CHAPTER 1

WHAT IS ENGAGEMENT – AND WHY DOES IT MATTER?

Introduction

To say that we're living in uncertain times is to understate the case. Who could have foreseen some of the dramatic political upheavals and global events that have taken place since the Millennium? Or the discrediting of some of our most visible business leaders and the dramatic closure of several major corporations? Or that social media, designed to connect dispersed populations, would become a tool for mobilizing social protest to unseat governments and topple autocratic leaders? Who would have thought that the credit-fuelled economic model of globalization would implode, revealing the shakiness of supposedly 'rock-solid' banks?

Many of yesterday's 'certainties', 'facts' and 'truths' risk looking more like hypotheses or wishful thinking in the light of current developments. Even if the turbulence following the recent financial crisis eventually comes to be seen as a temporary aberration, there is no doubting that the trend towards faster and faster change will be ongoing. Back in the 1990s, Richard D'Aveni coined the phrase 'hyper-competition' to describe the competitive dynamics of the business world (D'Aveni, 1994). He argued that all competitive advantage is temporary and is based on continuous creative destruction, improvement and out-manoeuvring competitors. Today, D'Aveni's prediction is a reality; barriers to entry have collapsed in many sectors as a more connected world allows competitors to spring up from nowhere. It is not surprising, therefore, that for organizations in every sector, speed, innovation and agility are becoming the key capabilities for survival and sustainable performance.

Another aspect of this new era is the way companies create value. Since the late 1970s, when much mass production manufacturing progressively moved from the West to developing economies in Asia, companies in western economies have increasingly competed on the basis of mass customization, using the potential of high technology and intelligent systems to obtain and use detailed knowledge of the customer – his or her likely wants and preferences – to gain competitive advantage on the basis of their customer insight, service and innovation. However, the so-called 'knowledge economy' knows no geographic boundaries and is no longer a mainspring just of western economies as was originally assumed would be the case. The gamble taken by US and UK politicians and policy makers in the 1980s was that developed countries would always be pre-eminent as 'high skill, high pay' economies. Now that other nations also have access to high skills and high technology, western economies risk having to compete on a high skill, low pay basis (Brown et al., 2010). Continuous innovation will therefore be the key means of maintaining competitive edge.

Of course, to succeed in today's more knowledge- or service-based economies, it's not enough to have flexible business models, structures and processes. People are the source of production and of innovation. Their skills, behaviours and mindsets need to be agile too. Agile employees are multi-skilled, flexible people, capable of rapid decision-making and continuous learning. They are resilient and able to work within adaptable structures. Surviving and thriving in the longer term involves getting the 'right' people focused on the 'right' things and engaged in the collective effort. Consequently, in recent years we have seen an explosion of Human Resource initiatives relating to so-called 'talent' – how to attract, motivate and retain the people on whose skill and will business success depends.

Above all, it is *engaged* employees – who are aligned with organizational goals, willing to 'go the extra mile' and act as advocates of their organization – who are most critical to business success. And yet, survey after survey indicates that employee engagement with organizations is generally low. As Judith Bardwick, author of *One Foot out the Door* (2007, p. 13), puts it:

> *A not-so-funny thing happened on the way to the 21st century: hardworking Americans overwhelmingly stopped caring about their jobs. After years of massive layoffs and countless acts of corporate callousness, people from all fields and backgrounds – but especially the young and educated – got the message: the company no longer values them. Expecting the worst to happen, they saw no reason to give any organization their all. As a result, as many as two-thirds of today's workers are either actively looking for new jobs, or merely going through the motions at their current jobs. While they still show up for work each day, in the ways that count, many have quit.*

While the above describes the situation in the USA, we would contend the same scenario is being repeated in many workplaces across the globe.

The rising importance of employee engagement

It is for that reason too that 'employee engagement' – a term barely heard before the late 1990s – has become a major issue for businesses large and small. That's because high-performance theory places employee engagement, or 'the intellectual and emotional attachment that an employee has for his or her work' (Heger, 2007), at the heart of performance – especially among knowledge workers. The relationship between the individual and the organization provides the context in which employee engagement is created.

