Measuring the Success of Employee Engagement

A Step-by-Step Guide for Measuring Impact and Calculating ROI

Patricia Pulliam Phillips, PhD
Jack J. Phillips, PhD
Rebecca Ray, PhD

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ROI INSTITUTE™

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Preface

A large construction aggregates company with 300 plants was facing a typical challenge. Although it was successful, there was an opportunity to improve. In a low-cost industry, the company struggled to keep operating costs below the target numbers. However, company executives believed that if employees were more engaged, plant-operating costs should be reduced. A survey was administered to confirm the status of engagement, and the results were much lower than expected. The employee engagement system needed to be revised. The vice president of operations agreed, and approved a project that involved:

- adjustments in job descriptions and responsibilities
- a revision of the definition of engagement
- formal training with employees and plant managers
- sharing cost data with employees
- brainstorming sessions with employees to generate cost-saving ideas
- routine meetings with employees to discuss actions
- a gainsharing program that shared half the cost savings with employees.

The project would be implemented on a pilot basis with six plants. If successful, it would be implemented in all plants at a cost of about $12 million. The VP of operations was willing to make this investment if the human resource function could show the financial return on investment (ROI)—"How can I spend this amount of money and not show my shareholders the return on this investment?" This request presented a challenge to the HR executives, who had never pursued an ROI study for any of their previous projects.

This case study highlights three developing trends:

- Globally, a record amount of money is being invested in employee engagement, as confirmed by several benchmarking reports.
- A record number of requests are being made for accountability for employee engagement, including showing impact and ROI for major programs.
- Human resource professionals, particularly those involved in these soft skill areas, must be prepared to step up to this challenge, not only when impact and ROI are requested, but ideally before the request is made. HR professionals around the world are doing just that by developing the skills to become certified ROI professionals (CRP).

This case study has a happy ending, as detailed in chapter 8 of this book.

SNEAK PREVIEW

Measuring the Success of Employee Engagement addresses the issues outlined in the case study. It demonstrates how employee engagement can be evaluated, including measuring impact and ROI. This method represents a significant change in employee engagement because this process begins with the end in mind—the business impact, if it is evaluated at that level. This shift in thinking about employee engagement, which often begins with seeking new engagement behaviors, moves the discussion to business improvement. New behaviors are sought and needed for a reason, which often involves driving the impact of a group of people.

This book will take you through the necessary steps to make this development, and points to other resources for more detail if necessary. The information in the first half is complemented by the case studies in the second part, which use real-life examples to amplify how this challenge is being met. *Measuring the Success of Employee Engagement* is an essential resource for the employee engagement team, chief learning officer, chief talent officer, chief human resources officer, and others who support employee engagement.

THE FLOW OF THE BOOK

This book begins with a chapter about the status of employee engagement and the challenge of showing its worth to the organization. The next six chapters present the ROI Methodology, which is the most documented and used evaluation system in the world, and fits perfectly with employee engagement. Many practitioners are using this approach to clearly show the value of employee engagement using data that top executives appreciate and understand. Part II presents case studies that offer a variety of settings, programs, and content.

TARGET AUDIENCE

The principal audience for this book is individuals involved in leading the human resource or the learning and development function. Whether their title is chief learning officer, chief talent officer, or chief human resources officer, these individuals need to understand that major employee engagement programs are not only necessary, but can also provide impressive business results. When this value is shown, it improves support, respect, and critical funding for future employee engagement programs.

A second audience is employee engagement directors, organizers, coordinators, and consultants charged with implementing employee engagement in organizations. These practitioners need to know how to set up employee engagement programs to deliver value from the beginning, how to keep the focus on the business impact throughout the process, how to follow up to see if the business impact has been delivered, and how to show the financial ROI directly from the employee engagement program.

A third audience is individuals who are involved in or support employee engagement in some way. This group includes the participants of the program, managers who have some of their own team involved, advisers to the employee engagement team, employee engagement facilitators, external consultants and designers, and developers of employee engagement programs. For individuals in any of these roles, this book provides further evidence that employee engagement is making a difference and satisfying the appetites of the executive group.

CASE STUDIES

The case studies presented here represent a cross section of employee engagement programs with different levels of participants and in different types of organizational settings, such as manufacturing, construction, mining, retail stores, and hotels.

ACKNOWLEDGMENTS

Rebecca Ray

I remain deeply appreciative of the opportunity to continue the important discussion about the role and impact of employee engagement, this time through the detailed examination of real challenges and solutions articulated in this book. A special thanks to the executives who shared their stories with us and who see employee engagement—lifting people to their highest potential and ensuring the continued success of an organization—as a noble calling. Over the years, the leaders I've worked with, the teams I've been part of, and the challenges I've had the good fortune to tackle have taught me many things, some of them about the subject matter, but many more of them about myself as a leader. One of my greatest professional pleasures is to partner with Jack and Patti—their insights make me smarter, their ability to inspire thousands to tackle and master a sometimes daunting challenge is humbling, and their generosity of spirit is boundless. I am very fortunate. How often does one get an opportunity to learn from legends? Finally, I wish to thank my muse.

Patti and Jack

We want to thank all the leaders we have worked with during the last 23 years in our work at ROI Institute. Most of our projects take us to the middle and top leadership teams of organizations. We have had the pleasure of working with thousands of organizations and have witnessed the great results from many types of programs. The successful implementation of ROI in an organization is a direct result of great leadership for that function. We have seen firsthand that leaders can make a positive difference, and that they add value. We thank them for their efforts and applaud their accomplishments.

We also would like to acknowledge the great work of Rebecca Ray, executive vice president, knowledge organization and human capital lead at The Conference Board. Rebecca is an outstanding leader, who has led teams for learning and development and human resources in very high-profile organizations. She is also an outstanding teacher, speaker, writer, and researcher. She brings those skill sets quite effectively to The Conference Board. We are delighted to be working with her on another publication.

