

## **Engagement – Does It Really Matter?**

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### **Introduction**

The Gallup organization estimates that over \$350 billion dollars per year is lost to businesses in the United States because employees are not highly engaged. And we know that highly engaged workers out-produce their moderately engaged counterparts by over 400%, but did you know that highly engaged workers file fewer workers' compensation claims, and when they do, the claim cost is a fraction of that of their disengaged co-workers?

Engagement has generated more interest and enthusiasm than any other management topic in quite some time—and for good reason. Many research-based consulting firms (Development Dimensions, International, Gallup and others) have proven a clear correlation between the level of employee engagement and organizational performance, safety and quality.

### **What is Engagement?**

Following are descriptions of employee engagement used by various corporations and consulting groups. While there are a few differences, they all share key points – namely that engagement is about volunteering talents and efforts beyond the required minimum. This is not high morale – the two are quite different, although they may co-exist at high or low levels.

#### Corporation Descriptions of Engagement

- Caterpillar - Engagement is the extent of employees' commitment, work effort, and desire to stay in an organization.
- Dell Inc. - Engagement: To compete today, companies need to win over the MINDS (rational commitment) and the HEARTS (emotional commitment) of employees in ways that lead to extraordinary effort.
- Intuit, Inc. - Engagement describes how an employee thinks and feels about, and acts toward his or her job, the work experience and the company.

#### Consultants and Researchers' Descriptions

- Corporate Leadership Council - Engagement: The extent to which employees commit to something or someone in their organization, how hard they work and how long they stay as a

result of that commitment.

- Development Dimensions International - Engagement is the extent to which people enjoy and believe in what they do, and feel valued for doing it.
- The Gallup Organization - Employee engagement is the involvement with and enthusiasm for work
- Institute for Employment Studies - Engagement: A positive attitude held by the employee toward the organization and its values. An engaged employee is aware of business context, and works with colleagues to improve performance within the job for the benefit of the organization. The organization must work to develop and nurture engagement, which requires a two-way relationship between employer and employee.
- Kenexa - Engagement is the extent to which employees are motivated to contribute to organizational success, and are willing to apply discretionary effort (extra time, brainpower and effort) to accomplishing tasks that are important to the achievement of organizational goals.
- Hewitt Associates - Engagement is the state of emotional and intellectual commitment to an organization or group producing behavior that will help fulfill an organization's promises to customers - and, in so doing, improve business results. Engaged employees:
  - Stay - They have an intense desire to be a part of the organization and they stay with that organization;
  - Say - They advocate for the organization by referring potential employees and customers, are positive with co-workers and are constructive in their criticism;
  - Strive - They exert extra effort and engage in behaviors that contribute to business success.

## **What are the Business Results of Engagement?**

So why does engagement matter? Move the needle on engagement and you move the needle on business performance. The proof can be found in dozens of studies across hundreds of organizations, involving hundreds of thousands of employees.

Construction-equipment maker Caterpillar has garnered impressive results from its employee engagement and commitment initiatives, including:

- \$8.8 million annual savings from decreased attrition, absenteeism and overtime (European plant)
- A 70% increase in output in less than four months (Asia Pacific plant)
- A decrease in the break-even point by almost 50% in units/day, and a decrease in grievances by 80% (unionized plant)
- A \$2 million increase in profit and a 34% increase in highly satisfied customers (start-up plant)

DDI research shows that employees with the highest level of commitment perform 20% better and are 87% less likely to leave the organization, which indicates that engagement is linked to organizational performance.

Gallup research (Q12® Meta-Analysis: The Relationship between Engagement at Work and Organizational Outcomes) shows that one of the strongest correlations between engagement and business results is in the area of worker safety and patient safety (in healthcare settings).

At the beverage company of MolsonCoors, it was found that engaged employees were five times less likely than non-engaged employees to have a safety incident and seven times less likely to have a lost-time safety incident. In fact, the average cost of a safety incident for an engaged employee was \$63, compared with an average of \$392 for a non-engaged employee. Consequently, through strengthening employee engagement, the company saved \$1,721,760 in safety costs in 2002.