Employee engagement is characterized as a feeling of commitment, passion and energy that translates into high levels of persistence with even the most difficult tasks, exceeding expectations and taking the initiative. At its best, it is what Csikszentmihalyi (1998) describes as 'flow' – that focused and happy psychological state when people are so pleasurably immersed in their work that they don't notice time passing. In a state of 'flow', people freely release their 'discretionary effort'. In such a state, it is argued, people are more productive, more service-oriented, less wasteful, more inclined to come up with good ideas, take the initiative and generally do more to help organizations achieve their goals than people who are disengaged.

Employee engagement has been linked in various studies with higher earnings per share, improved sickness absence, higher productivity and innovation – the potential business benefits go on and on. For instance, a Corporate Leadership Council (CLC) study found that companies with highly engaged employees grow twice as fast as peer companies. A three-year study of 41 multinational organizations by Towers Watson found those with high engagement levels had 2–4 per cent improvement in operating margin and net profit margin, whereas those with low engagement showed a decline of about 1.5–2 per cent.

Company data also highlight links between engagement and performance. **Marks & Spencer**, the famous UK retailer, includes several questions relating specifically to engagement in its annual survey of its 80,000 employees. The scores of the stores with the highest and lowest levels of engagement correlate strongly with their sales figures, mystery shoppers' scores and absence rates (Arkin, 2011).

So interested was the UK Government in how employee engagement affects productivity that in 2007 the Department for Business (BIS) commissioned a review to investigate the links. Business leaders from all sectors of the UK economy, HR professionals, academics, union leaders, trade bodies and other interested parties took part. As David MacLeod, one of the authors of the resulting report *Engaging for Success: Enhancing Performance through Employee Engagement* (also frequently referred to as 'The MacLeod Report') put it, 'the job is to shine a light on those doing it well so that more employers understand the benefits of working in that way and really embrace it' (in Baker, 2010). One interviewee for the MacLeod report concluded that:

> *Engagement matters because people matter – they are your only competitive edge. It is people, not machines that will make the difference and drive the business.*
>
> (MacLeod and Clarke, 2009, p. 137)

How engaged are employees?

It seems that even in 'normal' times only a minority of employees are fully engaged at any one time, with almost as many actively disengaged. Various UK studies suggest that more than 80 per cent of British workers lack real commitment to their jobs, with a quarter actively disengaged. Despite the conclusion by BlessingWhite Research in its *Employee Engagement Report* (2008) that US workers are among the most engaged worldwide, research of nearly 8000 US workers by Harris Interactive in 2010 found that only 20 per cent reported feeling very passionate about their jobs. Even back in 2003, a Gallup poll reported that only 19 per cent of British employees were engaged and that 20 per cent were actively disengaged. The cost of this was then estimated at between £37.2 billion and £38.9 billion (Flade, 2003).

Today's tough times are likely to create even greater engagement challenges, with potentially serious consequences for organizations and the economy. HR consultancy Aon Hewitt reported in June 2010 that 46 per cent of the companies they surveyed had seen a drop in engagement levels – a 15-year record. Similarly, research in 2010 from the professional body for HR professionals in the UK and Ireland, the Chartered Institute of Personnel and Development (CIPD), found that only three in ten employees were engaged with their work (Alfes et al., 2010). It also discovered that:

- only half of people say their work is personally meaningful to them and that they are satisfied with their job
- fewer than one in ten employees look forward to coming to work all of the time, and just over a quarter rarely or never look forward to coming to work
- just under half of all employees say they see their work as 'just a job' or are interested but not looking to be more involved
- approximately half of all employees feel they achieve the correct work/life balance.