From Jack: Thanks to Patti, who inspires me to do my best as she keeps the team on track. She is an outstanding facilitator, an insightful consultant, a sought-after speaker, a meticulous writer, a prolific researcher, and most of all—a loving spouse.

From Patti: As always, much love and thanks go to Jack. You invest much more than you get in return. What a contribution you make! Thank you for your inspiration and the fun you bring to my life.

Finally, we want to thank the efforts of Hope Nicholas, director of publications for ROI Institute. Hope manages a very hectic schedule as we produce eight to 10 books each year with major publishers. Her great work shines through in this manuscript; we are fortunate to have her with us and are delighted to work with her again on another project. For this project, Hope was assisted by Anita Azeta, client relationship manager at ROI Institute.

Comments and Suggestions

As always, we welcome your comments, suggestions, and recommendations. This is the sixth book in the Measuring the Success of series and we have many more planned. Please send your thoughts directly to the authors or to ROI Institute at info@roiinstitute.net.

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Part I

The ROI Methodology

A Credible Approach to Evaluating Employee Engagement

1

The Importance of Employee Engagement

There is probably no other topic more frequently discussed in the human resources area than employee engagement. Articles, conferences, and books are filled with issues about employee engagement, usually for good reason. Fully engaged employees remain with their organization, produce more, and are more efficient. In addition, they will satisfy customers and increase sales. This is achieved by examining not only the *why, what,* and *how* of the work, but also *where* and *when* the work is done, addressing alternative and flexible work systems and workspace design. When these issues are addressed properly, they can foster a long-lasting, high-performing work team. This chapter explores a variety of issues about employee engagement, how to make it successful, and how to know when it is successful. It also discusses different arrangements for alternative and flexible work systems and how to make them successful—all leading toward a particular set of strategies for these issues.

THE SHIFTING NATURE OF WORK

When you look into any kind of organization, you can see that the nature of work has changed. In some organizations, it has changed dramatically, particularly for knowledge workers in office spaces. This change in work involves the work itself, the meaning of work, and how it is accomplished, including the place, time, and environment in which it is accomplished. This shift is illustrated in Exhibit 1-1, which shows the drastic differences between employee behaviors of the past and the future. Many of these changes focus on engagement—having an employee who is more connected to the organization—and that feeling of belonging and ownership translates into more effort, more productivity, and more success for both the individual and the organization (Morgan 2014). These issues represent important opportunities for change and improvement.

EXHIBIT 1-1. The Shifting Nature of Employees at Work

Past	Future
Disengaged with work	Engaged
Keep busy	Get Results
Find satisfaction away from work	Find satisfaction at work

EXHIBIT 1-1. The Shifting Nature of Employees at Work (continued)

Past	Future
Hoard information	Share information
No ownership of work	High levels of ownership
Focus on knowledge	Focus on adaptive learning
Minimal collaboration	High levels of collaboration
Predefined work	Customized work
No voice	Can be a leader
Focus on inputs	Focus on outcome
Work in a cube	Work in a variety of open space formats
Rely on email	Rely on collaboration technologies
Use company equipment	Uses many devices
Work 8-5	Work anytime
Work in the office	Work anywhere

Adapted from Morgan (2014).

Employee Engagement Is the Critical Difference

We've seen the headlines from newspapers in the developed economies of the United States and Europe about anemic economic growth, massive layoffs, scarce job openings, and worker disillusionment due to the demise of the "employee contract." Those still working often find themselves in an environment characterized by company instability, frequent management turnover, reductions in health benefits, reduction or elimination of pension contributions, and high levels of stress that result from the fear of losing a job or having to shoulder the burden of additional work left by departed coworkers. Those who find a new job after long-term unemployment are often overqualified, underutilized, or hired at lower compensation levels because it is a buyer's market. Further, in rapidly growing, emerging markets, the abundance of low-skilled workers often means a booming economy built on the backs of laborers in modern-day sweatshops and factories, sometimes with disastrous workplace tragedies. In hotter job markets (which have tighter talent pools), many employees choose to jump from one job to another in order to quickly move up the title and salary ladder, developing little commitment to a company, its customers, or its mission.

Against that backdrop, it's hard to believe that any company has the kind of employee population that can make it successful, given the challenging economies, increasing pressures from new competitors, rising pace of technological change, increasing government regulation, and heightened geopolitical risk. Yet there are still companies who outperform their industry peers, even when so many of their products, services, structures, and challenges are surprisingly similar. These high-performing companies excel at a variety of business metrics, from shareholder value

to operating margin to workplace safety. They are more likely to be innovative. They have stronger employee value propositions to retain key employees and a compelling brand to attract new talent.

What makes this critical difference? Many would argue that the difference is an engaged workforce that consistently delivers superior performance, creates innovative products and solutions, and serves as a brand ambassador to drive customer loyalty and attract great candidates.

So, what can companies do to stem the tide of worker malaise and distrust? How can they drive high levels of employee engagement, or build a culture of engagement that fosters the kind of employee performance that makes the difference between survival and success? And even more important, how do they measure the impact so that they know whether they are successful? The answer is to develop employee engagement programs and initiatives at the organizational or business unit level. This begins with an examination of the macro level of employee engagement: what employee engagement is, the factors that drive (or hinder) engaged workforces, the evolution of the concept of engagement, the state of engagement and engagement practices today, and thoughts on building a culture of engagement.

The Drivers of Engagement

There is a great deal of research about what actually drives engagement, which usually reflects aspects of the business culture, relationships with supervisors, and workload. Well-known assessments by Towers Watson, U.S. Merit Systems Protection Board, and The Conference Board have revealed many insights about employee engagement (Ray 2011).

