

# EMPLOYEE ENGAGEMENT EXECUTIVE SUMMARY



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Business analysts and the business media are increasingly talking about employee (or work) engagement and its critical importance to an organization's productivity and performance. Because there is so much research, studies, data, and media coverage available right now, CPP, Inc. has done all the reading for you and summarized the key points on the topic. To make it easier to absorb and assimilate all the information, we have compiled the key data points into this Executive Summary to give you a better understanding of this important business topic.

This Executive Summary on the subject of employee (or work) engagement is provided free of charge by CPP. As you consider employee engagement in your organization, please keep in mind that CPP recently released the new *Work Engagement Profile*, an assessment tool that measures your employees' level of engagement and offers actionable steps to increase it, as well as tips for development.

## INTRODUCTION

Although engagement is important at any time and in any economic climate, it is especially critical right now—and no one can afford to be passive about it. Research clearly shows a strong link between employee engagement and a company's financial performance. Thus when the economy turns upward again, you will want to be poised and ready to make the most of it—with an engaged and energized workforce standing behind and aligned with your strategic goals.



To increase employee engagement, organizations often rely on rewards such as salary increases, bonuses, benefits, and awards. But these external motivators are short-lived and create an ever-increasing cost spiral. Fueling engagement using internal motivators—creating the psychological lift employees get from doing work that matters to them—can be just as valuable, if not more so. *BusinessWeek* (April 24, 2009) summarized the importance of internal motivators in today's economic climate: "These days, with layoffs rampant and companies slashing budgets across the board to weather the economic downturn, motivating employees to bring their 'A' game to the office every day is harder than ever. . . . Extrinsic rewards are clearly not a panacea."

In a recent poll by The Aberdeen Group, a leading provider of fact-based research focused on the global technology-driven value chain, work engagement was listed by organizations as the number one issue. In July 2009, Aberdeen will issue a new leadership development report that addresses how to develop managers who can manage not only the business but also the people who can make things happen in the organization.

## WHAT IS EMPLOYEE ENGAGEMENT? DEFINITIONS.

Consulting firm BlessingWhite says engaged employees are not just committed and not just passionate or proud. They have a line of sight on their own future and on the organization's mission and goals. They are "enthused" and "in gear," using their talents and discretionary effort to make a difference in their employer's quest for sustainable business success.

—*The State of Employee Engagement 2008*, BlessingWhite

The Corporate Executive Board defines engagement as the extent to which employees rationally and emotionally commit to something or someone in their organization, how hard they work, and how long they stay as a result of that commitment.

—*Driving Performance and Retention Through Employee Engagement, 2004*

The American Society for Training and Development provides this definition of employee engagement: Engaged employees are employees who are mentally and emotionally invested in their work and contributing to their employer's success.

—*Learning's Role in Employee Engagement: An ASTD Research Study, 2008*

Development Dimensions International, Inc. (DDI), defines employee engagement as the extent to which people enjoy and believe in what they do and feel valued for doing it.

—*Employee Engagement: The Key to Realizing Competitive Advantage*, DDI, 2008

The Conference Board defines employee engagement as a heightened emotional connection employees feel for their organization that influences them to exert greater discretionary effort in their work.

—*Employee Engagement: A Review of Current Research and Its Implications*, 2006

Towers Perrin defines employee engagement as the level of connection employees feel with their employer, as demonstrated by their willingness and ability to help their company succeed, largely by providing discretionary effort on a sustained basis.

—*TowersPerrin 2007–2008 Global Workforce Study*

Consulting firm Watson Wyatt defines employee engagement as a combination of commitment (the motivation employees have to help the organization succeed) and line of sight (the focus and direction employees need in order to know what to do to make the organization successful).

—*Driving Business Results Through Continuous Engagement*, Watson Wyatt 2008/2009 WorkUSA Report

## WHY IS AN ENGAGED WORKFORCE IMPORTANT?

Disengaged employees cost U.S. companies as much as \$350 billion annually in lost productivity.

—Gallup, Peter Flade, Director of Finance, “Employee engagement drive shareholder value,” February 13, 2008

Some alarming findings from BlessingWhite:

- Only 29% of North American employees are fully engaged, 52% are not engaged, and 19% are actually disengaged.
- Engagement numbers by industry are startlingly low: HR consulting/training, 46%; energy utilities, 40%; legal and business services, 34%; association/not-for-profit, 34%; government, 25%; high tech, 24%; chemicals, 24%; retail, 24%; academia/higher education, 23%.
- Within organizations, HR and sales departments are most engaged (36% each); finance and IT are least engaged (23% and 22%, respectively).
- In organizations with fewer than 1,000 employees, 32% are engaged, and in organizations with more than 10,000 employees, 25% are engaged—which shows that engagement levels decrease as workforce size increases.

