

# Why you can't afford to ignore employee engagement

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A guide to retaining talent and increasing productivity and performance



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# Introduction

While the Great Recession is over, an ongoing period of sluggish growth and reduced spending has led to increased employee disengagement, and this poses a major problem for employers.

As reports of economic recovery and hiring begin to trend positively, these disengaged workers are finding new opportunities for employment—at other companies. A 2014 survey of CEOs released by PriceWaterhouseCoopers indicates that a majority of business leaders believe the U.S. economic recovery is gaining strength and businesses are shifting to growth mode; in fact, 62% of surveyed CEOs expected to increase headcount in 2014. However, 70% of CEOs also acknowledged concern about the availability of key skills, up from 54% in 2013.<sup>1</sup> In light of the ongoing war for talent—coupled with a high level of employee disengagement—this is enough to cause valid concern among executives and HR leaders. Attracting skilled employees is expensive, and being able to retain them is important for efficiency and sustained profitability. To those ends, successful employee engagement will play a key role in preventing the loss of valuable employees.

The question is, how can your company increase employee engagement and retain its top performers? In this guide, we will examine some current statistics about employee engagement, show how employee engagement affects companies' financial performance, and provide tips to effectively increase employee engagement at your company.

## Current state of employee engagement:<sup>2</sup>

- 30% engaged
- 52% not engaged
- 18% actively disengaged

# What Is employee engagement?

Employee engagement is a hot topic for human resources executives and CEOs alike, and there is a plethora of articles that stress the importance of maintaining actively engaged employees. But what exactly is it?

NY Times bestselling author Kevin Kruse defines employee engagement as “. . . the emotional commitment the employee has to the organization and its goals.”

Kruse notes that it's important not to mistake employee engagement with employee happiness or employee satisfaction. While these can help build a more positive workplace, a happy worker is not necessarily a hard worker, and a satisfied worker could be content to be in the office during work hours but isn't necessarily going the extra mile. As he points out:

“When employees care—when they are engaged—they use discretionary effort.”<sup>3</sup>

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<sup>1</sup> PriceWaterhouseCoopers, 17th Annual Global CEO Survey, 2013 US Report

<sup>2</sup> Lipman, V. (2013, September 23) Surprising, Disturbing Fact from the Mother of All Employee Engagement Surveys. Retrieved from: <http://www.forbes.com/sites/victorlipman/2013/09/23/surprising-disturbing-facts-from-the-mother-of-all-employee-engagement-surveys/>

<sup>3</sup> Kruse, Kevin, What is Employee Engagement, Forbes. Retrieved from: <http://www.forbes.com/sites/kevinkruse/2012/06/22/employee-engagement-what-and-why/>

Discretionary effort comes in the form of extra time, brainpower, or energy. It means employees do go that extra mile whether it's working overtime of their own volition or performing a task outside of what's expected, even when there is no chance of recognition, all because they care.

High levels of employee engagement help businesses retain talent and increase productivity and performance. As businesses continue to put the recession in their rearview mirror, it will be important for business leaders, managers, and HR staff to play active roles to help rebuild engagement levels in order to retain top talent. While transformation happens at the local level, it only takes place when the tone is set at the top level.

### The ROI of engagement<sup>3</sup>

#### Engaged employees create a chain reaction:

1. Higher service, quality, and productivity
2. Higher customer satisfaction
3. Increased sales (repeat business and referrals)
4. Higher levels of profit
5. Higher shareholder returns (that is stock price)

# The link between employee engagement and financial performance

Why is employee engagement important to your organization? A highly engaged workforce results in less turnover, lower rates of absenteeism, and higher profits. Internationally renowned department store Harrods set about improving engagement by changing its organizational structure and leadership, improving communications, and making sure everyone understood and modeled the brand values; the results speak for themselves as 91% of employees indicated they were proud to work for Harrods and turnover has halved between 2009 and 2014.<sup>4</sup>

When employees are excited about their work, colleagues take notice. Highly engaged employees are productive contributors to the workplace, and researchers have found that it can positively affect profitability and performance of the overall company, while actively disengaged employees can have a profoundly negative effect.

