Chapter 1: Management Summary

Engaging employees means connecting them, intellectually and emotionally, to the strategic goals and fundamental values of the organization so that their everyday decisions, their thinking, their motivation, and their performance are guided by those goals and values. When employees are engaged with their work and their organizations, their behavior reflects it.

Organizations that invest in engagement programs and develop a culture that fosters and sustains engagement realize major returns on those efforts, including improved shareholder value, employee performance, commitment and productivity, organizational stability, creativity, and profitability. Numerous studies offer proof that employee engagement is critical to sustaining organization performance:

- The stock price of public companies on the 2000 Fortune list of 100 Best Companies To Work For rose 37% annualized over the past three years compared to 25% for the S&P 500.

- The 61 public companies on Fortune's 1998 Best Company list averaged annual returns of 27.5% compared to 17.3% for the Russell 3000; 45 of the 61 yielded higher returns to shareholders than the Russell 3000.

- A study of 100 German companies in 10 industrial sectors found that companies higher on employee focus earned a greater total shareholder return than those that were not on the list and that employee-focused companies also created the most jobs. U.S. companies with high Human Capital Index (HCI) scores returned 64 percent over five years; the percentages were similar in Europe, but the average return was much higher for the highest-scoring Asian companies (107%) (Watson Wyatt HCI Research, 2002).

- Stanford University studies of the survival rate for initial public offerings showed that, of 100 companies, in those where employees were engaged in the enterprise, the companies were 12 times more likely to go IPO, and that of those going IPO, none failed.

- A study of 61 hospitals in the U.K. found that an increase of one standard deviation in team work – approximately 25% more staff working in teams – is associated with 275 fewer deaths per 100,000, a 7.1% reduction.

- A study in the U.S. of hospitals that were able to attract and retain good nurses and provided opportunities for good nursing care had 4.6% lower mortality than control hospitals.

- A one standard-deviation increase in high-performance work practices yields a$27,044 increase in sales per employee, a $3,814 increase in profits per employee, and $20,000-$40,000 increase in market value per employee.

- Highly engaged employees are critical to delivering high-quality customer service, and, ultimately, developing loyal customers. At least one study has shown the dramatic effects of customer loyalty on the bottom line: Increasing customer retention rates by 5% increases profits by 25% to 95% ("The Economics of E-Loyalty," *Harvard Business School Working*

Knowledge). And it costs less to keep existing customers than to acquire new ones, which can help keep both marketing costs and product costs down.

Engagement is a solid strategy for improving employee performance, profits, and customer relationships. The Gallup Organization concluded, based on its own research in Q3 2003, that approximately 17% of all U.S. employees were actively disengaged – not just unhappy with their jobs, but actively working against the company's progress. Gallup estimates the cost to the economy of those employees at between $280 and $360 billion.

What Engagement Looks Like

Organizations define employee engagement in a number of ways, fitting their own needs and cultures, but there are some common elements: *engagement involves the consistent delivery of discretionary effort by individuals whose values and goals are aligned with those of the organizations they work for and who place the success of the organization above their own personal success.*

Engaged people are related to the core purpose of the company; they see their contribution as both a job and as a way to grow the company. Engagement programs that work:

- Align employees with the strategic and organizational intent of the business.

- Communicate and instill leadership's key messages throughout the organization.

- Connect people with the business model and its performance parameters.

- Intentionally design and execute people engagement initiatives – providing "line of sight" to business results.

- Are an ongoing, permanent feature of the corporate culture and management practice.

Employees want to be engaged. Engagement is an individual decision, and each employee makes the decision to offer discretionary effort on his or her own. But engaged employees also have many common traits, including:
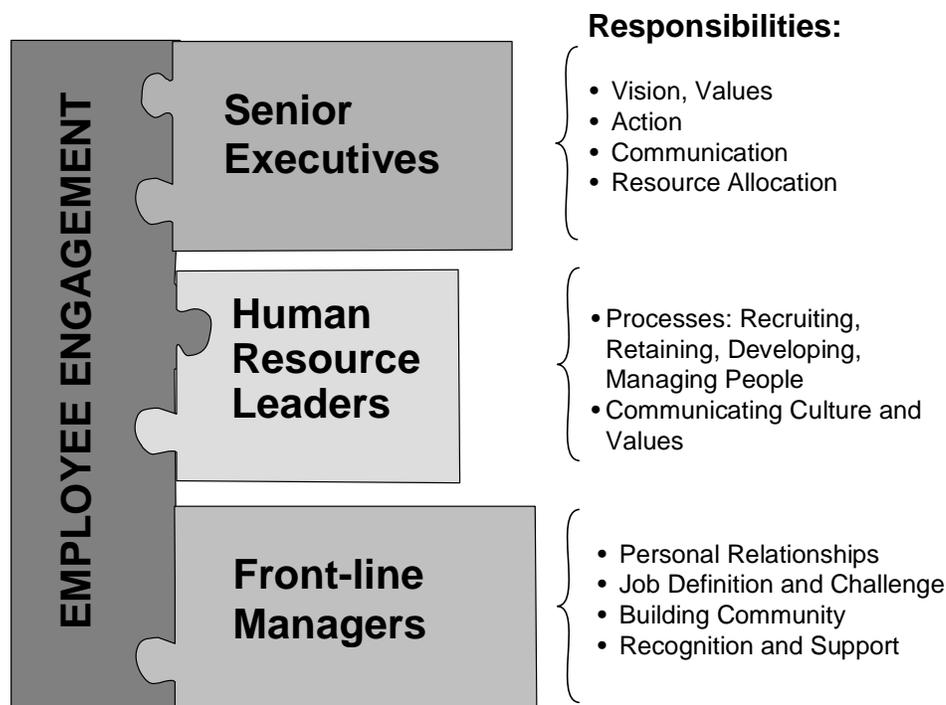
- Pride in the organization and its products and services.

