

Chapter 1

Engaging Engagement

Employee engagement is an engaging notion – we get excited by it, we get involved in it, we’re willing to invest time and effort in it, and we get proactive about pursuing it – that’s why you are reading this book. Engagement implies something special – something at least a bit out of the ordinary and maybe even exceptional. Moreover, it sounds like something maybe too good to be true, both for employee and employer. Many would envy those who are so absorbed in their work that time flies, who seem passionate about their work, who find meaning and challenge in their jobs, and frankly, who simply look forward to coming to work every day. It just seems like the kind of job that we all deserve – indeed, it’s what people expect when they start a new job. At the same time, we envy the organization where employees are focused, passionate, and want to be there and who are innovative, proactive, and do the right things the right ways. It’s no wonder then that some of the most admired business leaders speak wistfully about engagement, and see it as essential to organizational success. As Jack and Suzy Welch suggest: “Employee engagement first. It goes without saying that no company, small or large, can win over the long run without energized employees who believe in the mission and understand how to achieve it.”¹

How Engagement Makes a Difference and What Engagement Is

The general thinking on the notion is that engaged employees give more of what they have to offer, and that as a result, an engaged workforce is simply a more productive one. In her testimony before the US Congress, workforce pundit Tamara Erickson said: “Improving engagement – finding ways to encourage individuals to invest more psychic energy in work – is the single most powerful lever that corporations have to improve productivity.”²

That’s a powerful statement and it raises difficult questions: Does a more highly engaged workforce truly produce superior performance in organizations? Just what is psychic energy? And just as importantly, how does the corporation create or release that energy?

The Business Case for Employee Engagement

The claims being made for engagement are substantial. If employees are more engaged their organizations should demonstrate superior financial performance, the ultimate metric against which success and failure is judged. We have good evidence from some of our research of that potential and it is shown in Figure 1.1. There, we show how employee engagement across companies is reflected in three different indices of financial performance.

We had employees in 65 firms in different industries complete our engagement index and then for each company we averaged the data from their employees. Then we asked the following question: If you take the top and bottom 25 percent of the companies on the engagement index and look at the financial consequences what are the results?

You can see in Figure 1.1 that for Return on Assets (ROA), Profitability (actually profits divided by revenues), and Shareholder Value the differences are quite dramatic with shareholder value being more than doubled. Shareholder value was calculated using an approach commonly used in financial research.³

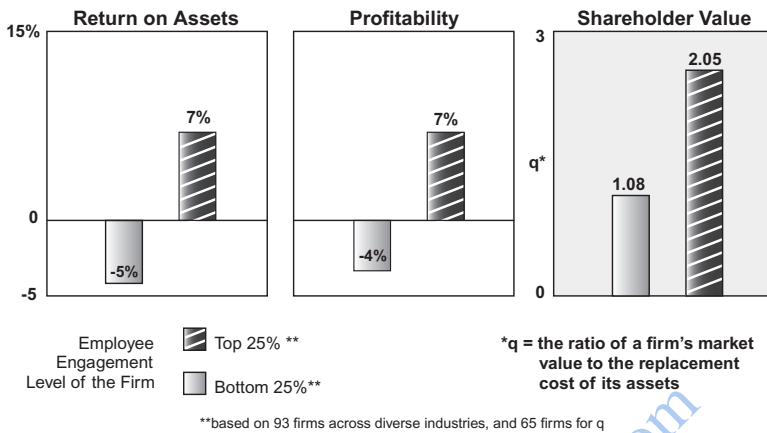


Figure 1.1 Engagement and financial performance

Good to Know:

Shareholder Value as a Measure of Engagement Impact

One challenge in evaluating the impact of an HR initiative is the choice of the outcome measure. All measures are not equal; their interpretation is often clouded by differences within and between organizations. For example, accounting measures (like ROA) are generally not comparable across firms or at least industries. This makes it difficult to evaluate the impact of a program on the competitive advantages that accrue, for example, to an engaged workforce since such evaluation by definition requires a comparison between companies.