The Gallup Organization found that employee physical health and psychological well-being affect the quality and quantity of work. For example, 62% of engaged employees feel their work positively affects their physical health. Yet that number drops to 39% among non-engaged employees and to 22% among employees who are actively disengaged. In addition, 54% of disengaged employees say their work has a negative effect on their health and 51% see a negative effect on their well-being. The implication for HSE and managers is that engaged employees are more likely to view the organization and job as a healthy environment and therefore more likely to support the organization.

Research conducted at the Boeing Corporation to determine a correlation between organizational factors in worker's compensation claims yielded surprising results. "The response to pain seems to be strongly influenced by how much workers like or dislike what they are doing," said Dr. Stanley Bigos, an orthopedist and director of the Spine Resource Clinic at the University of Washington in Seattle. Bigos headed the study that has looked at 31,200 Boeing Co. workers over three years, including their habits, jobs, medical records and history of back health. "We can't continue to look at back pain as strictly a physical phenomenon."

The study considered many factors for reporting a back injury, but most predictive individual factors were (1) job task dissatisfaction and (2) distress (as reported on of the MMPI) or in layman's terms: the employee's relationship with their direct supervisor and the score of their last job performance rating. "The job itself does not seem to matter as much as how well you get along with your supervisor," said Bigos. This data perhaps explains why the focus on purely physical and injury-related factors has met with little success in dealing with what has become the most expensive orthopedic problem.

Studies conducted by the National Safety Council and the National Institute for Occupational Safety and Health have shown that there is direct causal correlation between the worker's relationship with his/her direct supervisor and safety results. The way workers perceive this relationship also defines engagement. The bottom line is that how employees relate to their employer has more to do with safety results than almost any other factor.

Their studies show that engaged individuals demonstrate certain visible behaviors. These behaviors surpass the "typical" expectations for a professional role. For instance, a teacher might spend extra time tutoring students and a customer service agent may help a customer solve a personal problem. We find many other examples in safety behaviors – engaged employees are

much more likely to exhibit more tendencies towards eyes on task and mind on task, as well as looking out for fellow employees, but even more importantly, looking for better/safer ways to perform the work.

Woody Allen, comedian, screenwriter, and director, once said: “Eighty percent of success is showing up.” If this was ever true, it certainly isn’t anymore.

Success today requires a good bit more than good attendance. Yet, multiple studies in different countries and across industries show that employees who are passionate about their jobs and the organizations in which they work are in the minority. DDI’s own research reveals that only 19 percent of employees are highly engaged. The Corporate Executive Board, looking at levels of engagement across 50,000 employees around the world, placed only 11 percent in what they dubbed “true believer” category. Towers Perrin’s recent “Talent Report” is slightly more optimistic, finding just 17 percent of the 35,000 employees surveyed to be highly engaged.

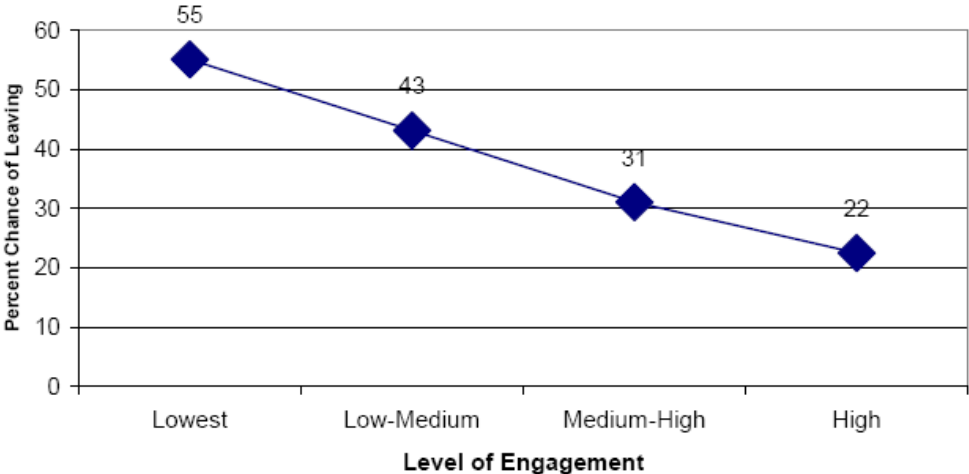
So, what about the rest? Depending on which study you read, anywhere from 40 to 70 percent of employees can be classified as neutral, middle of the road, or agnostic. Worse yet, an alarming 10 to 20 percent of employees are actively “disengaged”—just putting in their time or, worse yet, undermining or badmouthing their organizations and bosses. The economic impact of low engagement can be staggering. For example, Gallup estimates that unengaged workers in the United Kingdom cost their companies \$64.8 billion (U.S.) dollars a year.<sup>3</sup> And, the United Kingdom is far from the worst. In Japan, where only 9 percent of the workforce is engaged, lost productivity is estimated to be \$232 billion each year.