Research has found that employee engagement is on the decline and there is a deepening disengagement among employees today (e.g. Truss et al., 2006; Bates, 2004). Flade (2008) estimates that the cost of disengagement to the UK economy in 2008 alone was £64.7 billion. This declining level of engagement has a number of implications for businesses:

- It reflects a weakening of trust, which is an essential precondition for employee engagement. The deep recession and ongoing economic turbulence have strained the relationship between employers and employees. Public trust in business leaders, markets and institutions has been undermined and this mistrust has extended to within organizations. Now, people may be more inclined to distrust first rather than trust, and are less willing to give discretionary effort.
- The longer-term risk to the retention of key people. With high levels of unemployment, it's easy to dismiss this in the short term; but recruitment firms are aware of wide-scale, pent-up career frustration and predict that, as soon as the jobs market improves, there is likely to be significant employee turnover.
- Those employees who stay may no longer give their discretionary effort, with potentially damaging consequences for performance. The longer the downturn goes on, and the tougher the measures taken to keep organizations viable, the greater the risk of employee relations becoming more difficult and employees themselves simply 'hunkering down' and doing the minimum necessary to get by, but no more than that. Given that tough times are when businesses need the best from their people in order to succeed, this is really the worst of all worlds.

So it's clearly important – but what exactly is employee engagement?

Defining terms

Definitions of employee engagement abound and there is no single standard definition, since various experts place emphasis on different aspects of the subject. Some focus on what drives engagement, while others consider the effects of engagement. Some look at specific players involved, such as the role of the supervisor, or the part played by top management; other definitions consider the state of engagement, or how it feels to be engaged.

In the following sample of definitions, some of the differences of emphasis are obvious. Employee engagement is:

- the individual's involvement and satisfaction with, as well as enthusiasm for, work (Harter et al., 2002)
- employees' relationship with the organization, its leadership and their work experience (Towers Watson, 2008)
- a heightened emotional and intellectual connection that employees have with their job, organization, manager and co-workers (The Conference Board, 2006)
- a positive attitude held by the employee towards the organization and its values (Robinson et al., 2004)
- a set of positive attitudes and behaviours enabling high job performance of a kind that is in tune with the organization's mission (Storey et al., 2008)
- the connection and commitment that employees exhibit towards an organization, leading to higher levels of productive work behaviours (Vance, 2006)
- 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 (Corporate Leadership Council, 2004).

In other words, engagement is both a cause and effect. It involves a relationship between the organization and the employee. It builds on several more familiar workplace concepts such as employee commitment, job satisfaction and organizational citizenship; however, engagement goes beyond all of these since it connects these positives with improving business outcomes and performance. The concept builds on early studies carried out after the Second World War that found links between employee morale and worker speed and reliability in the mass-production economy.

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But employee engagement is not to be confused with employee satisfaction. Satisfaction levels can be raised to a very high level – but the effect on the business might actually be negative due to cost, the entitlement mentality created or worker complacency. In contrast, engagement is about what the engaged employee will do in relation to the organization. Engagement is seen firstly as an 'attitude of mind', a set of positive attitudes, emotions and behaviours enabling high job performance of a kind that is in tune with the organization's mission. For us, employee engagement is about winning commitment by transforming the bond between the employee and the organization so that someone really is ready to offer their head, hands and heart to the job. But what constitutes engagement is something we'll explore in more detail in Chapter 3.

In some ways, saying that employee engagement is important to productivity is stating the obvious. Intuitively we know this makes sense. We've all met people who are engaged in what they're doing, who are willing to make extraordinary efforts on behalf of their organization. We've also probably seen the opposite, where the dead hand of cynicism and disengagement kills off the spark of ingenuity, energy or innovation.

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What does engagement look like?

While we may all have a sense of what engagement looks like, research by the UK's Institute for Employment Studies (Robinson et al., 2004) found that engaged employees:

- look for, and are given opportunities to, improve their performance – and this benefits the business
- are positive about the job and the organization
- believe in and identify with the organization
- work actively to make things better

- treat other people with respect and help colleagues to perform more effectively
- can be relied on and go beyond the requirements of the job
- see the bigger picture, even at personal cost
- keep up to date with developments in their field.

In short, employee engagement is easily the most likely and desirable focus for developing the employment relationship between individual employees and their employers.