In contrast with accounting-based measures, measures of shareholder value are forward-looking and cumulative. An appropriate measure of shareholder value allows for comparability across firms and industries. Most important, the cumulative and forward-looking nature of shareholder value means that it reflects anticipated and *sustainable* impact. It is sustainability that reflects the essential nature of competitive advantage.

Capital market measures of shareholder value, such as Tobin's q, reflect the value of the firm that has been created beyond the replacement costs of the firm's assets (that is, the ratio of the market value of the firm to the replacement cost of its assets). Thus, firms which have higher such ratios have greater anticipated market returns relative to the investments that have been made.

Figure 1.1 clearly shows that firms that achieve higher levels of employee engagement also create higher levels of shareholder value ... certainly good news for their investors and the executive teams who design and implement their strategies.

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If an engaged workforce produces such dramatic financial outcomes how can we understand what this energy is that is associated with engagement? It turns out there are two kinds of energy: psychic energy – or what people personally experience – and behavioral energy – what is visible to others. At least as important is the question: What kinds of conditions can we create in the work place to foster such energy? We briefly describe each of these.

Engagement as Psychic Energy: On the Inside

Psychic energy brings to mind powerful images. Simply put, those who apply more psychic energy to a given task focus intensely on it and spend less energy focusing elsewhere. Common sense tells us that an organization that can capture more of that energy on the tasks that need doing in turn has a greater opportunity to create value.

Most of us have had the experience of being totally absorbed, totally focused on the task at hand. We use various expressions to refer to these moments, such as being “in the zone” or in “flow.”⁴ We think of these moments as peak experiences, and in that sense they are memorable and positive. The question of whether we are satisfied at the time simply doesn’t arise because our attention isn’t on being satisfied, it’s focused on the task at hand. Most people can identify when they have such experiences and the common ingredient of those experiences: It happens when we have a clear objective or goal we are trying to attain, when we have a sense of urgency about completion, and when we put intense effort into attaining it.

It may have already struck you that if events like being “in the zone” are relatively uncommon, then the goal of creating an engaged workforce might be elusive. So, engagement is probably best thought of as something that comes in degrees, perhaps at the extreme levels representing being “in the zone,” but without necessarily implying that engagement can only refer to such extreme moments.

We make this important point because engagement can be an important concept only to the extent that it is realistically sustainable. Being “in the zone” isn’t ordinary. Nonetheless, the allure of the extreme is one that captures our imagination, and serves in the extreme as the defining nature of what engagement feels like.

It’s the emphasis on energy that sets engagement apart from other popularized HR concepts, especially employee satisfaction. Employee

satisfaction implies satiation and contentment with what has been obtained whereas engagement implies going after, seeking, and striving. We'll see later that it's a little bit trickier than this – primarily because of the way these different ideas about employees have been understood and measured. Nevertheless the notion of energy is key to engagement whereas satiation is the key to understanding satisfaction. With energy in mind, let's sketch out what it means to be psychologically engaged from an employee's view by imagining we are interviewing employees about it. For example:

- *Describe the feelings of enthusiasm, focus, and being energized.* “Work doesn't feel tiring, but exhilarating. I feel a sense of enthusiasm for what I do. I feel a sense of self-efficacy, not self-satisfaction, but of vitality and competence that comes from doing something that I personally value. I see myself as part of the vitality of the organization, as a significant contributor to accomplishing organizational goals.”
- *Tell me how absorbed you feel in your work.* “I frequently have the sense of being lost in time, as ‘suspended’ in the present. I find that I am fully involved in my work. I am very attentive to what I am doing and do not suffer from distractions.”
- *So, are you saying you are more focused?* “Good question. I feel fully absorbed and aware of my place in relationship to my co-workers and what they and the organization are trying to do.”