—*The State of Employee Engagement 2008*

Between 2007 and 2008, Quantum Workplace’s survey showed that 66% of employers had decreases in employee engagement.

—*Employee Benefit News*, February 19, 2009

In a December 2008/January 2009 survey by Personnel Decisions International (PDI), talent management appeared eighth on the list of top business challenges. PDI pointed out that if organizations don’t recognize the need to retain key talent, they may not have the staff they will need to get through the recession and emerge equipped to succeed. Especially in a time of economic crisis, developing and retaining top-performing employees is a key business strategy. If top talent leaves now, the organization may save money in the short term, but it will be vulnerable after the recession.

—*Staffing Management*, SHRM, February 2009

High-engagement organizations experienced an earnings-per-share growth rate of 28% compared to an 11.2% decline for low-engagement organizations. High-engagement organizations collectively increased operating income 19%, and low-engagement organizations experienced an operating income decline of 33% year to year.

—*Towers Perrin 2007–2008 Global Workforce Study*

A 2008 joint study by ASTD, Dale Carnegie Training, and i4cp discovered that only one-third of employees are engaged. Three elements drive employee engagement: contributions, connections, and growth and advancement.

—*Learning's Role in Employee Engagement: An ASTD Research Study*

Only one in five workers gives full discretionary effort on the job, 8% are fully disengaged, and 71% fall into the massive middle of partially engaged or disengaged employees.

—*Towers Perrin 2007–2008 Global Workforce Study*

Highly engaged employees are twice as likely as their less-engaged peers to be top performers. Companies with highly engaged employees enjoy 26% higher employee productivity, have lower turnover risk, and are more likely to attract top talent. These companies also earned 13% greater total returns to shareholders over the past five years.

—*Driving Business Results Through Continuous Engagement, Watson Wyatt 2008/2009 WorkUSA Report*

Watson Wyatt's WorkUSA Report revealed that while engagement typically starts high with new employees, it tapers off over time. Employee engagement drops 9% on average in the first year. Among employees with less than six months on the job, 71% are motivated to do their best, but that number drops to 57% after six months.

CIGNA's "Health and Well-Being in America" survey in January–February 2009 found that 60% of workers felt the overall mood in the workplace had changed for the worse in the past six months, 34% were afraid of losing their job, and 30% felt more job pressure or stress.

—*HR News, SHRM, March 2009*

Right Management revealed that 31% of respondents in a recent survey felt employee engagement and productivity are at risk because employees are not able to adapt to changes at work. This inability to adapt decreases employees' level of engagement and effectiveness as well as puts organizational productivity in jeopardy.

—*HR Disciplines, SHRM, April 2009*

Engagement and retention are connected, although Towers Perrin's study pointed out that it's not a straightforward correlation. In fact, the study found that almost 40% of engaged employees are "passive job seekers." On the flip side, half of the disengaged employees have no plans to leave. This means organizations face the risk of losing the people they most want to keep while being saddled with those who are not contributing and engaged.

Survey respondents to ASTD's 2008 research study identified the top three reasons for seeking a more engaged workforce: to enhance customer service and drive customer satisfaction (83%), to improve organizational productivity (81%), and to improve the bottom line (75%).

—*Learning's Role in Employee Engagement: An ASTD Research Study, 2008*

## SO WHAT? KEY IMPLICATIONS.

The organization is uniquely positioned to make a significant difference in employees' discretionary effort. Simply put, senior leadership matters, company attention to employees' needs matters, opportunities for career growth matter, and company reputation matters.

—*Towers Perrin 2007–2008 Global Workforce Study*

Mature workers are delaying retirement in response to the economic meltdown, and that is changing the outlook of Gen X and Gen Y. The challenge is keeping the older workers engaged while also retaining and engaging younger workers as their advancement opportunities dwindle because of mature workers staying on.

—*HR Magazine, SHRM, March 2009*

There is a strong positive relationship between employee engagement and sales growth, lower cost of goods sold, customer focus, and reduced turnover.

—*2003 Towers Perrin Talent Report*

The top driver of employee engagement is having a good relationship between employees and immediate supervisors. The quality of training or learning opportunities is a strong positive influence on employee engagement, but organizations with the most highly engaged employees also credit learning through stretch assignments as one of the top influencers of engagement.