The employment relationship has often been described as one characterized by exchange (Rousseau, 1990; Guest, 1997; Coyle-Shapiro and Kessler, 1998). This assumes a two-way relationship, one of reciprocity and mutual benefit. As well as an explicit exchange of work in return for pay and benefits, there are also more implicit or subconscious social exchange processes occurring within the workplace. These are invisible, but no less powerful – and, as a consequence, the employment relationship is increasingly conceptualized as involving a 'psychological contract'.

Unlike a legal contract, the psychological contract focuses on the individual (and hence more subjective) nature of the employment relationship. It represents the individual's expectations about the overall employment 'deal' – what obligations the employee owes the employer and vice versa. These can include expectations about job security, how work is assigned, what is a reasonable level of work pressure or about how career progression will occur. Long-standing custom and practice will reinforce the psychological contract, but it remains something that can easily be undermined, and with it, overall levels of engagement.

Social exchange theory argues that when one party gives something to another, it expects the other party to reciprocate by providing some contributions in return (Blau, 1964). From an employer's point of view, engagement is about employees exerting extra 'discretionary effort' to help the organization succeed. Employees, on the other hand, want worthwhile and meaningful jobs. If the balance seems fair, there is a good possibility that employees will be engaged. Even if conditions deteriorate somewhat, a strong psychological contract that feels fair will keep employees engaged with their employers – in some cases for quite some time, if managers take the right steps.

What does disengagement look like?

Conversely, symptoms of disengagement are more commonplace. Gallup distinguishes between employees that are 'actively engaged', 'not engaged' (i.e. average performers) and actively disengaged (Flade, 2006). In most studies, the latter two groups are reported as being in the majority. You may have heard the (probably apocryphal) story about the CEO of a large international corporation who called in management consultants to survey his workforce because he was concerned about low levels of morale and productivity. The consultants surveyed the entire workforce and after considerable analysis were able to present the findings to the CEO. 'Well,' said the lead consultant, 'you're extremely fortunate to have such a talented and capable workforce. They're all using their initiative, showing leadership and demonstrating teamwork, and are concerned about doing a good job. The only problem is that they're not doing that at work.' The talents and energies of those employees were being used to benefit their families and communities, as scout leaders, school governors, etc., rather than being applied at work. The challenge of course is to create the work context in which people want to make their greatest contribution.

In various studies, scholars suggest that it is the psychological contract that mediates the relationship between organizational factors and work outcomes such as commitment and job satisfaction (e.g. Guest and Conway, 1997; Marks and Scholarios, 2004). Typical organizational factors of employment relationships – such as job security, performance management, human capital development, opportunities for growth and the firm's core philosophies of Human Resource Management (HRM) – may have a profound impact on the development of perceived mutual obligations (Rousseau, 2000; Sparrow and Cooper, 2003; D'Annunzio-Green and Francis, 2005). As long as the 'obligations' that the employee feels are owed by their employer continue to be met, the employee is likely to reciprocate with good performance.

If one or other party, more commonly the employer, unilaterally changes the terms of the psychological contract, the other party, usually the employee, may perceive that their psychological contract has been breached or violated. According to Coyle-Shapiro and Kessler (2000), the extent of the balance/imbalance appears more important to the nature and health of the contract than the specific content of the contract. When employees perceive that the terms of their psychological contract have been breached, they reciprocate by withdrawing or making less effort on behalf of their employer. Symptoms of psychological contract breach – such as emotional exhaustion, higher turnover intentions, turnover behaviour, and lower job satisfaction, trust and commitment – are now increasingly associated with employee disengagement.

In other words, if people perceive that their psychological contract has been broken by their employer – for instance if their workload is significantly increased, or they work in a high-pressure environment or because their own job may be at risk – people are unlikely to remain engaged. And if employees more generally become disengaged, there can be negative consequences for productivity and innovation.

When employees perceive that the terms of their psychological contract have been breached, they reciprocate by withdrawing or making less effort on behalf of their employer.

