



# Employee Engagement

Right Management

# EMPLOYEE ENGAGEMENT

## What Is Employee Engagement?

Employee Engagement is a critical measure of person-organisation alignment, and reflects employees' emotional and intellectual involvement with, and their contribution to, the success of their organisation. For organisations to be successful, it is essential that employees understand and commit to the company's business strategy – as stated in its brand, vision, mission, or values. Engaged employees share a common set of attitudes and beliefs which, taken together, reflect a vital aspect of the health of the organisation.

Employee engagement is one of, if not arguably the, most critical metric for organisations in the twenty first century. Most, if not all, of the other key measures that reflect and drive organisational success are products of engaged, energised employees. Customer satisfaction, innovation, profitability, productivity, loyalty, growth etc are all outcomes generated by energised, engaged employees.

A clear illustration of this is that Fortune's 100 Best Companies to Work For have had a 10.6% annual return since 1998, while companies listed on the Standard & Poor 500 have had a 5.7% return in that period.<sup>1</sup> Moreover research shows that highly engaged companies produce on average:

- 29% more revenue
- are 50% more likely to have above-average customer loyalty
- are 44% more likely to turn above-average profits than companies with less engaged workforces<sup>2</sup>

Follow up research to this showed similarly positive impacts, with engaged organisations being:

- 56% higher in customer loyalty
- 50% more productive
- 33% more profitable
- with 44% higher retention rates<sup>3</sup>

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<sup>1</sup> What your Disaffected Workers Cost. Gallup Management Journal, March 15, 2001

<sup>2</sup> Izzo, John B. & Withers, P. Values Shift: The New Work Ethic & What it Means for Business. Prentice Hall Canada, 2000

<sup>3</sup> Weir, J. HR.com. 2003. Reporting findings of First, Break All the Rules, by Marcus Buckingham and Curt Coffman and Now, Discover Your Strengths, by Marcus Buckingham and Donald Clifton.

It is therefore essential that organisation's not only understand their level of employee engagement, but have confidence that the measures used to ascertain this are the most reliable and valid available.

Right Management have been researching, refining and implementing employee engagement surveys for over twenty years. We have worked with literally thousands of organisations, public and private, across the world, with millions of employees. Right Management prides itself on the rigour and depth of analysis which we, and external parties apply to our engagement model. As a result of this continual research and examination we believe that the engagement approach we have is one of the most rigorous, reliable and valid models available. This is explained more fully in the following document.

## **Engagement V's Satisfaction**

Employee Engagement goes beyond the traditional notion of employee satisfaction. Whereas satisfaction surveys often rely on a single measure, Employee Engagement relies on a composite measure of:

- satisfaction
- commitment
- pride<sup>4</sup>
- products and services advocacy
- employee advocacy

Research indicates unequivocally that the characteristics underpinning Right Management's engagement model link positively to organisational outcomes, such as long-term performance, staff retention and profit (see following for fuller detail of this research).