Astonishingly, Gallup reports that less than 17% of workers are fully engaged!

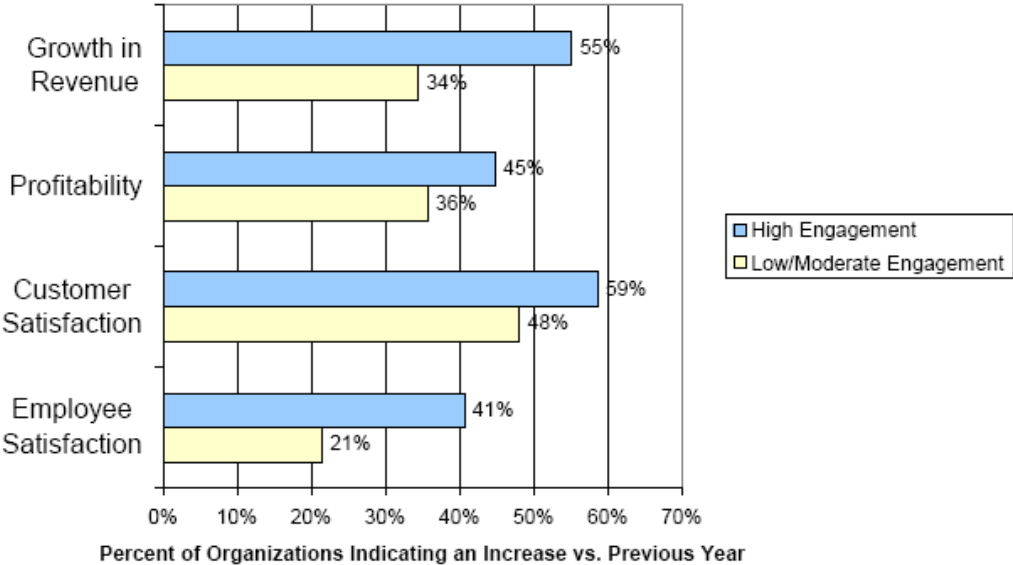
When employees are not engaged, they fail to volunteer their best. And in today’s new era, it is not enough to simply have people “show up” for eight hours. We want them to contribute their curiosity, their skills and talents, their imagination, their trust, their creativity and passion, their willingness to solve problems and tackle issues without having to be told what to do every step.

DDI estimates that in an organization of 10,000 employees, moving a workforce from low to high engagement can have an impact of over \$42 million. For example, in a Fortune 100 manufacturing company, turnover in low-engagement teams averaged 14.5 percent, and absenteeism hovered around 8 percent. For highly engaged teams, absenteeism was only 4.8 percent, and turnover came down to 4.1 percent. Quality errors (as measured by external and internal parts per million) stood at 5,658 for the low-engagement group and only 52 for the high-engagement group! In a services organization, there is a strong relationship between sales performance and employee engagement. Highly engaged employees achieved an average of 99 percent of their sales goals, while disengaged sales reps averaged 91 percent.

**Engaged Employees Are Less Likely to Leave the Organization**



**High Engagement Predicts Business Outcomes**



## How is Engagement Measured?

In “Benchmarking of Interest but Little Used,” a 2008 Vovici survey of 334 North American organizations, 34 percent were interested in benchmarking employee satisfaction and loyalty against other organizations — but only 4 percent of them do so.