- Clear understanding of the organization's goals and objectives, as well as their role in achieving those goals and objectives.

- Willingness to subordinate their own personal goals to those of the organization.

- Trust and confidence in the organization's leaders and their managers.

- Willingness to go above and beyond the call of duty.

- Sense that they are empowered to make decisions or take actions required to fulfill their job responsibilities effectively and efficiently.

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- A high level of satisfaction with their work environment, and how they are treated as high-value individuals.

- Superior productivity.

Excelling at Employee Engagement

Developing, sustaining, and retaining engaged employees takes a systematic effort that must involve *senior executives*, *human resource leaders*, and *front-line managers* (see Figure 1). Lacking the active participation of all three, employee engagement will be, at best, intermittent or superficial.

Figure 1: Putting All the Pieces Together for Engagement

Responsibilities:

EMPLOYEE ENGAGEMENT

Senior Executives
- Vision, Values
- Action
- Communication
- Resource Allocation

Human Resource Leaders
- Processes: Recruiting, Retaining, Developing, Managing People
- Communicating Culture and Values

Front-line Managers
- Personal Relationships
- Job Definition and Challenge
- Building Community
- Recognition and Support

Senior executives set the tone and direction of the enterprise when it comes to the importance of engagement. They express their commitment to engagement as a core element of the organizational culture publicly and often. They model engagement in the way they conduct business at the executive level and they reward their team members for fostering engagement. They take responsibility for making sure their views on the importance of engagement are communicated effectively throughout all levels of the organization. Virtually every organization interviewed for this project stressed the vital role that senior leadership's public support plays in fostering employee engagement.

Human resource leaders develop the processes for recruiting employees who want to be engaged and also for retaining, developing, and managing engaged employees. HR is also responsible for communicating the culture and values of the organization around engagement.

HR develops the metrics for engagement and then measures levels of engagement in the organization. HR is also responsible for acting on what its measurements uncover: survey data are the catalyst for action. Engagement is nurtured when employees see that they are being listened to and the organization is responsive. "Responsive" can mean hiring the right people, developing people through assignments and formal training, creating a flexible

> "The enemy of values is the emphasis on short-term financial performance. What companies should be thinking about is what the organization really stands for or is trying to accomplish."
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> – Dr. Jeffrey Pfeffer, Stanford University

package of benefits and compensation that attracts and retains the right employees, and keeping tabs on how well HR programs and policies are working. Clearly, HR has major responsibilities for developing both policies and programs to ensure that engagement happens.

Front-line managers have the most significant influence – day-to-day and person-to-person – on engagement levels. As one senior HR executive said, "About 80% of HR is done by line managers." First and foremost, line managers themselves need to know, understand, and buy into the goals and strategy of the organization in order to manage and motivate employees accordingly. They develop personal working relationships with the people in their organizations, challenge and reward them individually and on a team basis, and foster a sense of community among them. They need to take direct responsibility for the excitement, motivation, and growth of all the employees they directly manage. To succeed, they need support from HR in the form of engagement information and guidance, and with training, learning, and other development programs that help employees to grow, learn, and advance.

Our model and our recommendations for action are premised on the belief that senior executives' commitment, plus HR's research, measurement, and communication, plus front-line managers' daily pursuit of engaging employees *together* constitute the *necessary* and *sufficient* elements of a successful engagement strategy.

Major Findings

- **An emotional connection to the organization is fundamental to engagement.** Employees who share the values of the company tend to be emotionally connected and committed to the company, and this is an important element in engaging them.

- **Current approaches to measuring engagement are largely insufficient.** They tend either to measure only results of engagement (level of satisfaction or willingness to refer friends for open positions), or the front-line or employee components of engagement (how work is assigned, relationships with front-line supervisors, or relationships with colleagues). Neither sufficiently captures the breadth of factors necessary and sufficient for engagement.