Towers Watson's *2014 Global Workforce Study* lists five global top drivers of sustainable engagement that focus on behaviors and actions that matter to employees:

- leadership: is effective at growing the business; earns employee's trust and confidence; behaves consistently with the organization's core values; envisions the future; inspires others to follow; transforms the organization to achieve the vision; and adapts to changing internal and external conditions
- organization's image: highly regarded by general public; displays honesty and integrity in business activities
- goals and objectives: employees understand the organization's business goals, steps they need to take to reach those goals, have the resources and support to do the job effectively, and see how their job contributes to achieving goals
- work/life balance: manageable levels of stress at work; a work environment that supports well-being, a healthy balance between work and personal life, and provides flexible work arrangements

- communications: managers act in ways consistent with their words, treat employees with respect, clearly communicate goals and assignments, help remove obstacles to success, and coach employees to improve performance.

The Merit Principles Survey, which is administered to more than 36,000 workers by the U.S. Merit Systems Protection Board, asks questions to elicit information about these drivers:

- pride in one's work or workplace
- satisfaction with leadership
- opportunity to perform well at work
- satisfaction with recognition received
- prospect for future personal and professional growth
- a positive work environment with some focus on teamwork.

Research from The Conference Board revealed these eight drivers of engagement to be key:

- trust and integrity
- nature of the job
- line of sight between individual performance and company performance
- career growth opportunities
- pride about the company
- co-workers and team members
- employee development
- personal relationship with one's manager.

Drivers of engagement have been relatively consistent over time; however, recognition and the desire to do meaningful work (aligning with the mission of the organization) are both being mentioned as contributors to employee engagement more frequently now than in the past.

STAGES OF ENGAGEMENT

Engagement science has been evolving for some time, and it has already had a major impact on organizations in terms of what they do and their success. But there is a lot of potential for the future. It is helpful to review the status of engagement through the stages of its development—the research pinpointing how it arrived and morphed into a powerful topic, its status as a process and a practice, and its impact.

Research

From its origins as research about "employee motivation" in the mid-1950s, predominantly among companies in the United States, to "job satisfaction," "employee commitment," and finally "employee engagement," these employee engagement attempts have sought to link worker attitudes to productivity with the belief (even in the absence

of definitive proof) that engaged workers are more productive and valuable than those who are not.

Management theory, including the early work of Mary Parker Follett in the 1920s, has long sought to understand the ways in which organizational structure and management practice can affect employee behavior, resulting in improved business performance. In the 1950s and 1960s, researchers such as Frederick Herzberg studied employee motivation and the elements of the workplace that drove either satisfaction or dissatisfaction, concluding that these elements are often very different things (Herzberg 2003). Perhaps the most important pioneer in terms of engagement is Scott Myers, who integrated the research of many people, including Rensis Likert, Douglas McGregor, David McClelland, Abraham Maslow, Chris Argyris, and Frederick Herzberg. Combining all this research and making sense of it in terms of its implications for employees and their work, Myers published a book in 1970 to name and explain the concept he developed: *Every Employee a Manager*. In this work, Myers showed how all employees can and should manage their work to a certain extent, with some obvious limitations. He argued that jobs can mostly be managed by individuals, which then allows them to feel ownership and responsibility for their work; it's the ultimate form of engagement. Myers was able to make this theory understandable and put it into practice, and he worked with many executives to bring this concept to job design and supervisory practices, as well as human resources programs.

Job satisfaction surveys elicit information about the way employees feel about their work environment, compensation, company benefits, and management, among other aspects of their workplace. Examinations of the concept of job satisfaction began to appear in the academic literature in the mid-1960s, notably *The Measure of Satisfaction in Work and Retirement: A Strategy for the Study of Attitudes* (Smith, Kendall, and Hulin 1969).

Rates of job satisfaction in the United States have suffered for a variety of reasons, including the erosion of employee loyalty in the 1980s, when pension plans changed and offshore hiring, layoffs, and plant closures shattered what had become an employee expectation of stable, long-term employment. As part of one of the longest-running examinations of job satisfaction in the United States, The Conference Board's 2013 study revealed that less than half (47.3 percent) of U.S. workers are satisfied with their jobs, compared to the 61.1 percent in 1987, the first year of analysis. This reflects a steady decline in job satisfaction over the decades, which hit its lowest point in 2010 at 42.6 percent and has only recently returned to pre–Great Recession levels (Ray, Levanon, and Rizzacasa 2013). However, while these concepts are related, job satisfaction is not the same as engagement.

Academic research specifically regarding employee engagement began to appear in the early 1990s. Even then, research posited that engaged and disengaged workers offer varying degrees of "effort" and are, at various times, more or less committed to

the work and the workplace, as explained in "Psychological Conditions of Personal Engagement and Disengagement at Work" (Kahn 1990). This more esoteric academic work continued to explore the ways in which employees feel (or fail to feel) connected to the workplace.

The 2002 *Journal of Applied Psychology* article "Business-Unit-Level Relationship Between Employee Satisfaction, Employee Engagement, and Business Outcomes: A Meta-Analysis" was among the first attempts to quantify engagement in terms of business results. Business leaders finally took notice, causing a dramatic shift in the level of attention paid to, and investments in, employee engagement (Harter, Schmidt, and Hayes 2002).

Practice

Despite all the energy, effort, and resources devoted to the issue of employee engagement, overall engagement levels in the workforce remain low and largely unchanged. The 2013 Gallup report *The State of the Global Workplace* revealed that only 13 percent of workers are engaged, 63 percent are not engaged, and 24 percent are actively disengaged. Globally, workers in East Asia (largely China) were among the least engaged, at 6 percent, whereas 24 percent of workers in New Zealand and Australia were engaged and only 16 percent are actively disengaged. The highest levels of active disengagement in the world (35 percent) can be found in the Middle East and North Africa (Gallup 2013b). In the United States, among its nearly 1 million full-time employees, 30 percent are engaged, 50 percent are not engaged, and 20 percent are actively disengaged (Gallup 2013a).

Engagement rates differ by age, occupation, gender, seniority level, remote versus on-site location, educational level, region, country, and state. When organizations can determine levels of engagement on a granular level (for example, business unit or division, or employee population or team leader) then a clearer picture emerges as to the relative performance of the groups against their peers. It is only when those data becomes actionable for the short term or even predictive for the long term that employee engagement data have any real value.