Engagement is the psychic kick of immersion, striving, absorption, focus, and involvement. In its fullest form it is not a usual sensation for if it were we would not obsess about how to achieve it. But engagement is not only psychic energy felt and sensed by employees; it is observable in behavior.

Engagement as Behavioral Energy: How Engagement Looks to Others

Engagement is visible to others in the form of behavior and we want to focus in on that behavior because, ultimately, this is what produces results. Importantly, we know that employees can serve as effective and valid reporters of what is going on in the organization. So, it's helpful to think of what an engaged workforce looks like to those who

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actually do the work inside the organization. We're going to go into some detail about what behavioral engagement looks like. We do this because it is sometimes like other notions of behavior we have but it is more than those. For example, some speak about commitment to the organization and involvement in one's work but if that's all it is, then it seems we could stop right here, because much has been written about those topics. It's precisely because engagement captures something different – something more – that we need to find a level of precision in our thinking and expression that distinguishes engagement from those concepts. As we'll see later, thinking about engagement in the ways it is different can lead us to a path less traveled, one with very different consequences for the organization.

Here is what an engaged workforce looks like:

- Employees will think and work proactively: Engaged employees anticipate opportunities to take action – and actually do take action – in ways that are aligned with organizational goals.
- They will expand their own thinking about what is necessary as job demands shift and expand their roles to match these new demands: Engaged employees aren't tied to a job description. Rather, they are focused on the goals they are trying to achieve and that are consistent with the success of the organization. Doing something more or different isn't the question; it's a matter of doing what's necessary without thinking of whether what's necessary is part of the job.
- Employees actively find ways to expand their own skills in a way that is consistent with what's important to their roles and organizational mission: Engaged employees take ownership for their personal development not just for their own sake but so that they can contribute more effectively. Employees see their own self-interest in skill development as consistent with what is good for the organization but they do more than think about this, they do it. So, this self-development behavior isn't seen as a matter of ultimate self-sacrifice, but what makes sense in a relationship between employee and employer; engagement is not just about what I can get but what I can give.
- Employees persist – even when confronted with obstacles: Engagement matters most when things aren't easy to do, aren't going according to plan, and/or when situations are ambiguous and call

for a matter of trust on both sides. The reason why executives are so attracted to the notion of discretionary effort is that they recognize that all activity is not subject to management design or control, and that questions of motivation are quite difficult to address. What executives want are employees who don't need reminding or prodding, and who not only sense the need to get things done but do it, whether or not now is the convenient time or it is perfectly clear who should be doing it.

- They will adapt to change: A key characteristic of an engaged workforce is employees who adapt when circumstances require. This can take shape in different forms, but the key is that they respond to the uncertainty that is inherent in a changing business environment and they actively embrace change – indeed sometimes proactively suggest change.

We will expand on these component notions – both of what engagement looks like and what it feels like – in Chapter 2. For now, though, we offer the following working definition:

Engagement is an individual's sense of purpose and focused energy, evident to others in the display of personal initiative, adaptability, effort, and persistence directed toward organizational goals.

Good to Know:

Engagement in a Talent Management Framework

Talent Management refers to those human capital systems that attract the right talent and leverage that talent in a way that achieves the greatest return from individual and collective employee capabilities. In addition to sourcing, recruitment, on-boarding, and selection, this embraces managing the employee–employer relationship including performance management and issues related to sustaining employee motivation. It is particularly out of concern for

the latter and the desire to capture unrealized employee potential that engagement falls under the talent management umbrella. Perhaps less obvious, employee engagement addresses another focus of talent management, namely, the need for organizations to adapt quickly to changing conditions. A more engaged workforce is more adaptable and therefore can be deployed more readily and likely at lower overall costs.