—*Learning's Role in Employee Engagement: An ASTD Research Study, 2008*

In a survey of 50,000 employees in 59 organizations worldwide, the Corporate Executive Board found that employees with lower engagement are four times more likely to leave their job than are highly engaged employees.

—*Driving Performance and Retention Through Employee Engagement, 2004*

In good times top talent is usually loyal, but in a downturn they may become anxious, frustrated, and disenchanted. Also, in a downturn your competitors may target your top people. To keep employees engaged, energized, and motivated, organizations must make them feel secure and confident that they play a critical role in the business plan.

—*Workforce Management, 12/18/08*

## NOW WHAT? RECOMMENDATIONS.

BlessingWhite makes five recommendations based on predominant themes in its research findings:

- **Maximize managers.** Ensure that managers are themselves engaged and understand how to help their team members picture what full engagement can mean to them.
- **Align, align, align.** Organizations cannot leave employees in the dark about how their daily priorities fit in with their employer's objectives.
- **Redefine career.** One of the most common engagement drivers, "career" is defined by an individual's unique values and life situation—and that definition often changes with age.
- **Pay attention to culture.** If you get culture right, it provides the foundation for sustaining engagement through good times and bad.
- **Survey less, act more.** Rather than becoming overly institutionalized with engagement surveys and metrics, organizations must remember that it's what they do with data to effect positive change, to create an engaged workforce, that can accomplish great things. Survey data are not the "be all and end all."

—*The State of Employee Engagement 2008*

Research and studies all demonstrate that it's critically important that organizations support employee engagement. Consider these four key processes that support engagement:

- **Managers need the authority to take action,** primarily granting employees' requests for flexible work arrangements and having leaders take effective actions to improve employee engagement.
- **Learning should be designed with engagement in mind.** Many organizations use training, development, and other learning opportunities to help drive employee engagement.

- **A trio of practices support engagement:** engaging workers via reward and recognition programs, using benefits programs to help engage employees, and considering engagement an integral part of corporate success.
- **A clear mission is a strong precursor to engagement.** While clarifying and communicating the organization's mission and goals is important, it's also important to integrate engagement into the organization's values and to actively promote a culture of engagement.

—*Learning's Role in Employee Engagement: An ASTD Research Study, 2008*

To deal with the challenge of mature workers delaying retirement, organizations need to develop and have in place succession plans to allow mature workers to pass on their expertise to younger workers. Other tactics should include creating effective individual development plans and using performance management systems to align employee performance at all phases of their career with business goals.

—*HR Magazine, SHRM, March 2009*

HR can play an important role in providing meaningfulness to stressed workers today. Small actions and a transparent management style can go a long way toward keeping engagement and productivity high—for example, being responsive to people's personal issues, openly communicating about the organization's financial performance, keeping your door open, and even saying "thank you."

—*HR News, SHRM, February 2009*

Key factors in maintaining employees' trust and morale in a downturn include: be transparent, tell them your organization's recession-ready strategy, explain the roles everyone will play, show how you will realign incentive structures and reporting systems.

—*Workforce Management, 12/18/08*

Compensation and benefits are traditional forms of motivation, but the problem is that they are short-term motivators. The intangible forms of motivation give employees a sense of value for their contributions. The more intangible the forms of motivation the better, because they raise engagement levels by helping employees feel connected.

—*T+D, April 2009*

## KEY EXAMPLES OF EMPLOYEE ENGAGEMENT ROI

Best Buy stores that increase employee engagement by 0.1% will see a \$100,000 increase in sales per year.

—*Human Resource Executive, January 1, 2008*

A Manpower survey of call center customers and employees reports that centers with high employee satisfaction also have high customer satisfaction.

—*Contact Center Employee Satisfaction & Customer Satisfaction Link, SQM Group for Manpower, 2005*

By strengthening employee engagement, MolsonCoors saved \$1,721,760 in one year.

—*Employee Engagement and Commitment, SHRM Foundation, 2006*

JC Penney stores with top engagement scores generate about 10% more in sales per square foot than average and 36% more operating income than similar-sized stores with low engagement scores.

—*Chief Executive, March 2008*

Towers Perrin found that high-engagement firms experienced an earnings-per-share growth rate of 28% compared to an 11.2% decline for low-engagement firms.

—*Towers Perrin 2007–2008 Global Workforce Study*



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