Among the most common issues that surface in employee engagement surveys are poor management and leadership, a lack of career opportunities, limited professional growth, a disconnect from the mission or strategy of the organization, a negative perception of the organization's future, and an unmanageable workload. In 2012, The Conference Board surveyed engagement leaders at 209 companies in 21 countries to determine, among other things, what engagement practices, programs, and initiatives are most prevalent (Ray, Powers, and Stathatos 2012). According to the report *Employee Engagement—What Works Now?* the engagement function reports to the chief human resources officer 52 percent of the time and to another senior HR executive 27

percent of the time, making this clearly a process still owned by human resources. In addition, of those surveyed:

- 89 percent said they have an engagement strategy in place.
- 52 percent report that their organizations have been focused on engagement for more than five years.
- 41 percent administer an annual engagement survey and 27 percent administer one biannually, while 25 percent survey more frequently and 7 percent do not survey at all.
- 84 percent indicated that their company's approach to employee engagement strategy has changed in the last six to 24 months, either greatly (26 percent) or somewhat (58 percent), with many indicating that the change was a matter of "more focus" on engagement or increased accountability.
- 49 percent work for organizations that link employee performance and results to engagement.

Despite the importance of engagement, 48 percent of those surveyed said that no one was dedicated full time to engagement activities, and another 29 percent indicated they had only one to three full-time employees dedicated to administering, monitoring, and analyzing these programs.

Value

Employee engagement is critical to business performance and a success factor on many levels, from executing business strategy to financial performance to worker productivity to the ability to create innovative products and services. According to the *Conference Board CEO Challenge 2014*—in which more than 1,000 CEOs, presidents, and chairpeople listed their most critical areas of concern for the coming year as well as the strategies they plan to use to address these challenges—human capital issues are a top challenge globally, ranking first or second in every region, including China and India (Mitchell, Ray, and van Ark 2014).

Continuing its steady rise in the ranking of strategies to address the human capital challenge, "raise employee engagement" ranked second in 2014, up from third in the 2013 survey and eighth in the 2012 survey. In addition, respondents indicated the critical linkage between "human capital" and their next four challenges: "customer relationships," "innovation," "operational excellence," and "corporate brand and reputation." In fact, engagement is also a top-five strategy to address the challenges of innovation and operational excellence. Respondents in this survey have clearly put employees at the center of everything.

One of the most comprehensive studies showing the business impact of employee engagement, *The Relationship Between Engagement at Work and Organizational Outcomes,* reveals that engagement is indeed related to the nine performance

outcomes selected for the study—customer loyalty and engagement, profitability, productivity, turnover, safety incidents, shrinkage, absenteeism, patient safety incidents, and quality (defects)—with consistent correlations across organizations (Harter, Schmidt, Agrawal, and Plowman 2013). The study also found that:

- Business and work units scoring in the top half on employee engagement nearly double their odds of success compared with those in the bottom half.
- Those in the 99th percentile have four times the success rate as those in the first percentile.
- Median differences between top-quartile and bottom-quartile employee engagement units were 10 percent in customer ratings, 22 percent in profitability, 21 percent in productivity, 25 and 65 percent in turnover (for high- and low-turnover organizations, respectively), 48 percent in safety incidents, 28 percent in shrinkage (theft), 37 percent in absenteeism, 41 percent in patient safety incidents, and 41 percent in quality (defects).

Employee Engagement and Earnings per Share: A Longitudinal Study of Organizational Performance During the Recession, reveals a correlation between earnings per share and employee engagement levels finding that those organizations with the most engaged workers exceeded the earnings per share (EPS) of their competition (even widening their lead during the recession) by 72 percent (Harter, Agrawal, Plowman, and Asplund 2010).

These findings are underscored in Gallup's latest *State of the Global Workplace,* which states that engaged employees worldwide are twice as likely to report that their organizations are hiring (versus disengaged employees) and that "organizations with an average of 9.3 engaged workers for every actively disengaged employee in 2010-2011 experienced 147 percent higher EPS compared with their competition in 2011-2012. In contrast, those with an average of 2.6 engaged employees for every actively disengaged employee experienced 2 percent lower EPS compared with their competition during the same period" (Gallup 2013b).

The linkage between employee engagement and business metrics can also be found in Towers Watson's *2012 Global Workforce Study,* which found that higher levels of engagement can translate into higher operating margins—from just below 10 percent for companies with low traditional engagement levels to just over 14 percent for those with high traditional engagement to more than 27 percent for those with high sustainable engagement. These engagement levels were defined by the intensity of employees' connection to their organization based on three core elements: being engaged, feeling enabled, and feeling energized.

The study also found that highly engaged workers have lower rates of presenteeism (lost productivity at work; 7.6 days per year versus 14.1 days per year) and absenteeism (3.2 days per year versus 4.2 days per year) than disengaged workers. They are also less likely to report an intention to leave their employers within the next two

years versus the highly disengaged (18 percent and 40 percent, respectively), and 72 percent would prefer to remain with their employers even if offered a comparable position elsewhere.

Great Place to Work, a consulting and research firm, has studied engagement in the workplace for decades and includes trust as part of its model. Companies selected for inclusion on the "Great Places to Work" list, in partnership with *Fortune* magazine, exhibit a higher degree of trust and engagement in the workplace than other companies. The organization has found that committed and engaged employees who trust their management perform 20 percent better and are 87 percent less likely to leave an organization, resulting in easier employee and management recruitment, decreased training costs, and incalculable value in retained tenure equity. In addition, analysts indicate that publicly traded companies on the "100 Best Companies to Work For" list consistently outperform major stock indices by 300 percent and have half the voluntary turnover rates of their competitors.