Some of these consequences may initially be quite subtle. For instance, in 1998 one of us carried out a brief retrospective study of a merger between two pharmaceutical companies that had taken place in 1991, in which Company X had acquired Company Y. The HR Director was one of the few members of senior management from Company Y to survive the merger. Several months after the merger, the rate of productivity among the research scientists formerly of Company Y had dropped significantly. None of these employees was at risk of losing their job, but many did not yet know exactly where they would be assigned. The HR Director was asked by the Board what was going on. He used the phrase 'they're burying their babies' to describe the way employees were keeping their best ideas to themselves in case they wanted to leave the company. Without trust, there was little basis for rebuilding a psychological contract with the new organization. Moreover, individual psychological contracts in this case were influenced by group perceptions about whether there was an equitable and viable basis for a social contract with their new employer.

A win-win relationship?

Mainstream people management practices are built on the assumption that what is good for the employer is always good for the employee. These take an instrumental view of employees, who are generally portrayed as 'consumers' of HR practices or of employer brands. For instance, the CIPD argues that engagement works by bringing together the objectives of employees and employers to the benefit of the organization, creating a win-win situation. Similarly, in what Tsui et al. (1997) describe as the 'mutual investment model', there is a mutually beneficial transaction between an employer willing to ensure the wellbeing of the employee (e.g. health and wellbeing, career opportunities, and training and appraisal) and an employee who knows what is expected and offers up the appropriate behaviours to meet those expectations. High mutual obligations are significantly more likely to lead to better outcomes for the organization, such as higher employee commitment and the associated benefits of discretionary effort, pro-social organizational behaviours and so on.

In practice, the goals of employers and employees may not be perfectly aligned. For example, there is some research suggesting that many employees – even at executive level – would prefer to trade off some of their income for a reduction in working hours. Moreover, such a balance of interests is even less likely to be achieved in a context of downsizing and ever-increasingly tight control of resources by employers, as a result of which employees who 'survive' redundancy are expected to take on heavier workloads. Whereas the traditional employment relationship model of industrial relations consisted of 'regulated exchange' and collective agreements between management and employees (Sparrow, 1996, p. 76), today's workplaces are far less regulated and the employee relationship with the employer is more individualized. As a result, employees are more likely to find their part of the 'deal' becoming unbalanced. In such a context, how mutual is the employment relationship and how much influence can individuals exercise within it? Or does it lead to a workplace culture of disgruntled compliance rather than enthusiastic commitment?

In contrast, engagement is about how responsive an employee is to their organization. We recognize that different people will be engaged by different things and a good many may not be open to being engaged with their organization at all. For instance, an employee may love their work and like their colleagues, but have no regard for their supervisor or the organization as a whole. In the university sector, for example, it is not uncommon to find academic staff who are highly engaged with their work and enjoy collaborating with their international peers, but who are scathingly critical of their own institution and its management. If the individual is engaged with their work but not their organization, should this matter? Arguably, yes, if their lack of commitment to the organization manifests itself in unhelpful attitudes or disparaging remarks that undermine any sense of common purpose among their immediate colleagues.

That's the point about discretionary behaviour: it is discretionary and cannot be 'forced' out of people. This puts the onus on the employer to create the conditions in which employees are prepared to 'connect' and give more of their discretionary effort. This includes taking into account the organizational culture: while the people within it (especially senior managers) create the culture, they are also shaped by it. It is hard to remain engaged and keep 'going the extra mile' when no one else does. All these potential engagement challenges require a proactive, leadership response – but employee engagement is a shared responsibility between the 'right' kinds of leaders, managers and HR practitioners, as well as employees themselves.

What do employees want?

According to a study of 90,000 employees in 18 countries by HR consultancy Towers Watson (2008), engaged employees are not born; they're made. Most employees care a lot about their work. They want to learn and grow. They want stability and security, and, with the right opportunities and resources, they'll commit to a company. They care deeply about a work-life balance – which does not mean slacking off. They want to give more and get a measurable return for their effort. And, as we shall discuss in later chapters, most employees want to feel valued and involved. Above all, they want work with meaning and purpose.

