers enjoy the status quo and might resist changes to it or refrain from taking on new challenges.

That's where leadership factors in, says Julie Gebauer, managing director for talent and rewards at Towers Watson, a global professional services company. For sustainable (longer-term) engagement, Gebauer's research found beyond being a benevolent employer, workers need the resources to meet the challenges of their jobs and they need to have workplace help with managing stress and avoiding burnout. "When leadership recognizes those two pieces, that is the differentiator."

In Ultimate's case, those elements are in place and having happy workers has trickled down to the bottom line — over the past five years the stock price is up more than 275 percent. But the future is challenging: Software and computerized services are being consumed in radically different ways, on new and increasingly mobile devices. Many old leaders will be left behind and Ultimate's team will have to stay on the forefront.

Meanwhile, Ultimate's Maza says she wants to make workers even happier. She is gunning for that No. 1 spot on the Fortune list, now occupied by Google. The company is planning to break ground later this year on phase nine of its Weston campus, a 150,000-square-foot building that will house employees and a nail salon, barber shop, pilates studio and a slide connecting its two floors. Says Maza: "When that building opens in 2015, look out at Google."