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Employee engagement

Employee engagement is a widely used concept and one that is of increasing interest to HR professionals. In these difficult and uncertain times, how does an organisation keep employees motivated and performing well against the backdrop of redundancies and other cut-backs? Whilst this is naturally more of a HR issue than a legal issue, we recognise the importance of putting legal advice in the context of what is challenging and driving our clients. Legal rights and obligations as well as legal processes need to be viewed in context and the fallout from such actions cannot be ignored.

In this paper prepared following a workshop conducted in conjunction with Stuart Woollard, Managing Director of King's College London HRM Learning Board and Professor Riccardo Peccei, Professor of Organisational Behaviour and Human Resource Management at King's College London, we examine what employee engagement is and how it can be measured, why it is so important and set out some practical ways of engendering engagement amongst employees.

What is 'employee engagement'?

Whilst the term 'employee engagement' is widely referred to, there is a lack of consensus amongst academics and professionals as to what it actually means. Is it an attitude, a behaviour or both? What is the focus of the engagement: work, the organisation, or both?

Employee engagement has been defined as:-

> "Individuals' involvement and satisfaction as well as enthusiasm for work" (Gallup)
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> "…employees' willingness and ability to contribute to company success. Another way to think about engagement is the extent to which employees put discretionary effort into their work, in the form of extra time, brainpower and energy". (Towers Perrin)
>
> "…a positive attitude held by the employee towards the organisation 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 organisation". (IES)
>
> "…a combination of commitment to the organisation and its values plus a willingness to help out colleagues (organisational citizenship). It goes beyond job satisfaction and is not simply motivation". (CIPD)

Whilst there is no single agreed definition, it is common ground that 'engagement' is more than just performance or motivation. There needs to be a real commitment to and belief in the organisation and its values/ethos, as well as enthusiasm for the job itself.

Professor Peccei has developed an engagement matrix which illustrates the two main elements of employee engagement: work engagement and organisational engagement. In the absence of either of these elements, an employee cannot be fully engaged. For example, an employee could

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be engaged on a work level but not an organisational level. Imagine the dedicated professional who works long hours and produces excellent work product – on the face of it an engaged employee but, scratch the surface, and you may find that this employee has no loyalty to or support for the organisation and is biding his time before he can join a competitor (and take a following of clients with him!).

Contrast this with an employee who is a strong advocate for and supporter of the organisation, is heavily involved in company activities (i.e. high in organisational engagement) but has no affinity with or enthusiasm for his role (i.e. low in work engagement). This individual is likely to have long service and is a good advert for retention, but day-to-day may be difficult to manage and fails to work to a standard expected of him. This type of employee may be more frequently seen in organisations where loyalty and service are particularly prized.

Both employees are 'cruising' and are not fully engaged but for different reasons.

How do we measure engagement?

The most common way of measuring engagement is through survey/questionnaires although this presents us with a problem – is it engagement we are measuring or the drivers/antecedents of engagement?

For example, survey questions such as "This year, I have had opportunities at work to learn and grow" probably measure the forces behind engagement rather than engagement itself.

A more useful approach may be to think of engagement in concrete behavioural terms, e.g. what are the symptoms of engagement? What are the behaviours that employers would most want to see from their employees? Examples would include:-

- Working hard and putting maximum effort into the role.
- Being proactive and developing and sharing with others new ideas and better ways of doing things.
- Being helpful and cooperative towards colleagues.
- Going the "extra mile".
- Being punctual.
- Low absenteeism.
- Strong sense of loyalty to the organisation.
- Vocalising enthusiasm for and promoting the organisation.
- Active participation in the life of the organisation (i.e. being a corporate citizen rather than an apathetic bystander).

Some of these indicators are more easily measured than others (e.g. absenteeism and punctuality). With regard to the more subjective indicators, these can be measured via feedback from other staff members and perhaps clients (although some firms may, understandably, be reluctant to do this since they do not wish to shatter the illusion that all employees are 100%

engaged!). Annual staff surveys can also be useful to gauge how engaged the employees feel, as opposed to how they demonstrate it.

Is engagement really necessary?

The short answer is, yes. More than ever, organisations should be looking to improve employee engagement, not only to maximise their productivity and output in these competitive times but also to ensure that when the recession abates, their staff will not be itching to get back out there on the recruitment market.

Studies have shown that at an organisational level, employee engagement may lead to:-

- Decreased absenteeism and attrition.
- Decreased counterproductive behaviour (e.g. theft and misconduct).
- Increased customer satisfaction and loyalty.
- Increased revenue growth.
- Increased ability to adapt to change.
- Decreased production costs.

Case Study of two retail firms in the US

Two US retail giants with contrasting strategic models were examined in terms of their business and employment practices and performance outcomes. Both firms were committed to delivering low prices to their customers. The firms were similar in size and market share, being the top 2 retailers in the US market. W Inc had a larger workface than C Inc (W Inc had 38% more employees).

C Inc's employment practices were more employee-friendly than were W Inc's employment practices. C Inc's primary focus was to look after its employees, the assumption being that the employees would in turn look after its customers. C Inc was the highest payer in the market. It provided 85% of its employees (many of whom were low-skilled) with generous health care insurance, and 91% of its employees with a pension (with the company making contributions on their behalf). C Inc was also more employee-friendly than W Inc in its industrial practices. C Inc worked cooperatively with trade unions and made sure that no employee with over two years' service could be dismissed without the approval of a company officer (which, in the US where employees are afforded little protection against dismissal, is an extraordinary safeguard).