The American writer Studs Terkel (1974, p. xiii) sums up what is probably a common desire across generations:

> *Work is a search for daily meaning as well as daily bread; for recognition, as well as cash; for astonishment rather than torpor; in short – for a sort of life, rather than a Monday–Friday sort of dying.*

When Terkel first wrote this in the 1970s, scientific management practices were being applied to white collar office work for the first time, thanks to technology. Also known as 'Taylorization' (after F.W. Taylor, who pioneered the time and motion studies that formed part of this approach), these practices were originally applied in manufacturing environments such as the Ford Motor Company. Taylor apparently said:

> *Hardly a competent workman can be found who does not devote a considerable amount of time to studying just how slowly he can work and still convince his employer that he is going at a good pace.*

This observation shows that the underlying principle of Taylorization is a lack of trust. Instead, work was broken into its components, with skilled/decision-making work separated from the routine. Such fragmentation allowed greater control, with decision-making becoming the preserve of management. As a result, many people found their ownership of the work process, and the quality of their work experience, diminished. Conversely, other people found themselves 'work-rich'. The resulting trend – still visible today – is towards heavy workloads, shorter lead times and higher work demands.

So Terkel's comment is likely to apply now more than ever. With the generational change occurring, Generation Y and 'Net Gen' employees are increasingly looking for work where they are more actively involved and listened to; they want to identify with their workplace and not simply see it as somewhere to spend the working week. In Chapter 3 we will explore in more detail what many employees appear to find meaningful at work.

Added to this is the greater insecurity in the workplace. Whereas being made redundant was once seen as rare, and mostly affecting older workers, many employees will have experienced this at least once in their lifetime – and in some cases, more than once. Added to this is the trend towards flexibility at work: with more use of temporary workers, contractors and outsourcing, the risk is that employees become more concerned with worrying about their future than about their work. Taken together, these trends prompt the question 'just how is flexibility to make a more engaged human being?' (Sennett, 1998, p. 45). We shall examine this question more specifically in the next chapter.

> Engaged employees are not born; they're made. Most employees care a lot about their work. They want to learn and grow.

The business case – what's the evidence?

Organizations therefore need to be able to adapt to a new context – the people economy. And, given today's fast-changing environment, organizations also need to be agile: to swiftly turn decisions into actions, manage change effectively and as part of 'business as usual', focus intensely on customers, and optimize the value of knowledge and innovation. Employee engagement is the vital ingredient in all these capabilities. It is the link between strategic decision-making and effective execution, between individual motivation and product innovation, and between delighted customers and growing revenues. For the UK parent of an international aerospace business, the benefits of staff engagement are multiple:

- Better understanding of problems is spread across the workforce – it is essential to have an effective problem-solving culture.
- Teams of committed employees are helped to grow and develop, evaluate issues, and make decisions.

As a company spokesperson put it, ‘this is not an optional extra – it is the UK’s only source of possible competitive advantage in this global business’.

Engagement is important and cannot be taken for granted. The former CEO of GE, Jack Welch, has been quoted as saying that ‘no company, large or small, can succeed over the long run without energized employees who believe in the mission and understand how to achieve it’. Here are some more of the many ‘soft’ or hard-to-quantify reasons for taking employee engagement seriously:

- It unlocks people’s potential and raises their involvement in the business.
- It increases motivation, productivity, quality and innovation in the workplace.
- It can raise job satisfaction and psychological wellbeing, and help people get through downturns with a positive attitude and retain them in the upturn.
- It increases the employees’ sense of pride so they become stronger advocates for the organization, improving its brand and reputation.
- It can help pull together different workforces as part of the post-merger integration of two organizations.
- It links clearly with employees’ willingness to stay working with their employer and their advocacy – a disposition to spread the word about what a good place the organization is to work in and for, and do business with. (Disengagement has a similar effect – in the opposite direction. For instance, one fast food chain suffered damage to its brand image when a video of a disgruntled employee being very unhygienic in his handling of the food products was shown on YouTube.)