How an Engaged Workforce Creates Positive Financial Consequences for Organizations

Earlier we made the business case for an engaged workforce. We showed (see Figure 1.1) how companies with an engaged workforce had superior ROA, profitability, and more than double the shareholder value if they were in the top 25 percent compared to the bottom 25 percent on engagement of the companies we studied. Since then we have been outlining the attributes of an engaged workforce in terms of the psychic and behavioral energy we can expect from engaged employees. But that energy itself of course does not translate directly into the financial outcomes we showed are *related* to that energy. Obviously there is a process whereby the translation into financial outcomes occurs. This process is our focus here because it has direct consequences for the kinds of conditions that must exist for: (a) employees to feel and be engaged; and (b) produce the financial consequences hoped for. Look at Figure 1.2 as we describe this process and focus in for now on the second and third boxes, the ones labeled “Employee engagement feelings” and “Employee engagement behaviors.” We’ll deal with the “High performance work environment” in the far left of the figure later.

Figure 1.2 presents a schematic overview of how we conceptualize engagement with both its antecedents and its consequences. The

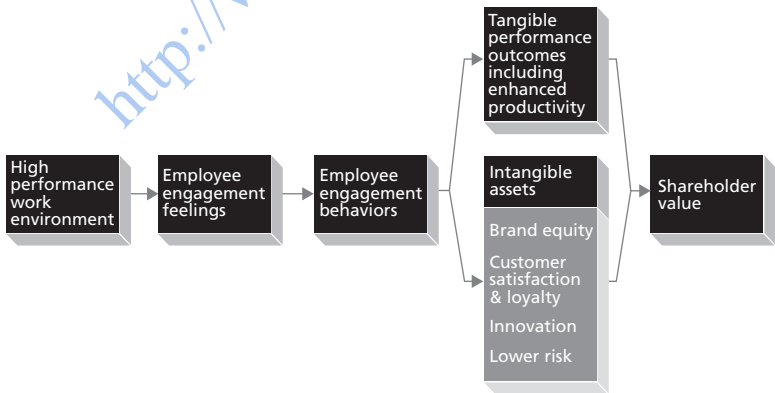


Figure 1.2 Employee engagement value chain

antecedents are in the work environment and we refer to and think of such a work environment as one that facilitates, permits, and allows employees to be engaged. Engagement has two important facets, one psychological and the other behavioral. The psychological has all to do with the way people feel – focused, intense, enthusiastic – and the behavioral has all to do with what they do – they are persistent, adaptable, and proactive. As shown in Figure 1.2, engagement provides the bases for creating tangible outcomes such as enhanced performance, and a set of intangible assets including customer loyalty, intellectual capital, and brand image rarely addressed in human resources and human capital writings. Also, engagement serves to lower the risk profile of the organization. This happens because employees are more dedicated to creating value for the company, more consistent in their interactions with customers and other stakeholders, and less likely to leave the organization. All these in turn impact cash flow and ultimately shareholder value. What we want to emphasize in particular is the role of employee engagement in creating the *intangible* assets shown in Figure 1.2 and thereby lowering risk, both of which extend far beyond the implications of greater productivity generically defined to create shareholder value.

We want readers to think strategically about these engagement components and to see that the engagement components and their relationships to productivity, intangible assets, and risk reduction constitute a strategic mapping process not unlike those advocated by Kaplan and Norton in their important book *Strategy Maps*.⁶ These models essentially provide an action plan for converting intangible assets into shareholder value.

Executives are more adept and comfortable in mapping the marketing and operational elements of their business strategies. They struggle with the human capital components of their strategies because they do not grasp how human issues map to the intangible assets they do understand – brand, customer loyalty, and innovation. There is a very large gap in thinking about how to move from the high performance work environment practices we will talk about next and these outcomes. As a result, the logic of cause and effect relationships – if I do X then Y is likely to follow – breaks down for a lack of rigor in thinking about the steps between engagement and ultimate outcomes like shareholder value.