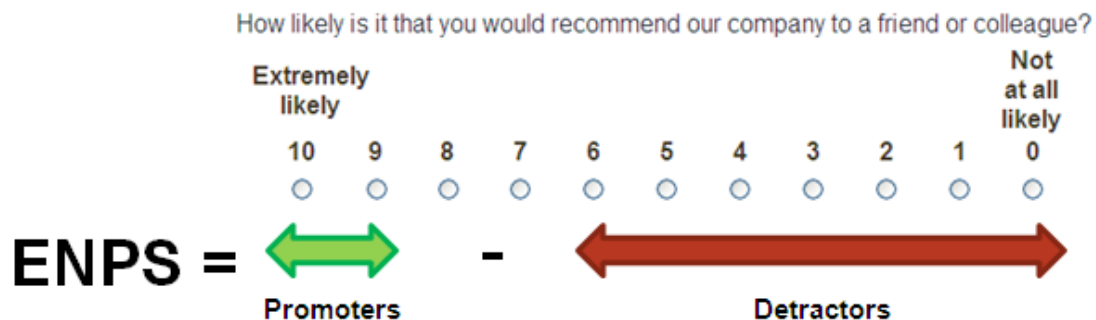
The SHRM research revealed ten common themes related to engagement used by employers to assess their employees’ levels of engagement with company-wide perception surveys. These common themes include:

- Pride in employer
- Satisfaction with employer
- Job satisfaction
- Opportunity to perform well at challenging work
- Recognition and positive feedback for one’s contributions
- Personal support from one’s supervisor
- Effort above and beyond the minimum
- Understanding the link between one’s job and the organization’s mission
- Prospects for future growth with one’s employer
- Intention to stay with one’s employer

The Net Promoter Score (NPS) — popularized by Fred Reichheld in his book *The Ultimate Question: Driving Good Profits and True Growth* — is one of the simplest loyalty measures on the market. Customers are asked “How likely is it you would recommend us to a friend or colleague?” They then provide a rating from zero, “Not at all likely,” to 10, “Very likely.”

The measure is called the net promoter score because detractors are subtracted from promoters to provide an estimate of how many more promoters than detractors the organization has.

## Employee Net Promoter Score®



*Net Promoter, NPS and Net Promoter Score are trademarks of Fred Reichheld, Bain & Company and Satmetrix Systems.*

Avis, HP and IBM are NPS adopters. The benchmark is popular for its simplicity, and Reichheld claims it correlates to company growth. Critics contend that it doesn't and that its 11-point scale has lower predictive validity than other scales, and that the segmentation of promoters/neutrals/detractors is arbitrary and other questions may be better predictors of growth rates. NPS remains popular because it is well-marketed and easy to understand, and its model makes intuitive sense: every organization wants more promoters than detractors.

NPS has jumped from use as a customer retention measure to use as an employee retention model. Despite criticisms of NPS, it remains popular because it is well marketed, easy to understand and its model makes intuitive sense: every organization wants more promoters than detractors. As a result of this popularity, NPS has crossed over to employee loyalty research, where it is known as ENPS, the Employee Net Promoter Score.

Celanese, a chemical producer, was an early adopter of ENPS, embracing it in September of 2007. Alan Maxwell, Vice President of Corporate Human Resources, said, "From a Six Sigma perspective, there was a need to baseline current state and track progress as the model/programs were implemented. ENPS hit the mark for us." Since quarterly tracking began, Celanese has seen its ENPS steadily increase, from -8% to -3% to 7% to 24%. Further, KPIs have also improved, with turnover dropping by half, for example.

ENPS offers a model that makes intuitive sense, but—while Fred Reichheld contends that NPS correlates to company growth for eight industries—no such correlation has yet been demonstrated for employee loyalty. Further, employees can be willing to recommend you and yet still disloyal, as shown by this Walker analysis of the true cost of low employee loyalty.

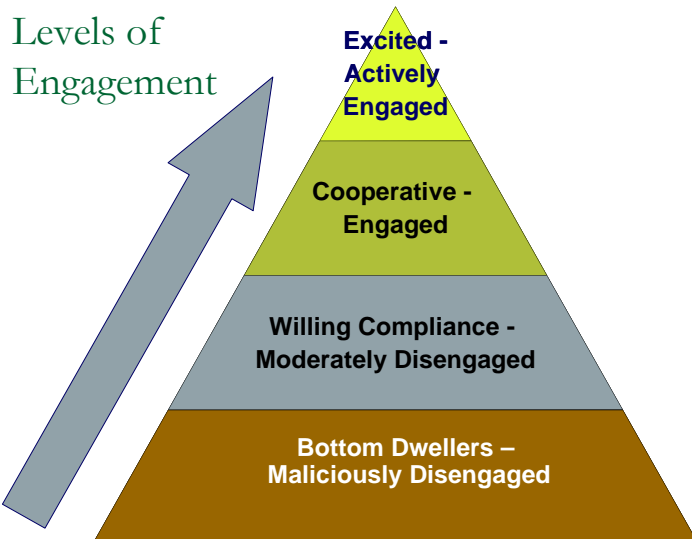
ENPS does not provide much in the way of actionable information that organizations can use to improve. DDI, Gallup and Q12 offer an extensive program of organizational-effectiveness consulting that can be used to drive greater results.