We live in an age where maintaining an organization's reputation and brand is a constant challenge, especially as organizations seek to retain current customers and attract new ones. Frontline employees are the key to success with customers. Numerous studies point to the importance of employee engagement on customer satisfaction—research indicates that the customers of engaged employees use their products more, which leads to higher levels of customer satisfaction, and that these employees influence the behavior and attitudes of their customers, which drives profitability (Ray 2011).
Engagement (or lack thereof) can also be measured in terms of economic impact with wide-ranging implications for countries and regions. While few employees are engaged and many more are not engaged, companies would do well to take action to mitigate the impact of the actively disengaged. Gallup estimates that economic loss from active disengagement costs the United States between $450 and $550 billion per year. In Germany, that figure ranges from €112 to €138 billion per year (US$151 to $186 billion). In the United Kingdom, actively disengaged employees cost the country between £52 and £70 billion (US$83 billion and $112 billion) per year (Gallup 2013b). In addition to determining the impact on business performance, human capital programs and initiatives also rely on employee engagement data. According to a report by Bersin, 57 percent of HR practitioners indicated that the employee engagement metric was their most important in terms of determining talent management success (Harris 2010).

MACRO VERSUS MICRO VIEW

When executives suggest that engagement is at the top of their list, they are placing a value on engagement based on their logical view of the process: If employees are more engaged, they are probably producing more, are more safety conscious, enjoy their work, and will stay with the organization. Because executives want their employees to be engaged, they are willing to invest in this important area and support it.

However, the logical view is not always enough. Practitioners may need to demonstrate the macro view of employee engagement across an organization. This view—comprising studies that connect engagement with many different outcomes—is important, especially when convincing executives who are faced with trying to understand the value of employee engagement.

Yet, even this still may not be enough. Executives may want to see studies that indicate the value of engagement in their organization. If they are investing X amount in employee engagement, what is the monetary benefit derived? They need to see the actual ROI. Just because studies show that more engagement among employees drives productivity, it doesn't mean that executives will take the need for engagement for granted. They may want to know, "But what about my organization?" To answer that question, studies are needed at the organizational level showing the value of engagement, converting the value of engagement to monetary benefits, and comparing that with the investment in engagement to show the ROI. This represents the micro analysis. Fortunately, this book shows how this actually done.

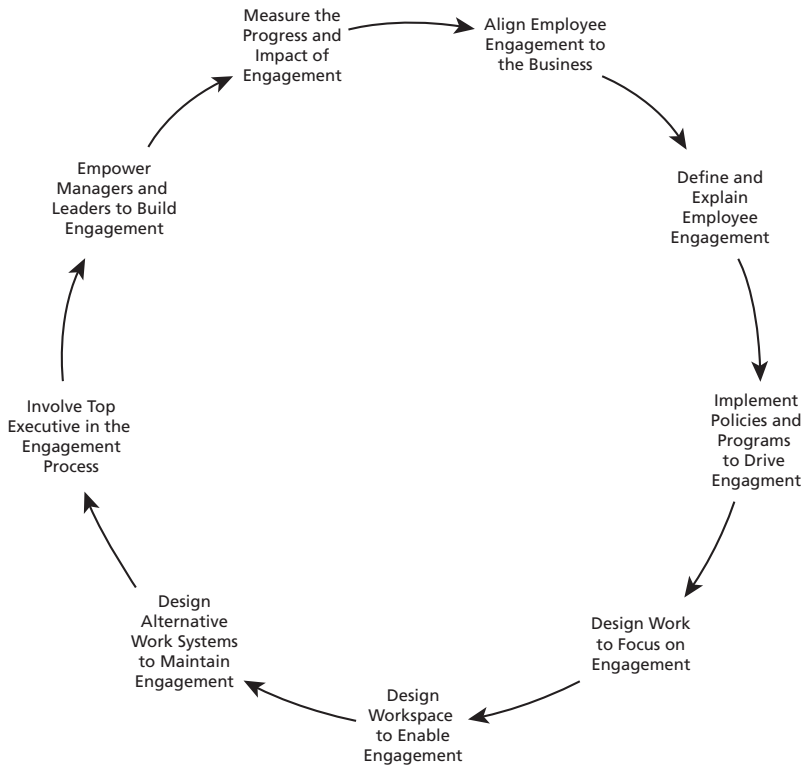
A MODEL FOR ENGAGEMENT IMPLEMENTATION

It is helpful to understand engagement from the perspective of how it is introduced and implemented in an organization. The implementation usually follows several prescribed steps, and there are many different approaches offered in terms of how engagement is delivered. Exhibit 1-2 shows a nine-step engagement model that brings engagement into the organization with a constant focus on the business contribution of the engagement process. As with most important processes, engagement starts with alignment to the business in the beginning and ends with measuring the impact on the business in a very logical, rational way. The model is presented in a cyclical fashion because engagement is a never-ending adjustment process—practitioners should always be collecting data to see how things are working and making adjustments when they are not. The next nine sections provide more detail on this model.

Align Employee Engagement to the Business

The beginning point with any process is alignment to the business, and engagement should be no different. Determining business needs and business value is the beginning point that executives want to see. This is expressed through classic measures in the system, usually reflecting output, quality, cost, and time. These critical data are reported throughout the system in scorecards, dashboards, key performance indicators, operating reports, and many other vehicles. A new HR program or employee engagement initiative should begin with the end in mind, focusing on one business measure (such as productivity, sales, customer satisfaction, employee retention, quality, or cycle times).

EXHIBIT 1-2. Engagement Model



The challenge is to identify which measures should change if employees are more actively engaged. The literature is full of hypotheses on these issues, all claiming a variety of results. This quick review can help management understand what might come out of the program. The important point is that if a measure is identified, it is more likely that the engagement process will actually achieve its goal. Beginning with the end in mind is the best driver for the outcomes of the process.

Employee engagement scores, taken either annually or biannually, are impact data, because they indicate the collective impact of all the engagement processes in the organization. These data only describe perceptions, but they are still very important. Engagement on its own is an intangible measure in the scheme of impact measures. Unfortunately, many organizations early in the process stop there, merely reporting improvements in engagement scores. This leads many executives to respond, "So what?"