As we shall see later in greater detail, the linkages shown in Figure 1.2 are supported by a significant body of research originating in multiple disciplines, including psychology, economics, and marketing. What is critical here is recognizing how engagement serves as the missing link between a high performance work environment and both the tangible outcomes and intangible assets that in turn create shareholder value. The concept of engagement offers us an opportunity to look inside the “black box” to see what the human assets that work for us feel and do and how that creates the ultimate competitive advantage for firms.

On High Performance Work Environments: Four Principles for Creating an Engaged Workforce

Now we can focus on the far left column in Figure 1.2 because something needs to get this process to unfold in the right ways. These high performance work practices address four key factors, each of which relates to what we consider a fundamental principle of engagement. Specifically, engagement follows when:

- employees have the capacity to engage;
- employees have a reason or the motivation to engage;
- employees have the freedom to engage; and
- employees know how to engage.

We now consider each in turn.

The Capacity to Engage

Do employees possess the goal-directed energy and the resilience to maintain that energy when faced with the usual obstacles to goal attainment? This energy flows from the sense of competence and self-sufficiency that all people desire, though certainly some are more self-directed than others. Engagement follows naturally out of the motivation people have for autonomy and competence.⁷ Organizations *contribute to* and *facilitate* this energy by giving employees the information they need to do their jobs well, by giving learning opportunities and feedback so they can develop self-confidence, and by supporting employees in their efforts to renew their personal energy

levels through a balance between work and their personal lives. Thus, our first principle of engagement is:

Engagement requires a work environment that does not just demand “more” but promotes information sharing, provides learning opportunities, and fosters a balance in people’s lives, thereby creating the bases for sustained energy and personal initiative.

Good to Know:

Is Engagement a Bottomless Reservoir to be Tapped?

Engagement is a powerful concept because it captures the notion of employees who give it their all, work with passion, or who go the extra mile. In this view, competitive advantage results from getting more from the available (human) resources.

This characterization of engagement is decidedly unbalanced – and therefore unsustainable. It

implies that engagement is about one side getting more out of the other – which is unjust and therefore runs counter to a foundation of engagement: just and fair treatment. The kind of environment that works well for engagement is one in which both employees’ and the organization’s interests are served in the long run.

The Motivation to Engage

People come to work to work at jobs. Most of people’s time at work is spent working at their jobs. There must be a reason for employees to *fully* invest their energy during work time. To the degree that jobs are high on intrinsic interest they stimulate engagement. Jobs are intrinsically interesting when they are challenging, meaningful, and offer opportunities for decision-making and autonomy in designing not only what will be done but how it will be done.⁸ Specific and difficult goals also create energy in people and the research is clear that these kinds of goals yield increased accomplishment at work.⁹ The motivation to engage also follows from treating people with respect, and in so doing, showing they are valued and thereby establishing a basis for them to reciprocate through their voluntary engagement. This also follows when organization and employee values are aligned. Our second principle of engagement is:

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Engagement happens when (a) employees have work that interests them and aligns with their values; and (b) employees are treated in a way that reinforces the natural tendency to reciprocate in kind.

Good to Know:

Engagement and the Employee Value Proposition

As management consultants, we're often asked about the relationship between Engagement and Talent Management. Because of the shifting demographics, there is an increased emphasis on talent acquisition and retention in most organizations. Retention, turnover and engagement topics are often mentioned in the same breath, and engagement often has been discussed as if the opposite – disengagement – implies turnover in the most extreme form. Indeed, some authors have directly positioned the engagement discussion in terms of the disengagement end of the continuum, and argue that by focusing on those factors that influence turnover one is simultaneously focusing on engagement.

In our opinion, this casual blending of questions regarding engagement and the employee value proposition (EVP) has had unfortunate consequences. The discussion of EVP is certainly an important one, and organizations will benefit greatly from building a superior employment brand (to drive attraction) and creating a work environment that minimizes unwanted turnover. However, the focus on what the employee *gets* from the “deal” misses the centrality of creating conditions for what the employee *gives back* – and that requires discussion of values alignment, jobs, and fair and just treatment as the bases of engagement and the creation of a high-engagement workforce.