- **Segmentation of employees is key to addressing engagement obstacles.** Companies need a methodology for segmenting the employee groups in their workforce, beyond the typical categories (e.g., race, gender). Workforces are more complex than ever, and people resist easy categorization. Effective engagement efforts must recognize that real employee

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segments cross racial, ethnic, and gender lines. Leading-edge companies are developing data on employee segments based on, for example, work/life balance demands, compensation preferences, and desire for learning and advancement.

- **Developing the right leaders is critical to driving engagement.** Organizations with strong leadership development programs and well-executed succession plans based on understood corporate values and goals develop a stability at the leadership level that can be a powerful factor in fostering engagement over the long term.

- **Having the right front-line managers is critical to maintaining engagement.** Front-line managers are not only the eyes and ears of the organization when it comes to engagement; they are also the hands, because what they *do and say* on a day-to-day basis in their interactions with and management of employees is the single, most significant influence on the level of engagement of employees.

- **The most successful companies view engagement as an investment, not a cost.** By committing to engaging employees, they tell employers they are important and that their personal and professional development is important to the growth of the organization. Employees are, after all, investing much of their lives and time in the company, and when the company reciprocates, the message is clear.

- **Companies that are more successful at engagement "model philosophy and invent action."** The specific actions or activities around engagement are less important than getting the overall philosophy right. One comment we heard: "We have been benchmarking the wrong things. Instead of copying what other successful companies do, we ought to copy how they think."

- **Engaging employees involves ongoing commitment.** High engagement levels must become a goal for the organization. All employers we interviewed understood that engaging their employees is something they do continuously, not something they fix once. Measuring engagement can be done, for example, as part of the performance management process. One senior executive we spoke with told us: "We have a formal performance excellence process that starts with the CEO to align objectives all the way down. Everyone is connected; we measure how engaged they are, how committed to our success, and how well they do on the job."

- **Engagement is all about "fit."** HR must look to hire people who understand and can identify with the corporation's values and goals, not just those who have the requisite skills for the positions. HR's people processes and human resource practices (e.g., flex time, compensation policies, communications protocols and procedures, reward and recognition systems, training programs) must fit the employee segments. And organizations must be committed, with the right personal and professional development opportunities, to retaining employees who fit.

Key Recommendations

- **Make "fit" a key corporate goal.** "Fit" involves collaboration among senior leadership and HR to define, very precisely, the skills and characteristics needed in the company, what the evaluation metrics and procedures will be, and what the responses to measurement will be to improve employees' engagement. People hired must understand the specific roles and tasks assigned; be able, willing, and interested in the work they are doing; and be able to work with colleagues and front-line managers. Getting the right fit is hard work. The challenge for all organizations is to support the employees with work and programs that develop their commitment to the organization, and reinforce their belief that they "fit" well into it.

- **Reinforce "fit" through compensation.** Pay systems signal what is important, as well as provide an incentive to do the right things. The right compensation system can encourage desired behaviors, such as engaging in safe practices, treating colleagues right, and paying attention to the organization's well-being (not just your own). Compensation should also reward knowledge and performance. Reinforcing "fit" with corporate values through tangible means, such as compensation, enables companies to further mold the workforce around people whose "fit" is tightest.

- **Enlist executive leadership.** Senior executive buy-in and, even more important, modeling of the desired behaviors is crucial. Senior executives must be shown how engaging employees is good for business. They must also be willing to demonstrate their support for engagement, for example, in how they interact with front-line managers so those managers will learn how to behave with their employees. HR should help senior management with data on engagement and with communicating their support for engagement. Senior leaders must reinforce their support at every opportunity when they address employees, whether in person or in writing.

- **Develop "emotional" leaders.** Engaging leaders' emotions is vital to engaging the emotions of employees. Engaged behavior by leaders builds empathy and emotional capital in the organization. HR should look for ways to help executives build relationships across and into the firm, to build social capital for themselves and the organization. Several HR executives we spoke to emphasized the value of cheerleading, positive reinforcement and recognition, and positive relationships with employees.

- **Define roles carefully.** Engagement thrives when people have a common goal (e.g., facing and meeting business challenges) and collectively pursue that goal. When roles and goals are not aligned – when people have responsibilities but not the authority to execute them – they become less engaged. Everyone in those roles also must have the requisite skills and abilities to meet their responsibilities, which is the responsibility of line managers and HR.

- **Define and characterize employee segments.** Segmenting employees to understand the motivations and needs of key groups, aligning human resource processes, and shaping recruiting to target desired attributes is vital to developing high engagement levels. Getting the people who fit and keeping them requires their understanding what the organization values, and how it wants to do business and succeed. Companies need to know and understand the segmentation of their workforces by employee values, attitudes, career goals.