Thus, practitioners have to do more, and doing more means that the results of engagement must be identified at the macro and micro levels. The business impact is the linkage of engagement with certain outcome measures in the business category.

The efforts of the HR team should be to illustrate the significant correlation and causation between improvements in engagement scores and outcome measures, which can typically be expressed in statements such as:

- Engagement drives productivity.
- Engagement drives quality.
- Engagement drives sales.
- Engagement drives retention.
- Engagement drives safety.

Others have developed more specific measures to link to engagement, such as processing times for loans to be underwritten, purchase cost for the procurement function, or security breaches in the IT function. In other words, engagement scores can be linked to many outcomes, and the HR function's challenge is to show that.

Another way to show the business value of engagement is to connect it to individual projects. In this case, it is not just the overall engagement score that is linked to the business measures from a macro prospective but also an individual project involving individual participants. For example, a manufacturing plant used job engagement to improve quality of work. The study tracking the success of the program examined the improvements in quality, converted them to a monetary value, and then compared that with the cost of the program to yield a ROI of 399 percent (Phillips and Phillips 2012).

Define and Explain Employee Engagement

While there are many definitions of employee engagement, they are remarkably similar in their emphasis on several common elements. The following come from a review of engagement definitions found in *Employee Engagement in a V.U.C.A. World* (Ray 2011):

- According to The Conference Board, "Employee engagement is a heightened emotional and intellectual connection that an employee has for his/her job, organization, manager, or coworkers that, in turn, influences him/her to apply additional discretionary effort to his/her work."
- Towers Watson delineated employee engagement along three dimensions:
  - Rational: How well employees understand their roles and responsibilities.
  - Emotional: How much passion employees bring to the work and their organizations
  - Motivational: How willing employees are to invest discretionary effort to perform roles well.
- The U.S. Merit Systems Protection Board states, "Employee engagement is a heightened connection between employees and their work, their organization, or the people they work for or with."
- According to Korn Ferry, "Employee engagement is a mindset in which employees take personal stakeholder responsibility for the success of the organization and apply discretionary efforts aligned with its goals."

These definitions suggest alignment with the organization and a willingness to expend discretionary effort as critical components of employee engagement. Further, the Gallup Organization (2013a) delineates three types of employees:

- Engaged employees work with passion and feel a profound connection to their company. They drive innovation and move the organization forward.
- Not-engaged employees are essentially "checked out." They're sleepwalking through the workday, putting time—but not energy or passion—into their work.
- Actively disengaged employees aren't just unhappy at work; they're busy acting out their unhappiness. Every day, these workers undermine what their engaged co-workers accomplish.

Of note, one of the more recent developments in this space has been a focus on well-being, which links engagement to health issues as part of a movement toward holistic work environments. Another development is a focus on happiness, which seeks a holistic approach to worker contentment by weighing two components: overall life satisfaction and affect balance. (For an overview of this concept as well as profiles of examinations of happiness at Zappos, Google, HCL, Best Buy, and Southwest Airlines, see *The Happiness Premium: What Companies Should Know About Leveraging Happiness in the Workplace*.)

Executives must communicate not only what engagement means, but how it affects them and how their role will change. This part of this step in the model is critical, because it connects the executives to the process and fully explains what is involved. Some of this may involve stories that are told about what it means to be engaged. For example, there is the classic story of the janitor at NASA who was asked, "What is your job?" while he was sweeping the floors. He answered that he was helping put a man on the moon. Although this may appear to be an odd example, it is the kind of thinking and attitude that is sought through the engagement process. Stories, memos, meetings, speeches, and even formal documents can help define and explain the goal of the process.

Implement Policies and Programs to Drive Engagement

The next part of the process is to enact the different formal processes that address the engagement issue. The starting point is showing the mission, vision, and values of the organization. These are well-documented in most organizations, but the key is to integrate some language around engagement. For example, here is what Tony Hsieh, CEO of Zappos.com, says about engagement:

> We have 10 core values, and when we hire people, we make sure they have similar values. For example, one of our values is to be humble. If someone comes in and is really egotistical, even if they are the greatest, most talented person technically and we know they could do a lot for our top or bottom line, we won't hire them, because they are not a culture fit. (Reiss 2010)

After engagement is clearly defined and the dimensions of work that connect with the definition are clearly described, a survey is usually developed that secures the perception from employees. This initial survey is designed to reveal the current status of engagement, and the resulting data are used to make improvements. This is a classic survey-feedback-action loop that many organizations use as they survey employees, provide feedback to the survey respondents, and plan actions during the year to improve engagement. It is not only a routine, formal practice; it becomes the principal process improvement tool as changes and adjustments are made each year based on the engagement survey results.

Engagement is usually a principal component or determinate of a great place to work. For example, in *Fortune's* "100 Best Companies to Work For," two-thirds of the determinate for being on the list is the score of an engagement survey given to a randomly selected sample of employees. These are very powerful data, and a positive score is desired by the executive team. Being included on such a list helps attract and retain employees, and although the award itself is intangible, it is connected to tangible measures.

Among HR functions, specific adjustments can be made to improve various components of engagement. For example, recruiting and selection processes can include letting potential audiences know about the organization's efforts to have employees fully engaged. Selection may be based on the desire of employees to be engaged in the organization, and more emphasis may be given to onboarding as a process of aligning people with the philosophy of the organization.

The company can also develop training and learning programs to reinforce the principles of engagement; even the method of learning is sometimes adjusted to be more adaptive to the individuals in organizations. Ideally, training is perceived as just in time, just enough, and just for me. It is customized for individuals and provided at the time they need it.

Compensation can be adjusted to reward individuals for being more engaged. Engagement often leads to improved financial outcomes, which sometimes means paying for bonuses, as is particularly true for salespeople. It also can be expanded into general recognition programs where individuals are rewarded for displaying proper engagement behaviors or managers and supervisors are rewarded for reinforcing them. In essence, any HR function that involves employees and influences employee behavior can have an important impact on engagement.