## Levels of Employee Engagement

Engaged employees work with passion and feel a profound connection to their company. They drive innovation and move the organization forward.

Not-engaged employees are essentially "checked out." They're sleepwalking through their work day, putting time—not energy or passion—into their work.

Actively disengaged employees aren't just unhappy at work: they're busy acting out their unhappiness. Every day, these workers undermine what



their engaged co-workers accomplish.

## How Can You Drive Engagement?

Our approach to building higher levels of engagement is based on a number of fundamental beliefs, many of which were formed by our more than three decades of research and experience.

1. Engagement is the primary enabler of successful execution of any business strategy. An engaged workforce is your only true competitive advantage. It is almost impossible to copy and, without it, execution of most corporate initiatives becomes difficult, if not impossible.
2. Engagement is not a short-term initiative. Because engagement is simple in concept but difficult in execution, it is never achieved or finished—only improved. It might take years of steady progress to build high levels of employee engagement, and without the proper care and feeding, these gains can wither and fall away surprisingly quickly.
3. Engagement must be driven from the top. Engagement is a business imperative, not just an HR or HSE initiative; though HR and HSE should be a key player in driving higher levels of engagement. Support from the top also means senior leaders must be highly engaged themselves. Believe it or not, only one in four senior leaders—and only one in six frontline leaders—is highly engaged. It's hard to imagine highly engaged employees without highly engaged leaders.
4. One of the best ways to have highly engaged employees is to hire them! Certain people have a set of characteristics or attributes that increase their propensity for engagement (for example, some employees are more likely to have higher levels of engagement than others, regardless of the jobs they choose or assignments they receive). Companies should pay close attention to these characteristics in their hiring process.
5. Engagement is all about fit. People are more likely to be engaged if their jobs and the culture of the organization match both their abilities and skills, and their motivation and values. Most organizations hire or promote only for the ability and skill match, ignoring the motivation and value match.
6. No one impacts the state of engagement more than an employee's immediate leader. While this might be a slight exaggeration, we believe most people do not leave their jobs; they leave their bosses. Show us a highly engaged team, and there's a strong likelihood we can show you a leader who is coaching for success, setting clear goals, empowering others, providing open and honest feedback, and making the winners feel valued.
7. Measuring engagement and demonstrating its business impact is crucial, but it's only a small part of winning the battle. Far too many organizations pour hundreds of thousands of dollars into measuring and re-measuring engagement, leaving little energy or budget for actually improving engagement levels. Keep your engagement measures simple and cost effective. Instead, spend your resources and energy moving the needle in the right direction!
8. Engagement means reaching the heart. Highly engaged employees give that extra effort because inside they care. And, they care because they feel someone is caring for them. A vice president for customer service at Progress Energy, for example, insists that his managers really get to know the individuals on their teams as people, not just employees. He wants to know about



their aspirations, interests, and families. The recognition of the “whole person” sends a powerful message to employees that the organization understands and appreciates that they have a life outside work.

The first step in the process is to understand and measure (benchmark) the level of employee engagement. There are a number of different tools and methods: the Gallup Organization uses 12 questions to measure engagement; while Development Dimensions International (DDI) uses 20 questions to measure engagement.

Once engagement is measured and quantified, it can be managed. Identifying each of the different elements of engagement is critical to helping supervisors and managers understand their role in driving engagement.

An employee engagement initiative is simply an exercise in futility if there isn't a true commitment to taking positive action to improve employee engagement. Changing organizational culture, addressing a major system deficiency, or raising the bar on leadership behavior doesn't happen overnight, and it doesn't happen by focusing on only one factor of engagement. Executing your engagement strategy is likely to be more difficult than the employee engagement initiative's first phases combined because it requires that employees at all levels of the organization change their behavior. To help you develop a high-engagement work environment and realize bottom-line results, we recommend a number of suggestions organized around the five components of realization: communication, accountability, skills, alignment, and measurement.

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