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<sup>4</sup> Business Case Studies. Harrods: Increasing employee engagement through HRM. Retrieved from: <http://businesscasestudies.co.uk/harrods/increasing-employee-engagement-through-hrm/introduction.html#axzz3ELeGWFDg>

- In 2012, Aon Hewitt examined the relationship between employee engagement and financial performance and found that each additional percentage point of employees who became engaged equaled an additional 0.6 percent growth in sales.<sup>5</sup>
- In its 2013 survey, Gallup estimates that organizations with an average of 9.3 engaged employees for every actively disengaged employee experience 147% higher earnings per share compared to their competition.<sup>6</sup>
- Kenexa research discovered that engaged companies have five times higher shareholder returns over five years.<sup>7</sup>
- Gallup estimates that active disengagement costs the U.S. \$450 billion to \$550 billion a year.<sup>8</sup>

#### Engaged employees are . . .

- **Productive.** Studies show that happy people are more productive, take fewer sick days, and get along with others better.
- **Loyal.** They won't be out looking in the job market. The cost associated with hiring an employee can be as high as 2.5 times his or her annual salary. If you're losing a staff member every six months, what is the effect on your bottom line?
- **Better with customers.** Engaged employees are invested in the job and want the company to succeed. They value customers as a critical asset to the business.

Engaged employees are productive, loyal, and better with customers.

## Tips to improve employee engagement

Effective employee engagement practices should be dynamic. Companies need to actively and continuously demonstrate commitment to their workforce—in ways that are meaningful to employees. Surprisingly, money is not a top driver for engagement; instead, empowerment, development, and self-direction are seen to be more important in the eyes of employees. Engagement based solely on financial rewards sets your business up for disengagement if economic conditions preclude raises and bonuses.<sup>9</sup> If your organization would like to improve employee engagement, here are six tips to help you get started.

### 1. Start with good managers.

The best way for an employee to stay engaged with the company and with a job is to work for a manager who is a good fit for his or her unique talents and work style. From a practical standpoint, engagement begins at the workgroup level. HR needs to understand each manager's style and employee preferences and then hire people who will work well with those managers in order to create effective teams. If one manager is very freewheeling and confident and tolerates subordinates who may be smarter or more experienced, then hire independent self-starters to work on that team.

5 Aon. 2012 Trends in Global Employee Engagement. Retrieved from: [http://www.aon.com/human-capital-consulting/thought-leadership/leadership/2012\\_Trends\\_in\\_Global\\_Employee\\_Engagement.jsp](http://www.aon.com/human-capital-consulting/thought-leadership/leadership/2012_Trends_in_Global_Employee_Engagement.jsp)

6 Gallup (2013) State of the American Workplace: Employee Engagement Insight for U.S. Business Leaders.

7 SETU (2012, November 1) Employee Engagement: A Key to Nurture a Productive Workforce.

8 Gallup (2013) State of the American Workplace: Employee Engagement Insight for U.S. Business Leaders.

9 Fox, A. (2010, May 1) Raising Engagement HR Magazine, Vol 55., No. 5

Perhaps another manager is much more disciplined, well organized, and tends toward micromanagement. Pair that style with workers who like more project definition and lots of direction. It takes all kinds of people to help a company meet its mission, but mismatched teams can create a huge source of frustration and unhappiness.