Another ‘soft’ factor is the so-called ‘cost of quality’. This isn’t the price of creating a quality product or service; it’s the cost of *not* providing a quality product or service, perhaps because the employee is so disengaged that they do not care enough to do a good job. Every time work is redone, the cost of quality increases. That’s because if a service needs to be reworked, such as the reprocessing of a loan operation or the replacement of a food order in a restaurant, this represents a cost that would not have been expended if quality were perfect. In customer-facing situations, the risk of financial penalty of poor service is higher given that it is estimated that customers tell at least another seven people about the dreadful service they have received.

However, for those looking for irrefutable proof that engagement leads directly to performance, the picture can be frustrating. The wide variety of definitions of employee engagement is reflected in the many ways it is measured, as we shall consider in more detail in the next few chapters. Engagement is usually measured by how people behave at work – described in terms such as 'committed, enthusiastic, open-minded, focused, helpful, caring, vocal and positive'. What is less clear is whether engagement is an output of an individual's intrinsic motivations or an output from a series of activities or processes – and if so, what are these?

Attempts to provide harder evidence of the value of engagement abound. A large body of research explores how clusters of Human Resource practices appear to impact on employee engagement and performance (Huselid, 1995; Guest, 2002; Purcell et al., 2003). By and large these studies are inconclusive with respect to tying down specific and universal causal linkages, but there is a strong consensus that certain 'clusters' of practices work effectively in some situations, some of the time.

Many survey providers claim to have found a strong correlation between engagement levels and productivity, profitability, customer service and innovation. More generally, high levels of engagement promote retention of talent, foster customer loyalty and improve organizational performance and stakeholder value (SHRM, 2011a). Other studies suggest that engagement accounts for roughly 40 per cent of observed performance improvements. It is true to say that the data does not state there is a clear causality at work; nevertheless, the closeness of the relationship is such that many major organizations have concluded the financial benefits from engagement make it a key business imperative:

- Highly committed employees try 57 per cent harder, perform 20 per cent better and are 87 per cent **less likely to leave** than their disengaged colleagues (Corporate Leadership Council, 2004).
- When employees are highly engaged, their companies enjoy 26 per cent higher employee productivity (SHRM, 2011a).

- Companies with a highly engaged workforce **improved operating income** by 19.2 per cent over 12 months; those with low engagement saw **operating income decline** by 32.7 per cent (Towers Watson, 2008).
- Engagement levels are predictors of **sickness absence** – highly engaged employees miss 20 per cent fewer days of work (SHRM, 2011a).
- Top-quartile engagement scores correlated to 2.6 times **earnings per share** compared with those in below-average engagement. Those in the top quartile averaged 12 per cent higher profitability (Flade, 2006).
- Companies with highly engaged employees enjoy 26 per cent higher employee productivity, have lower turnover risk and are more likely to attract top talent. These companies also earned 13 per cent greater total returns to shareholders over the past five years (Towers Watson, 2010b).

Many studies conclude that highly engaged employees tend to support organizational change initiatives and are more resilient in the face of change. During today's challenging times, in which many organizations are downsizing or implementing other cost-reduction measures, it becomes more important than ever to understand how to maintain or enhance employee engagement.

In some sectors, executives do not need persuading to take employee engagement seriously. A good deal of research in the banking and retail sectors points to a strong link between engagement, customer service and satisfaction, as well as associated revenue and profitability levels. In such sectors there is a clearly identifiable service-profit value chain. As a spokesperson for **HSBC** put it:

> *Employees' intellectual capital is the business's greatest asset. We need to work to keep their interest and involvement in the company high. We need to recognize these contributions through questions, feedback and suggestions.*

Similarly, a spokesperson for the UK supermarket firm **Sainsbury** pointed out that:

Employee engagement drives customer service – we can predict store performance by reference to its engagement scoring, the higher that is the better the store will do.

> During today's challenging times, in which many organizations are downsizing or implementing other cost-reduction measures, it becomes more important than ever to understand how to maintain or enhance employee engagement.