The Freedom to Engage

It is when employees feel they have the freedom to take action – and that they will not be punished for doing so – that their initiative and being proactive becomes possible. Conversely, without that freedom to engage, there cannot be a link between the strategy of the firm and individual action, because feeling safe enough to take action doesn't psychologically exist.

Importantly, it is the times when it is most critical to the organization that people step up and make a difference that both organization

and people are at risk. Hoping that individuals will sense the time and importance of taking action won't work if the risks of doing so require people to assume "hero" personas. It's unreasonable to expect adaptive and proactive behavior when they feel they are vulnerable – meaning they are without the support and safety of their manager and the organization. And how do they know this? They know this when they feel they have been treated fairly and that, in turn, leads them to trust. As we will see fairness is not a simple idea, nor is trust, but for now it is clear that fairness leads to trust and trust leads to feeling safe. Our third principle is:

Engagement happens when people feel safe to take action on their own initiative. Consequently, trust matters most under conditions of adversity, ambiguity, and the need for change – *precisely when employee engagement is most important.*

The Focus of Strategic Engagement

Is energy channeled in a way that makes a difference? The foundation on which this understanding builds is the following idea: the *form* of engagement you want to drive is specific to the strategy and source of competitive advantage your company chooses. Just as there is a difference between a generic strategy and a strategic position,¹⁰ there is a difference between a general level of engagement and the specific engagement behaviors that are essential to sustained competitive advantage *for you*. So, for example, have you chosen to be first in the marketplace with innovative products? You need your people to be engaged in innovation. Are you the service quality leader? You need your people to be engaged in service delivery excellence. We will address the strategic focus of engagement more completely in the next chapter but for now simply understand that strategy drives the specific kind of engagement you need and the way this is driven on a daily basis is by the kind of strategically focused work environment you create for your people.

Engagement "works" because employees see the direct connection between what they (should) do and organizationally beneficial outcomes. In the extreme form, engagement occurs when there is an alignment between the individual's goals and those of the organiza-

tion. In situations where such is not the case, alignment processes are critical because they ensure that whatever motivational mechanism is in place (whether intrinsic or based on the principle of reciprocity), employee behaviors are those which are consistent with the

Best Practices and Realities:

Who Has Responsibility to Align Engagement with Strategy?

You might think that the answer to our question is obvious. The strategic implication of engagement suggests that it is the responsibility of senior leadership. The problem is that the environment can change so quickly that people need to adapt quickly and not always look immediately to leadership for the solution. As Angela Lalor, Senior Vice President of Human Resources at 3M told us, "it's not enough for people just to show up to work every day."¹² As she further noted, the problem is compounded by the size of the multinational organization so you can't rely on the expertise of individual leaders. People need to be comfortable with the rate of change and do their own adapting and aligning.

Ms. Lalor went on to explain that the only way to achieve this is by candidly sharing priorities and exposing as many people as possible to the planning process. Leaders at 3M do this by holding frequent employee meetings and through both systematic written communications, including personal emails from the CEO to the entire employee population, their internal website, leadership classes, and in employee orientation. These communication efforts are, as she puts it, "adult conversations" and fully intended to confront the reality of change. The communications emphasize what is happening in the marketplace and stress factors important to both customers and investors. The thrust of the 3M approach is that through engagement employees share in creating their own future rather than becoming victims of change. Importantly, the candor of these conversations is a model for creating the valid perception of trust and credibility that is a foundational element for building a culture of engagement.