## **What Drives Engagement? How can it be increased?**

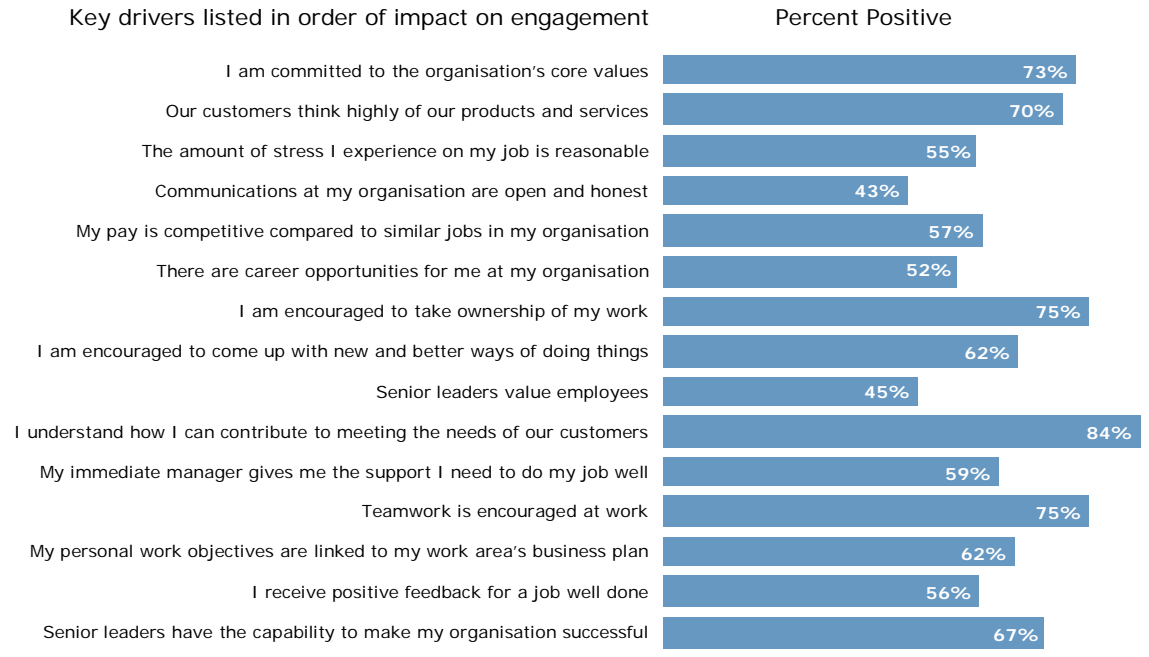
Every organisation is different, and every employee is different. The organisational characteristics which may lead one group of employees to be engaged will not necessarily have the same positive impact for another group. Research by Right Management for example has shown that there are cultural differences that can impact here. Therefore Right Management does not apply a blanket approach to measuring the drivers of employee engagement. Our approach is to examine specifically, for each organisation, what particular factors most influence engagement, and thus what are likely to be the most effective levers to increase it. This ensures a completely tailored, precise action plan is provided for each client.

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<sup>4</sup> Biographical and Climate Predictors of Job Satisfaction and Pride in Organization, Gunter B, Furnham A, The Journal of Psychology, 1996

Right Management supplements this individual, tailored approach, with the power and richness that aggregate information can provide. We are aware that although each organisation should be provided with information specific to them, aggregate data can also be extremely informative. Right Management has therefore conducted research into the most consistent drivers of engagement for employees across different organisations. This research has been conducted in several countries across several continents. An example of the results for Australia is outlined below.

**Drivers of Engagement**



Base: 2,018 Australia employees

**Job Engagement V's Organisation Engagement**

Engagement is a two-way process between the employee and organisation. The organisation attempts to engage the employee who reciprocates a level of engagement back to the employer. Research however, has identified that engagement is more complex than this, and can be directed by an employee in one of two ways (or both). The first is the level of engagement the employee has with their career or profession, and the other is the engagement an employee feels toward their employing organisation.

The distinction between these constructs was evident in work conducted by the Institute for Employment Studies<sup>5</sup> this work showed clearly that many employees, such as health professionals in the UK National Health Service, had extremely high levels of engagement with their career and professions, but were very disengaged in many instances from their employer (usually a Hospital Trust).

To get the most valuable information from an employee survey, and to make the most sensible subsequent decisions, it is useful to measure an employee’s feelings toward their career and profession, and (separately) the same feelings toward their employer. Therefore the characteristics that underpin Engagement (Pride, Advocacy, Commitment and Satisfaction) can be measured in these two ways, leading to a model of eight factors affecting overall Engagement.

Job or Career Engagement can then be defined as:

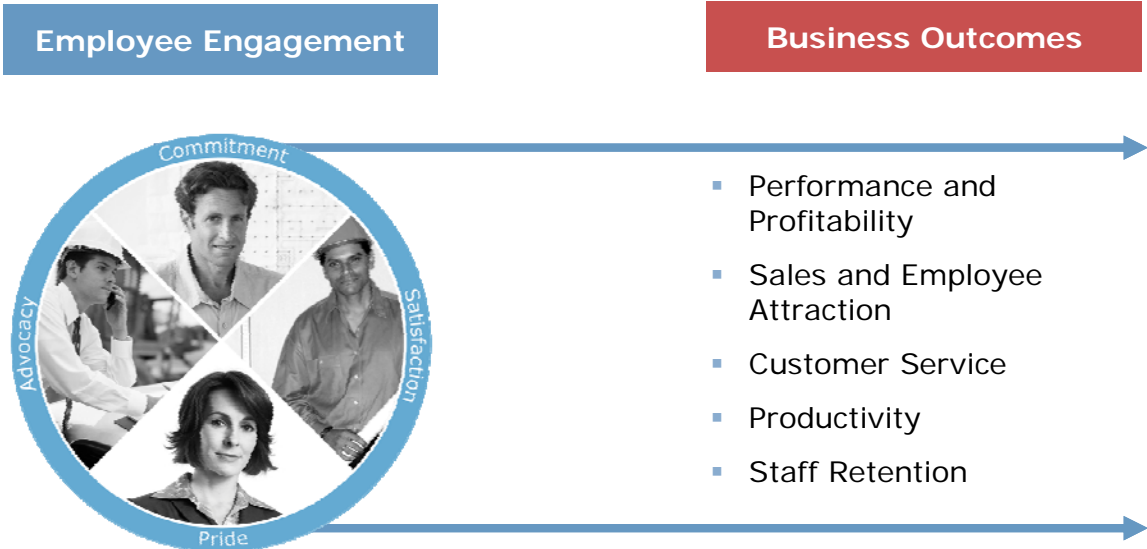
- The extent to which an employee is engaged in their own job role. They are committed to, satisfied with and proud of the work that they do and are an advocate to their position

Organisation Engagement can then be defined as:

- The extent to which an employee is engaged toward their employer, they are committed to, satisfied with and proud of the organisation which they are an advocate to

**Our Approach to Measuring Engagement**

**Employee Engagement: Four Factors**



<sup>5</sup> The Drivers of Employee Engagement, Robinson D, Perryman S, Hayday S. IES Report 408, 2004. ISBN 1 85184 336

Organisational success depends upon the strategic alignment of critical audiences including customers, shareholders, suppliers/partners and, importantly, employees. Employee engagement is the key to aligning your people with your strategy; employee satisfaction is no longer enough.

Successful organisations take a broader view:

- **SATISFACTION**: is the most basic measure of employee opinion. Satisfaction is a passive state, not necessarily connected to productive behaviours.
- **COMMITMENT**: is a measure of employee alignment with the values and culture of the organisation and of their commitment to the achievement of the organisation's business vision. Strongly linked to employee loyalty and customer service excellence.
- **PRIDE**: is a measure of employee opinion that reflects satisfaction or pleasure with the success of the organisation. It is strongly linked to employee loyalty and customer service excellence.
- **ADVOCACY**: is a measure of whether employees would speak highly of the organisation in regard to the organisation as an employer and the organisation's products, services and brand. Strong links with customer and employee attraction.
- **ENGAGEMENT**: is a composite measure of satisfaction, pride, commitment, brand advocacy and employer advocacy.

We use a basic framework to measure these elements and can benchmark clients against these key outcome metrics. We have tested this framework during our global, normative benchmarking study with a statistically representative sample of the working population of Australia, UK, US and Scandinavia. This study included responses from employees employed by more than 1600 companies. To ensure the robustness of our measure every item was checked for reliability, with inter-item and item-scale correlations conducted for all items.

Moreover to maintain the integrity and robustness of this engagement measure Right Management do not calculate engagement using a mean or average, but rather look at the percentage of staff who respond positively to all engagement questions. This ensures that the analysis provided does not give a 'watered-down' measure.

Right Management specifically do not just average the responses given as doing so would not differentiate between an employee who answered all items moderately, from one who answered half the items positively and half negatively (the average likely to be the same). Moreover an employee who answered most of the questions very positively, but one critically, may still (using the averaging method) be seen as engaged. Yet this would be equivalent to assessing health, and claiming that an individual who answered the majority of questions positively (for e.g about diet, exercise, stress etc) but who answered one negatively (say smoking) was still healthy.

### **Global, Local and Internal Benchmarking**

Right Management Consultants can benchmark our clients' data against a variety of databases. This enables companies to:

- Compare their own results against those of other organisations to gain perspective on their own performance
- Compare their own results against similar companies from the same sector
- Compare their own results against companies going through similar levels of transition or stability
- Compare results internally, to see which business areas or divisions are experiencing particularly positive or negative levels of engagement
- Decide which issues to take action upon in order to achieve desired standards

### **Theoretical Research**

Research indicates that satisfied and motivated employees are the first link in a causal chain that leads to greater customer loyalty and profits.<sup>6</sup> Furthermore, research has shown that employee satisfaction drives employee motivation and in turn better performance.<sup>7</sup>

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<sup>6</sup> American Society for Quality (ASQ). 2003.