W Inc, on the other hand, did not treat employees so well. W Inc was obsessive about cost efficiency and this was reflected in its employment practices. W Inc was the lowest payer in the market and its employees were paid, on average, 40% less than at C Inc. Less than half its workforce was given health care insurance and only 64% of employees were given a company pension. W Inc was acutely anti-trade union and considered itself to be an active trade union "buster".

Given that employees at C Inc (doing the same jobs as those at W Inc) had much better treatment, one can assume they were significantly more engaged than employees at W Inc.

The researchers found that the positive effects of employee engagement were significant and far-reaching.

- Employee turnover and recruitment costs
    - Employee turnover at C Inc was 17% per year whilst at W Inc it was 44% per year. Assuming that replacement costs are 60% of salary, the total annual cost to C Inc was US$243 million whilst the cost to W Inc was US$611 million. This is despite the higher wages at C Inc although does not discount for C Inc's smaller workforce overall.
- Productivity
    - In one year, C Inc generated US$43 billion in US sales whereas W Inc generated US$37 billion (despite the fact that it had a much larger workforce).
- Inventory loss (i.e. theft of stock)
    - C Inc's inventory loss was, at 0.2% of sales, well below the industry average of 1.7% of sales. W Inc, on the other hand, was close to the industry average.
- Litigation
    - In the year in question, W Inc was a defendant to numerous class-action lawsuits involving employment issues such as equal pay, sex discrimination and unlawful deductions.
- Share price
    - Over five years, C Inc shares traded at an average 22.4 times expected earnings. W Inc's shares, on the other hand, traded at an average of 17.3 times expected earnings.

The study showed, quite unequivocally, that in addition to being a more pleasant place to work, C Inc outperformed W Inc in a number of key areas. Unfortunately for W Inc, it appears that any employee cost savings made were swallowed up by recruitment costs, litigation costs and replenishing stolen stock.

How do you engage employees?

Since employee engagement is such an abstract concept, employers are often confused as to what measures they can take to improve engagement. It is a firmly held belief amongst organisations that remuneration and benefits are strong drivers of employee satisfaction and engagement. Whilst it is true that pay is a strong driver of engagement, it is by no means the only driver. In the current economic climate, where employers are being forced to take measures such as pay freezes or, in more extreme cases, pay cuts, employers would perhaps be ill-advised to focus purely on pay to maintain employee engagement.

Furthermore, in recent years we have seen more of an emphasis placed on corporate social responsibility, work-life balance and health and well-being. Employees want to feel that they are valued and recognised, that they are supported, challenged and inspired and that they have a clear path towards achieving their career goals.

So, in addition to remuneration and benefits, what are the other factors that employers can focus on to engender employee engagement? One can identify 7 key drivers of engagement:-

1. Design jobs with autonomy and variety so employees can exercise their own judgement and continue to be challenged. Build in flexibility (where possible) for those with conflicting work/life priorities.

2. Treat all employees with fairness and respect – create a trust based environment. Fairness can permeate all areas of working life. For example, employees are not only concerned with how much they are paid; they want to know that what they are being paid is fair relative to their peers both within and outside the organisation. They also want to know that other people are treated fairly.

3. Involve employees in the operation of the organisation (for example, worker dialogue on business developments creates collaborative workforces). Employees want to feel that they have a "voice", they are involved in the running of the business and involved in decision-making processes even where difficult decisions about staffing and cuts are being made. This approach was taken by a university in the US with surprising results. Faculty members were consulted with over ways in which to reduce employee costs, before any decisions had been taken by management. The outcome was that faculty members advocated harsher measures to be taken than had management. Transparent and inclusive decision-making processes may not only serve to improve employee engagement, they may also make decisions regarding redundancies and other cost-saving measures more palatable to employees. The commonly held view that collective consultation serves no purpose other than to satisfy a legal requirement may have its answer in the effect on employee engagement.

4. Develop recognition and equitable reward systems at all levels. Again, transparency and communication are key.

5. Create, publicise and utilise internal career paths to help develop staff professionally and personally. If employees know where they are going, they are likely to get there sooner!

6. Ensure line managers provide regular (daily/weekly) performance feedback, not just in the annual appraisal – develop a performance based culture. It has been found that rather than be put off by regular performance feedback, employees thrive on it. Either they are appraised in a positive light (which will spur them on) or they are given constructive criticism (and can rectify the failings). Absent any feedback, not only do employees not know where they are going wrong, they can develop the impression that no one cares. Ideally feedback should be 360 degree. Studies have shown that often disenfranchisement and alienation amongst talented junior employees is due to poor management.

7. Develop employee knowledge and skills through systematic training and development. This is perhaps an obvious one, however, of key importance here is tailoring the training

to suit the individual rather than using a one-size-fits-all approach.

Concluding remarks

Unlike other indicators of an organisation's success (productivity, output, sales, profits) employee engagement is a difficult area since it is an intangible concept which is difficult to measure. Whilst natural attrition rates have fallen during the recession, organisations may need to put safeguards in place to prevent wastage of talented employees during the economic upturn. A commitment to employee engagement now will go some way towards protecting a workforce once the economy begins to pick up. In the meantime, increased engagement is likely to assist the business in other ways such as increased productivity and output, improved client satisfaction and reduced absenteeism.

Contact

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Events programme

Speechly Bircham and Kings College London are running a series of learning events from February to July 2009, based on the key trends and issues that emerged from our joint survey 'Riding the recession'.

To find out more about the events programme and to download the survey report "Riding the recession? The State of HR in the economic downturn", please visit http://www.speechlys.com/Employment_training_programme