So, the clear emphasis in 3M's approach is on holding leaders accountable for employee engagement. The HR team provides the tools, processes, and common language building the culture of engagement, but the individual supervisors and managers are the key to create engagement at the employee level. 3M establishes accountability by embedding engagement directly within their leadership competencies. They call it "Develops, Teaches, and Engages Others" and use it as a basis for yearly management assessments. 3M also provides managers with engagement scores from their company-wide opinion survey. So, feedback on employee engagement is an integral part of how they create competitive advantage.

organization's strategy.¹¹ As we progress, we'll see that alignment follows directly from creating the right kind of culture and continually monitoring and reinforcing it in all the nooks and crannies and at all levels within the organization. And creating that culture is not easy since it requires attention to a wide range of human capital issues ranging from who gets hired and how, to how they are brought on board and trained, and to what others around them make clear is the focus. It is because all of this is difficult to do that competitive advantage becomes possible for those who actually make it happen. This leads to our fourth principle:

Strategic engagement happens when people know what the organization's strategic priorities are and why, and when the organization aligns its processes and practices – its culture – with attainment of those goals.

Engagement and Discretionary Effort

These four principles of engagement address the “discretionary” question – “why give that extra time and effort?” One answer is because “that’s the deal,” or the psychological contract between the individual and the organization. To the extent that the value proposition meets the needs of the employee, there is a reasonable basis for assuming that employees will perform at high levels consistent with their interpretation of the implicit contract. Engagement, in this view, is payback or reciprocation for what the company has provided. So, when the company provides opportunities for development, the right kinds of jobs, fair and just supervision, the right levels of pay and security, and so forth, engagement will follow because people fundamentally believe in reciprocation.

This perspective lends itself to significant distortion, as the discussion of engagement blends too easily into a discussion of satisfaction with the company overall, leadership, and specific elements of the deal. Nonetheless, the work environment plays a critical role in determining engagement, although perhaps less focused on individual satisfaction than the enabling and supportive elements of the work environment that allow the feelings of engagement and engagement behaviors to emerge.

Interaction of Cause and Effect

The four principles interact in complex ways to produce the fabric of engagement. So, some issues and tactics focus on the nature of work whereas other focus on changing individual leader behavior. Yet others focus on building a self-sustaining culture that reinforces and guides those behaviors. You will see too that building an engaged workforce is about more than just doing right by people; it requires attention to very specific issues that simultaneously contribute to employee well-being and productivity.

The Remainder of the Book

The remainder of this book is presented in six chapters that carry you from concept to practical application. In Chapter 2, we'll take a deep dive into the meaning of engagement and how engagement differs significantly from other important yet related concepts like satisfaction and commitment. We will define engagement in precise terms and position strategic employee engagement as the critical vehicle for success. To do so, we will explain how engagement ideally is described as a mapping of firm strategy to employee behavior, with both individuals and groups as a frame of reference.

In Chapter 3, we discuss what it means to create a culture of engagement. There, we will describe how many important characteristics of the work environment, including trust, justice, and fairness, relate to engagement, and discuss as well the more directly observable aspects of the work environment and their relationship to engagement. We will also introduce the important individual differences that relate to both how engagement is construed and discussed in common language, and how those individual differences also determine engagement behavior.

Chapter 4 discusses how you can diagnose the current state of the organization with particular emphasis on using employee survey data as the key metric. We will show how to translate strategy into employee behaviors that can be observed and reported on through the survey data and how to write survey questions that address the four principles of engagement we have just described.

Chapter 5 shows how you can directly impact the level of employee engagement in your organization by focusing on using survey results

to develop effective action plans and design interventions with impact. The discussion of interventions will be framed by the issues of capacity, motivation, and freedom to engage.

Chapter 6 discusses the “dark side” of engagement – what happens when there is an imbalance between what employees invest and the returns they receive. Specific attention will be directed toward issues of burnout and workaholism and their relationship to engagement at work.

Finally, we will close in Chapter 7 by providing an outline of a presentation deck and the talking points you can use to introduce the concept of engagement in your organization. You will then be ready to start down the path of gaining competitive advantage for your organization through your engaged human capital. Best of luck!

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