<sup>7</sup> Heskett, James L., Jones, Thomas O., Loveman, Gary W., Sasser, W.Earl, & Schlesinger, Leonard A.. Putting the Service-Profit chain to Work. Harvard Business Review, March - April, 1994.; and Schmidt & Sheets. How Meta-Analysis Aids Knowledge Acquisition in Research. Insight 1999-2000.

Employee Engagement is significantly related to job enrichment and work role fit. However, if employee jobs only consist of non-engaging activities, employee well being will slowly be eroded and employees will not feel very positive toward their leaders or the organisation. An organisation can use rewards to motivate employees or other tactics, such as fear, to try and drive productivity and the job may get done, but what will be the long-term effect on the organisation? Will the employees stay with the organisation? Will the employees be receptive to change initiatives or new systems and processes? Will employees talk positively about the organisation in public in the presence of potential employees, customers, investors, and/or stakeholders?

Research has shown that employee retention and customer retention are interdependent. To improve customer loyalty a company must first address issues of loyalty on the part of employees and investors.<sup>8</sup> Heskett, et al. established quantifiable set of relationships that directly link profit and growth not only with customer loyalty and satisfaction, but also to employee loyalty and involvement.<sup>9</sup>

## Measurable Results

One of the most important facets of employee engagement research is examining the extent to which it is related to measures of organisational success. Research has consistently shown that employee engagement, using Right Management's robust model, is powerfully linked to a range of success factors such as:

- employee performance/efficiency
- productivity
- safety
- attendance and retention
- customer service and satisfaction
- customer loyalty and retention and
- profitability

Following are two summary lists of this research. The first outlines the findings of research conducted by Right Management and the second outlines findings from research conducted by academics and business thinkers:

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<sup>8</sup> Reichheld, Frederick. *The Loyalty Effect: The Hidden Force Behind Growth, Profits, and Lasting Value*. Boston: Harvard Business School Press, 1996.

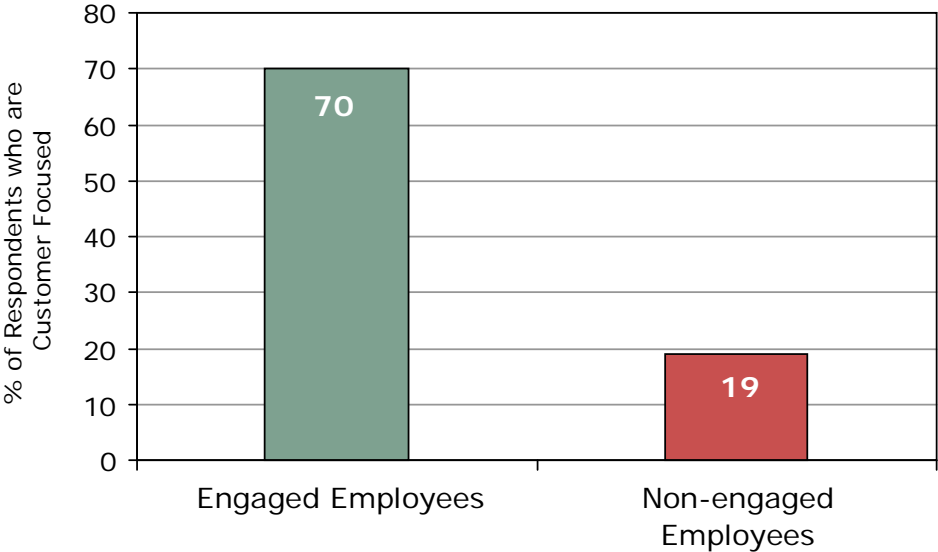
<sup>9</sup> Heskett, James L., Jones, Thomas O., Loveman, Gary W., Sasser, W.Earl, & Schlesinger, Leonard A.. *Putting the Service-Profit chain to Work*. Harvard Business Review, March - April, 1994.