The well-known work on the employee-customer-profit chain at the US department store **Sears** (Kirn et al., 1999) tells a compelling story about how improvements in employee attitude (about the job and about the company) drive employee behaviour and retention. This then drives service helpfulness and perceived merchandise value, leading to customer impression, retention and recommendation, which in turn leads directly to operating margin, revenue growth and return on assets. In the case of Sears, a five-unit increase in employee behaviour led to a 1.3 unit increase in customer impression, which led to a 0.5 per cent increase in revenue growth. So skilled was the analysis of employee data, and the implementation of related policies and actions, that Sears was able to use employee and customer survey data to predict business results.

A public sector equivalent of the private sector service-profit chain model has been produced based on research carried out in Canada (Heintzman and Marson, 2006). In public sector organizations the bottom-line results of private sector value chains are replaced by trust and confidence in public institutions. Heintzman and Marson argue that engaged employees drive citizens' service satisfaction, which in turn drives increased trust and confidence in public institutions. They base their model on the top public sector reform challenges, namely:

- modernizing human resource practices
- service improvement
- strengthening citizens' trust in public institutions.

Engagement challenges and approaches therefore appear to apply across sectors and geographies, even if there may be differences in what specifically works where, and for whom. So adopting a proactive approach to employee engagement brings benefits to stakeholders. For instance, in the UK's **National Health Service**, it has been found that patients recover better and live longer where staff commitment has increased (Dawson, 2009). In **Bromford**, the Housing Association (fifth in the UK Best Places to Work list in 2007), a spokesperson describes engagement in action:

> *Achieving 100% tenancy occupancy was, we thought, an impossible target, but employees set it as their own target and they did it – colleagues expect more of themselves than do their managers.*

IES research (Robinson et al., 2007) suggests that the business benefits of employee engagement include greater customer loyalty, better productivity, improved employee retention, positive advocacy, performance and receptivity to change.

Of course, a key feature of engagement is that there are 'win-win' outcomes for all concerned, so employees benefit too. They experience enjoyable work, health and wellbeing, and self efficacy. What's not to like?

Conclusion – an engagement deficit?

So we can conclude that employee engagement makes a significant difference to business results, even though the exact causality is not always clearly understood. We argue that engagement reflects the state of the employment relationship and, at an individual level, the psychological contract. In the current environment, that engagement is likely to be at risk.

Employers therefore cannot afford to be complacent if they wish to retain and motivate valued employees. Yet strangely, the MacLeod Report found strong evidence of an 'engagement deficit' among many UK senior executives – and we doubt whether UK managers are alone here. In some cases it's because leaders and managers are unaware of employee engagement, or do not understand its importance. In other cases, leaders understand its importance but appear ill-equipped to implement engagement strategies – especially if these might challenge their power base. The issue seems to lie in their unwillingness to 'walk the talk' on values and truly relinquish command and control styles of leadership in favour of a relationship based on mutuality (MacLeod and Clarke, 2009).

This suggests that if leadership and management styles are to be conducive to improving employee commitment, they must evolve to meet today's challenges. Changing workforce dynamics, a more educated workforce and different motivators by generational group mean that old-fashioned 'stick and carrot' incentives are less likely to work. Likewise, the longer-term demographic shift and a more diverse workforce (gender, ethnicity, age, etc.) precludes 'one size fits all' solutions to attracting and retaining people. When competition for skilled staff eventually returns, an inability to engage effectively will lead to haemorrhaging of talent from slow-responding companies.

In this new era, employers will need to be smarter about how they develop employment relationships based on adult-adult, rather than parent-child, relationships. They will need to ensure mutual benefits (as well as risks) for both organizations and employees in engaging for sustainable high performance.

Persuaded? In the next chapter we shall consider why engagement is so elusive and look at what gets in the way of employee engagement.

Checklist

- Which groups or individuals are critical to your organization's success? How engaged are these people?
- What do you consider to be the critical people risks in your organization?
- How well do managers in your organization (especially top management) understand the importance of engagement to business success?
- How proactive are your organization's strategies to increase employee engagement and retention?