- 89% of employers think their people leave for more money.<sup>10</sup>
- 12% of employees actually do leave for more money.<sup>10</sup>
- 75% of people leaving their jobs are quitting their bosses, not their jobs.<sup>10</sup>

#### **2. Commit to frequent, open, and honest communication.**

Employees need to know what the company goals and objectives are in order to work toward them effectively. Make it a priority to send out regular communications about your company's goals, financial picture, hiring and staffing strategies, as well as updates on your progress toward those goals. Research shows that only 40 percent of the workforce knows about their company's goals, strategies, and tactics.<sup>11</sup>

#### **3. Provide employee recognition and rewards programs.**

Recognition is more than just a pat on the back—and surprisingly, more than just handing your employees some money. Instead, develop a solid recognition program at your company that motivates your employees to do a better job. Your program should demonstrate the company's commitment to rewarding excellence and fostering a positive work environment. Tailor the program to your company's goals and allow for nominations by colleagues or managers, as appropriate. A key requirement is to be fair when rewarding performance—nothing will undermine engagement faster than when recognition is haphazard or unfair.

#### **4. Listen to your employees.**

Seek input from your employees about what is important to them. It doesn't help anyone if your company is spending thousands of dollars on employee prizes if the items are things that nobody finds desirable. Find out what your employees want and provide benefit plans with programs that your employees value.

#### **5. Foster a positive employer/employee relationship.**

Encourage managers throughout your organization to work with employees to utilize their talents and make them feel valued. It is incredibly important to foster a positive relationship with your employees. While positive and negative emotions are both powerful, it is negativity that is far more contagious. And don't forget about your middle managers. This group makes up a critical part of your employee engagement strategy by reinforcing company values and goals. Take time to empower your middle managers and increase engagement—and watch it grow through your entire organization.

#### **6. Build a dynamic, cohesive employee engagement plan.**

Whatever tactics you choose to increase employee engagement in your organization, make sure that they are part of a sound strategy. Nearly 90 percent of surveyed business leaders think an engagement strategy can impact a business's success, yet only 25 percent of them have a strategy.<sup>12</sup>

**Tip:** Employee engagement rises when people experience a combination of effective and caring leadership, appropriate development opportunities, and a feeling of empowerment that comes with the ability to control one's work situation.

Source: Towers Watson Global Workforce Study

10 Eyl, E. (2014, February 3) 10 Employee Engagement Statistics that Might Surprise You. Retrieved from: <http://www.eryceyl.com/blog/2014/02/03/10-employee-engagement-statistics-that-might-surprise-you/>

11 Sher, R (2014, June 4) Why Midsized Firms Should Be Raising Their Game with Gamification. Retrieved from: <http://www.forbes.com/sites/robertsher/2014/06/04/why-midsized-firms-should-be-raising-their-game-with-gamification/>

12 (2012) Dale Carnegie Training. Building a Culture of Engagement: The Importance of Senior Leadership

13 Rothwell, W. Dale Carnegie Training. Beyond Rules of Engagement: How Can Organizational Leaders Build a Culture that Supports High Engagement?

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Not only do you need an employee engagement plan, you need to ensure that everything works together and relates to the company's values and goals. In a white paper for Dale Carnegie, William Rothwell Ph.D., SPHR, asserts that "Every element of the organization needs to be reconsidered for how much it fosters engagement" and suggests that areas such as recruitment, team assignments, feedback, rewards and recognition, and promotions should factor into a cohesive engagement strategy.<sup>13</sup>

## The bottom line

As the economy continues to gather momentum, businesses have to increase employee engagement levels—or risk losing top-performing employees. In order to successfully increase employee engagement at your organization, you must build a dynamic employee engagement plan that can meet both the needs and wants of your employees and evolving company goals.

To improve employee engagement, first commit to consistent communication that keeps employees in the loop on what needs to be done and who is responsible and keep them updated on progress. In addition, your business should offer a recognition program that encourages workers to go the extra mile and foster a positive work environment. If you listen to the needs and values of your employees, you'll ensure that you're providing the right incentives for a job well done.

With a team of highly engaged employees, your company can also benefit from increased productivity, lower turnover rates, and less absenteeism. Plus, when workers feel good about your company, they'll share that feeling with customers. And that can translate into increased profitability.

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