# Right Management Research

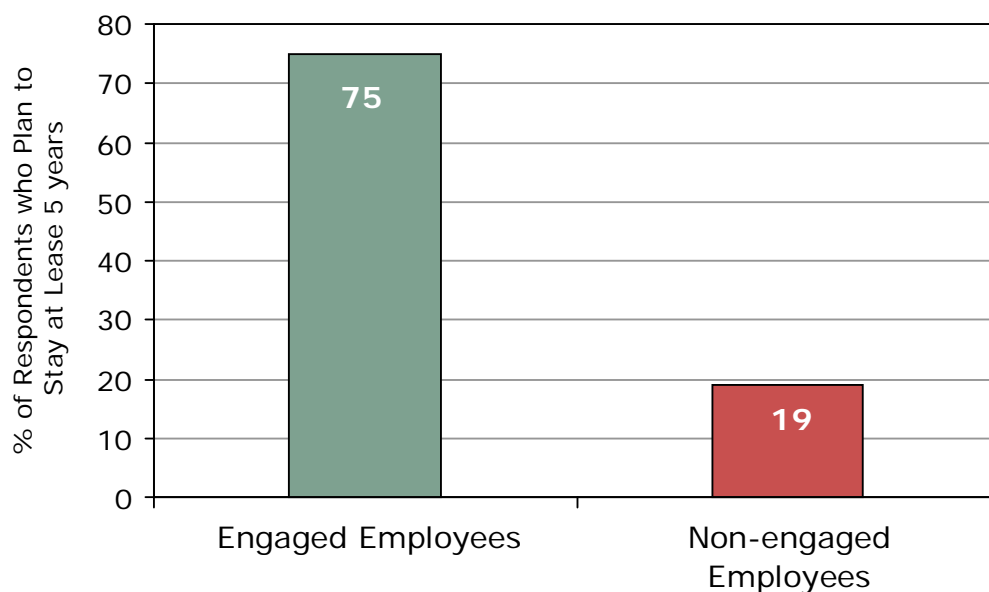
## Case Study #1: Benchmark Study

To ensure the validity of our engagement model, in 2005 Right Management conducted an extensive study with over 10,000 employees. This study looked at the link between engagement and other key organisational success factors. Some of the key findings included:

- **Engagement and Customer Service:** As outlined in the graph below engaged employees were 4 times more likely to have a good understanding of customer needs (70%) than non-engaged employees (19%). This transferred to customer retention too as locations with higher engagement levels had higher customer retention rates.



- **Engagement and Staff Retention:** As can be seen also in the graph below engaged employees were almost twice as likely to stay at least five years (75%) than non-engaged employees (44%). Nearly four times more of the non-engaged employees (29%) planned to leave within two years when compared to engaged employees (8%).



- **Engagement and Revenue:** Locations with higher engagement generated more revenue per employee. For e.g. locations with engagement levels above 60% had average revenue/employee of over \$58,800 whereas those with engagement levels less than 40% had revenue averaging just over \$36,000. A 50% increase in engagement levels was reflected in a 63% increase in revenue.

### Case Study #2: European Retailer

Right Management helped a leading European retailer to conduct its first ever census survey of its employees. Over 24,000 staff were surveyed both on-line and on paper. Across the company's four divisions and 500 business units, response rates were as high as 77%.

The employee data gathered was then analysed on a store-by-store basis in an integrated format along with:

- HR data (such as sickness, absence and retention)
- customer data (including mystery shopping scores)

- business performance data (including growth and profitability)

Integrated modeling found that:

- employee motivation metrics were having a significant impact on profitability both directly and via sickness and absence levels
- the potential profit gain from reducing sickness and absence levels across poor performing stores to average levels would amount to over £5m per annum
- the company needed to focus on issues such as line management style communications and job design to achieve these improvements

### Case Study #3: International Hotel Chain

Right Management helped an international hotel chain to conduct its first ever employee engagement survey. Over 5,000 employees across over eighty hotels were surveyed on issues such as brand values, motivation levels and customer service provision.