Design Work to Focus on Engagement

A huge part of this process is to make sure that the work inherently allows for engagement—for thinking and being empowered. It can be very frustrating for employees when they are asked to be more engaged but are still constrained by old job descriptions and structures.

Sometimes it is helpful to think about "where the work comes from." Before work can be done, there are management functions that must be fulfilled:

- planning: objectives, goals, strategies, programs, systems, policies, forecasts
- organizing: staffing, budgets, equipment, materials, methods
- leading: communicating, motivating, facilitating, delegating, mediating, counseling
- controlling: auditing, measuring, evaluating, correcting.

Traditionally, these functions are all centralized in a manager, supervisor, or designated leader, and work is prescribed for employees exactly, sometimes allowing no deviation from their job descriptions. But with an engagement perspective, employees are expected to get more involved in planning what work to do, when to do it, how goals and standards can be met, and maybe even how to source the information or materials needed. They may be involved in not only doing the job but controlling it, verifying the quality of the product, checking to see how procedures are working, making adjustments, and so forth.

This concept of empowerment is a vital part of engagement. Empowered employees take initiative and are held responsible for the things they do. They have ownership in the process, and thus they become fully engaged. Empowerment programs have been implemented for some time and are an important part of driving the engagement process.

Design Workspaces to Enable Engagement

The workspaces of organizations have changed dramatically—from private offices and cubicles to rotating desk assignments, couches, standing desks, treadmill desks, and even no desks. One constant thing in the process is that offices have become more open. In fact, this openness has been evolving for many years. According to the International Facility Management Association, today more than 70 percent of employees work in an open-space environment, and the size of the workplace has shrunk from 225 square feet per employee in 2010 to 190 square feet in 2013. In short, workplaces are smaller and more open, which leads to some concerns.

One concern is the actual size of the office. Does it still provide enough space? This is a concern for individuals who need a place for their accessories, devices, files, and work, which has led to some alternative configurations that provide a separate space, in addition to the actual workspace. Another concern is privacy. Privacy issues have changed over the years as workplace design has evolved. According to Steelcase, one of the largest makers of office systems, there has been a shifting need for privacy. In the 1980s there was a call for more privacy and less interaction, but by the 1990s offices were built with less privacy and more interaction. Now the pendulum is swinging back in the other direction, and there is a call for more privacy, but more interaction through interactive devices (Congdon, Flynn, and Redman 2014). This leads to a

concern for transparency because everyone now has access to everything that everyone else is doing. In an open office, employees can see computer screens, hear conversations, read documents, and access all kinds of messages from different devices, making it perhaps too transparent for some. This is what is driving the swing to greater privacy.

Another concern is interruptions. Open offices invite people to interrupt frequently, as sometimes there is simply no door to shut. Managing interruptions can become a very difficult process. A similar concern is distraction. Hearing noises and seeing what is going on with other employees is a huge distraction to many people.

There are several major trends that have been occurring in workspace design. The first is to recognize the power of the open space environment, despite the concerns that arise from it. Exhibit 1-3 shows the relationship of space and performance (Waber, Magnolfi, and Lindsey 2014). Assigned cubicles and private offices are certainly good for individual performance, but they are not helpful for group productivity where there is a need for collaboration that leads to innovation. An innovative organization needs to be in the upper right-hand corner of the diagram, where offices are open and flexible and movement is possible between different offices, rooms, and activity areas. Collaboration is an important part of engagement, and it is also an important value for organizations trying to encourage high performance and innovation at the same time (CCIM Institute 1999).

Another important trend is that the space assigned to individuals should depend on the time that they spend in the office. If people only use their office a small part of the time, their office should be much smaller. This is a departure from the way in which office space was traditionally allocated: according to the title and rank of the employee. For example, executives who travel frequently may be given a small office because they are not there very often. On the other hand, workers involved in major projects may need the extra space.

Common areas are being developed to give people ample opportunities to have discussions. These areas can be walled off rooms, like conference rooms or meeting spaces at different places in an open environment, or simply little nooks for people to meet quickly, reflect, communicate with a small team, or otherwise pull people together.

Workspaces are being designed to get people to interact. For example, Samsung's new U.S. headquarters was designed in stark contrast to its traditional buildings. Vast outdoor public spaces are sandwiched between floors, a configuration that executives hope will lure engineers and salespeople into mingling. Likewise, Facebook's new office space puts several thousand of its employees, including the C-suite, into a single mile-long room. These companies know that a chance meeting with someone else in an office environment is a very important activity for collaboration.

EXHIBIT 1-3. Relationship of Space and Performance

Flexible Seating	Individual and Small Group Creativity • Brainstorming • Small group creativity • Refinement	Group Innovation • No silos • Increased collaboration • More innovation
Assigned Seating	Individual Performance • Focused work	Group Performance • Project management • Group work
	Private Offices	Open Offices

Adapted from Waber, Magnolfi, and Lindsey (2014).

A final trend is that workplaces are becoming more agile. They are not just for sitting anymore but also standing, walking, and moving. Research has shown that sitting at the computer all day is a very unhealthy practice, and many organizations are now trying to give employees the opportunity to get up often, move around, and in some cases even use a treadmill desk (Lohr 2012).

Design Alternative Work Systems to Maintain Engagement

In the last decade, much progress has been made with alternative work systems, particularly in allowing employees to work from home. In this arrangement, actual employees (not contractors) perform work for their organization at home for a set number of days each week. This enables a huge savings in real estate for the office, but there are many other benefits as well.

The arrangement that has perhaps the most impact is *working completely at home.* Employees essentially do all their work at home and very rarely make trips to the office, if at all. In this case, the home office is configured to be an efficient, safe, and healthy workplace. This requires effort on the part of the organization to ensure, from a technology perspective, that the employee functions the same way she would in the office.

Another arrangement is *office sharing,* where one or more employees share an office. In this case, they predominantly work at home, but spend short periods of time in the office. In an ideal situation, two people share one office, with the schedule arranged so that the two employees are not there at the same time.