Right Management then combined the employee data gathered with other business metrics on a hotel-by-hotel basis, including:

- R data (sickness, absence, turnover, agency costs etc.);
- customer data (customer satisfaction, customer complaints etc.);
- business performance data (hotel level profitability, ROI etc.);

Integrated analysis of the data found that:

- employee turnover within hotels was having a dramatic effect on customer satisfaction levels
- in turn, lower levels of customer satisfaction were feeding through to lower unit-level
- profitability
- the key drivers of employee engagement were issues such as recognition, the living of
- corporate values by line-mangers and internal communications

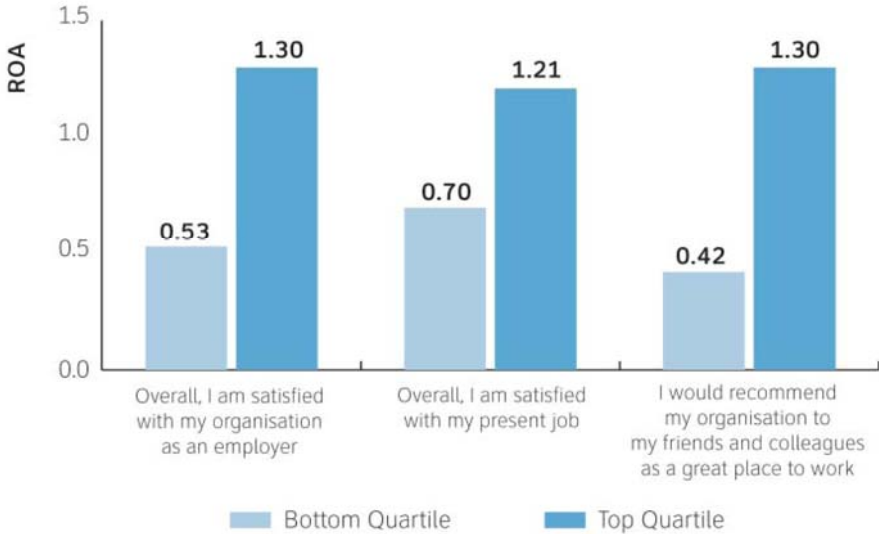
### Academic/ Business Research

A research study, conducted by the University of Wisconsin, and independent of Right Management (albeit using the Right Management engagement methodology), found significant relationships between engagement and key organisational metrics

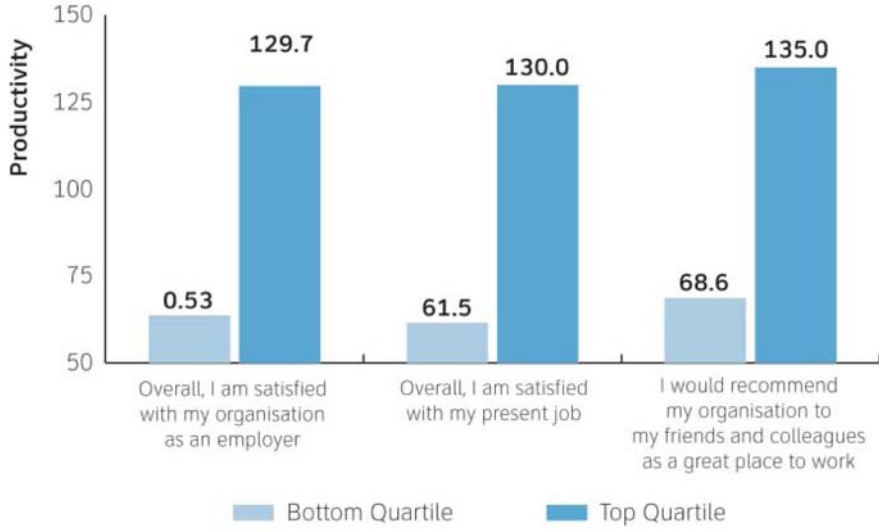
This study involved 3200 employees, in 343 companies, and examined factors such as the relationship between engagement and key organisational indices. Some of the key results from this study are indicated in the graphs below.

As can be seen in the first graph there was a clear difference in ROA (Return on Assets) between those organisations in which staff answered Right Management’s engagement questions positively, and those where staff were more critical.

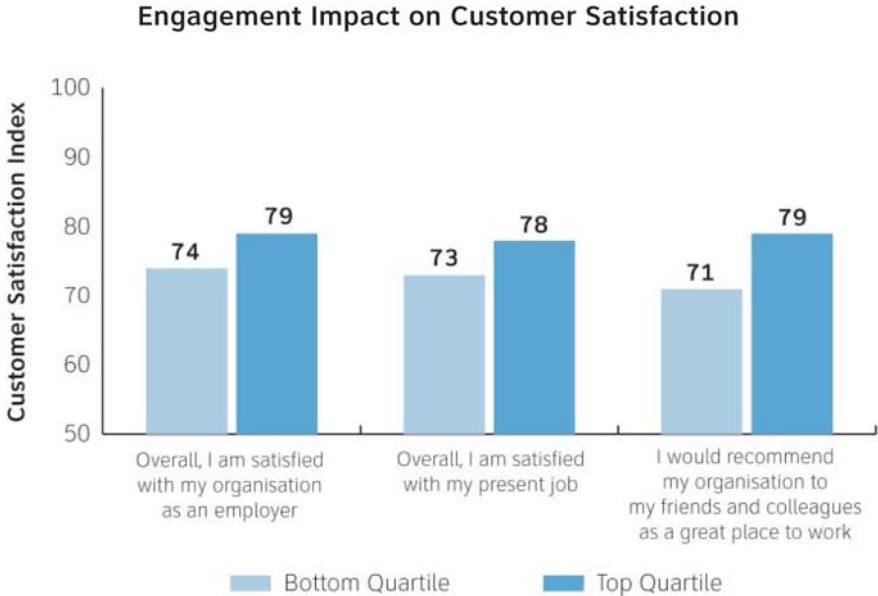
**Engagement Impact on ROA**



**Engagement impact on Productivity**



Finally customer service levels also correlated with staff responses to individual questions in Right Management’s engagement model, as shown in the graph below.



Statistical analysis was also conducted into specific financial outcomes and again strong, positive relationships were found between Right Management’s measure of engagement and key outcomes. These included correlations between engagement and revenue ( $r = .20$ ) and engagement and equity ( $r = .19$ ).

- A nationwide U.S study<sup>10</sup> of 7,939 business units across 36 companies found that engagement has a direct relationship with heightened business outcomes. Higher levels of engagement were linked to above average performance in areas like employee retention, customer loyalty, safety records, productivity, and profitability. Those units with above-average levels of employee engagement outperformed below-average units by 103% on a composite measure of business performance
- Research has found that a 10% improvement in employee attitude leads to a 5% enhancement in productivity<sup>11</sup>
- In a study conducted at Sears,<sup>12</sup> researchers found that a 5 percent improvement in employee attitude lead to a 1.3 percent

<sup>10</sup> Harter, J.K., Schmidt, F.L. & Hayes, T.L. Business-unit-level relationship between employee satisfaction, employee engagement, and business outcomes: A meta-analysis. (2002). Journal of Applied Psychology, 87, 268-279.

<sup>11</sup> Norsworthy, J. R., & Zabala, C. A. Worker attitudes, worker behavior, and productivity in the U. S. automobile industry, 1959-1976. Industrial and Labor Relations Review, 38(4), July 1985.

improvement in customer satisfaction, and a 0.5% growth in store revenues. A 4% improvement in employee attitudes was linked to \$200 million in additional revenues.

- Research on workgroups indicated that the workgroups exhibiting the highest levels of employee engagement were more likely to have above-average: employee retention (44%); customer loyalty (56%); safety records (50%); productivity (50%); and profitability (33%)<sup>13</sup>
- Understanding employee engagement is important as it is estimated that disengaged employees (19% of the U.S. workforce) cost the U.S. economy about \$300 billion in lost productivity<sup>14</sup>. To get specific guidance, organisations can use employee research to assess how engaged their employees are and what are the greatest leverage points for improving employee engagement for their employees specifically.

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<sup>12</sup> Rucci, A., Kirn, S., and Quinn, R. The employee-customer-profit chain at Sears. Harvard Business Review, January - February, 1998.

<sup>13</sup> Weir, J. HR.com. 2003. Reporting findings of First, Break All the Rules, by Marcus Buckingham and Curt Coffman and Now, Discover Your Strengths, by Marcus Buckingham and Donald Clifton.

<sup>15</sup> What your disaffected workers cost. Gallup Management Journal, March 15, 2001.