A third option is *hoteling,* where several employees work at home but come into the office occasionally. A suite of offices is available, and they have to reserve the office space in advance to use it. Essentially, the office space functions as a hotel, where employees check in and out of workspaces.

A fourth type of work arrangement is *flextime,* where employees work at home and in the office, but set their own working hours as long as they work the prescribed number of hours. This often takes the form of a compressed work week, where employees work three days with longer hours and then have an extra two days off. It could also mean working slightly longer hours each day to have a half-day off, or coming to work early in the morning and leaving early in the afternoon.

Another option is *job sharing,* where two people are charged with doing one specific job. Each person works about half the hours, and they coordinate their schedules so that they are not both there at the same time. Essentially, they are teaming up to get the job done, but still working individually (each on a part-time basis).

Finally, there is *part-time work,* where individuals work reduced hours, receive limited benefits, and free up office space for others when they are not there. This allows employees the flexibility of having more time off while still remaining employed with the organization.

Whatever the arrangement, it has to be fully prescribed and have specific conditions and rules.

Involve Top Executives in the Engagement Process

The role of top executives is very critical in any process, but particularly with engagement. With so much evidence that engagement adds value and so much potential for it to add more, most executives are willing to step up and commit resources, time, and effort to make sure that engagement works. This involves several areas:

- **Commitment:** Executives should commit resources, staff, and other processes to make sure that engagement is properly developed, implemented, and supported in the organization.
- **Communication:** Employees carefully weigh messages from the senior executive team, and what the team says about the engagement process sets the tone for others. It also shows the position of executives. Top executives should be involved in major announcements, the rollout of programs, progress assessments, and any major actions taken as a result of engagement input.

- **Involvement:** Top executives must be involved in these programs. They should kick off programs and moderate town-hall meetings about engagement. They should participate in learning programs on preparing leaders and managers to build engagement in the organization.
- **Recognition:** Top executives have to recognize those who are doing the best job. The best way to recognize exemplars of engagement is to promote them, reward them, and publicly recognize them. Engagement data should be placed alongside key operating results for this to be effective.
- **Support:** Support is more than just providing resources and recognizing those who achieve results; it also means supporting the programs and encouraging people to be involved and take action. This shows that leaders genuinely support these programs and their success.
- **Long-Term Thinking:** Engagement cannot be seen as a fad that comes through the organization only to be abandoned for the next one. Too often this occurs in organizations—executives work on "engagement" this year, "lean thinking" the next year, and "open-book management" the year after that. The key is to stay with it and make it work.
- **Reference:** Refer to engagement often as a driver of gross productivity, sales, and profits. Making reference to engagement regularly in meetings, reports, press releases, and annual shareholder meetings brings the importance of the process into focus. Collectively, these efforts from top executives, which are often coordinated by the chief human resources officer, will make a difference in the success of the engagement effort.

Empower Managers and Leaders to Build Engagement

First-level managers are key in the organization. They are in the position to make or break engagement, and they have to be prepared for it. The first step is to conduct learning programs where the issue of engagement is discussed—how they can encourage it, support it, and build it in their work teams. This provides awareness of engagement and skill-building around the components of engagement to make the process successful in the organization.

Most important, first-level managers must understand why engagement makes a difference. They must become role models of engagement and take an active part in ensuring that employees are empowered, involved in key decisions, and assume ownership and accountability for what they do. Managers must demonstrate what has to be done to make the engagement process work, and they must genuinely support it. They must reinforce the concept of engagement, what it means to them, and their roles in the process.

Much of this involves learning—learning what engagement is about and what makes it work but also what it can do for the organization. Position engagement as a process

similar to sales training for a sales team or production training for the production group. It is an important process that managers must learn, apply, and use to drive results. This also means that they have to redefine success—success is not just knowing something, but making it work and having an impact. Making it work involves the behaviors that are exhibited as people collaborate to complete projects, but the impact must show up in improved measures of productivity, innovation, quality, and efficiency.

First-level managers are critical, because they must use all the tools generated around engagement. The HR team offers the many processes and tools to be implemented, but the frontline leaders make the difference by using the tools appropriately, following up to make sure they work, and reporting issues and concerns back to the HR team.

Measure the Progress and Impact of Engagement

Measurement for this process involves several issues. The first is measuring the progress with engagement through an annual survey. This assesses the perceptions employees have about the progress they are making. The annual survey must include several major elements to make it successful:

- It must be carefully planned, perhaps including input from those who are being assessed.
- The data must be collected anonymously or confidentially. This is a time to collect candid feedback on the progress being made.
- The data must be reported back to the respondents quickly, so that they can see what the group has said locally and globally.
- There must be follow-up, immediately and later—all in reference to the engagement program. This survey-feedback-action loop will ensure that the process is taken seriously.

Another measurement issue is linking the engagement scores to a variety of outcome measures such as productivity, sales, retention, quality, and safety. It is a way for the organization, executives, and HR team to see the value of this process.

Success should also be measured in terms of individual projects, such as communications, coaching, team building, management development, and leadership development. These are all programs that involve parts of the engagement process. It is helpful to connect particular programs not only to engagement but also to individual measures that may improve in this process.

Finally, measuring ROI is the mandate for many top executives. If the engagement team can show executives the return on investing in engagement, it reinforces their commitment to make the process work, and it often improves their relationship with those involved in engagement, as well as their respect for the entire talent management and human resources function. Pushing at least some of the programs to the ROI level is very helpful, and ultimately it is possible to show the ROI of the entire engagement process.

FINAL THOUGHTS

This opening chapter explored a variety of issues that surround employee engagement and set the stage for how to measure the success of employee engagement programs. The strategic importance of engagement was discussed, the stages of engagement were examined, and a model for successfully implementing an engagement program was presented. As with most important processes, engagement starts with alignment to the business in the beginning and ends with measuring the impact on the business in a logical, rational way. The next six chapters outline the necessary, relevant steps to using the ROI Methodology with employee engagement to clearly show the impact and ROI of these important programs.

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