



EmployeeEngagement:

*What Works? What Doesn't?
And Why?*

A meta-analysis conducted by performancepoint ©2005

Table of Contents

Executive Overview	3
Research Report Focus	4
Why Should You Care	5
Our Workforce	7
Impact	8
Demographics	10
Engagement Drivers	11
My Organization	12
PRI	13
Company Overview	14
Resources	15

Executive Overview

Organizations cannot demand, coerce, or purchase the type of performance they need to succeed in today's competitive environment. There was a time when an organization could say "jump" and their employees would ask "how high?" Now, after a period of limited attractive job creation, constant restructuring, increased offshoring, fewer advancement opportunities because of lean organizational structures, and increased demands and pace, things have changed.

Our traditional methods to increase productivity are less viable:

- Companies have reduced the amounts and attractiveness of stock option packages due to potential accounting requirements.
- The costs of health care and other benefits have increased.
- With leaner structures, downsizings, and a conservative view regarding investing in additional people, there are fewer opportunities for advancement.
- Most organizations have cut back on training initiatives. Those organizations that have invested, have focused more on efficiency rather than effectiveness, and skills rather than attitude and beliefs.
- Many organizations have reduced compensation levels; others have engaged salary freezes or have limited increases, thus impeding salary boosts.
- Technology, once a perk and sign of stature, has made it more difficult for employees to maintain balance in their lives.
- External factors such as 9/11 and "The War on Terror," have caused many individuals to lose stability or comfort in their non-professional lives.

In essence, the organizational toolkit is outdated and we have a "Free Agent" or "Loyalty Free" mentality, with our standard metrics offering little insight. However, we are at a unique moment in time when those who can harness more "employee engagement" will own the competitive advantage.

This Research Report's Focus

The concept of “Engagement” means different things to different people and organizations. Some organizations look at job satisfaction, while others measure engagement by how inspired they believe their workforce feels. The remedies selected also vary, from receiving awards for being a great place to work and having great managers, to a “push your people” mentality. The disparity of beliefs, counsel, and measurements have created much confusion.

Recently, some of the most advanced research in this area has been completed, and the haze has yet to dissipate. At performancepoint, we delved into the research to bring much needed clarity to the subject of engagement. This report is designed as a meta-analysis of the existing research and covers:

- What is “Employee Engagement?”
- Why should my organization care?
- What does engagement look like across an entire employee population?
- How does it impact an organization?
- Do certain demographics change the story?
- What drives engagement?
- How can my organization best develop greater levels of engagement?

“Employee Engagement” Defined

As we stated earlier, “Employee Engagement” represents different ideas to different organizations. Based on the research, performancepoint has defined “Employee Engagement” as:

The **degree** to which a **person commits** to a **person** in or an **aspect** of their organization and the **impact** that commitment has on how intensely they **perform** and their length of **tenure**.

While the definition seems straightforward and simple, it is actually robust and multifaceted. To better understand the definition, let’s break it down. First, the word *degree* means a continuum exists. *Commitment* is not an all or nothing measure, but comes in many levels and forms. Nevertheless, commitment represents the connection an individual has with a person or a part of their organization, and is ultimately a personal experience. Having commitment is only half the story, however. Commitment must have an impact or bearing on performance and retention. As these factors illustrate, commitment and the connections that support engagement are not equal across the organization.

Why Should You Care?

The Boardroom

Engagement is a business problem and its impact is felt across the entire organization. Just ponder these recent findings:

First and foremost this is a C-level concern. The boardroom has begun to recognize the symptoms. In fact, 88% of executives are concerned about the productivity levels of our workforce. Executives believe that a lot of opportunity is being left on the table. Execution has become a catch phrase and with good reason—productivity is a strong measure of how well we execute.

Another figure of interest speaks to the connection or lack thereof that employees have with an organization or their work. Seventy-one percent (71%) of our executives worry about whether their employees have their hearts in their work. The people in charge, our key leaders, see the difference between having passion or at least interest in your work, and just completing tasks. Innovative ideas come from interest and creativity, not checklists and burnout.

Change and Innovation

Another measure that provides insight into this issue has to do with change. If we are innovative and we are fully engaged, our strategic efforts should inherently produce results. We have spent millions and billions on project management systems and training, quality-driven efforts, and process improvement consulting. Amid all of those investments, 70% of all strategic initiatives fall short. That is an amazing figure, which points to two main issues:

- Something has changed and our previously effective tools are no longer enough
- People can either move us forward or backward when implementing new ideas

Employees

What insights can we glean from this major force? Our employees have become a competitive advantage for some organizations, and not for others. Some high-level statistics suggest we have several major issues to resolve.

In multiple studies, 48%-83% of employees say they will leave their company as the economy continues to improve. Employees do not have a strong connection to their organization or their current job. In effect, they are saying, “there must be something better out there.” Various reasons exist for these employee concerns; however, two statistics do shed some light:

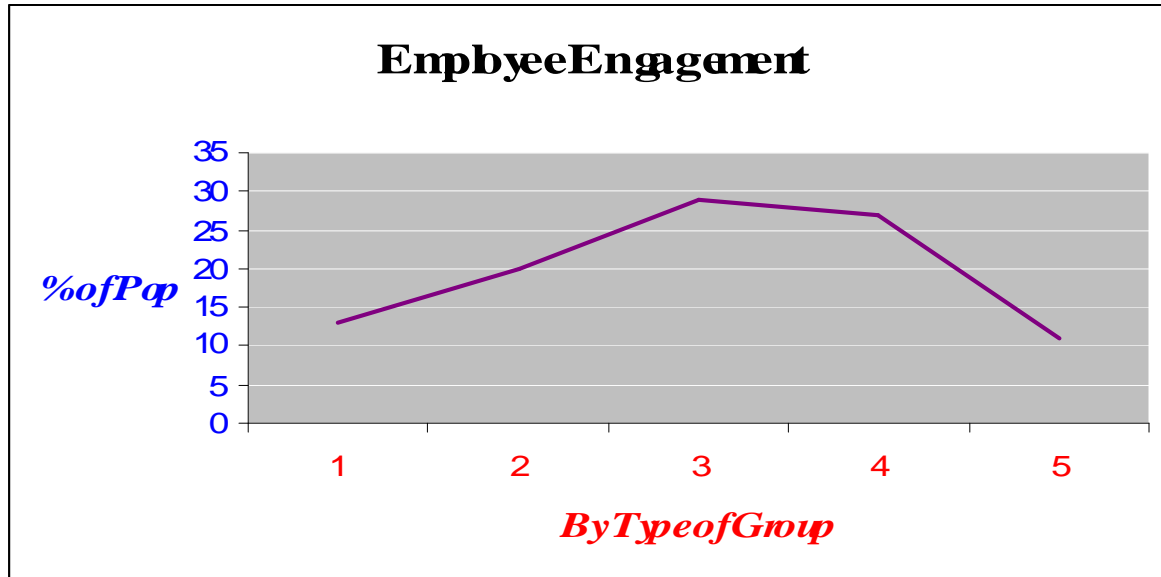
- 88% of employees say they are being asked to “do more with less”
- 92% say their job is becoming more complex

We must ask ourselves, if many of our employees desire to leave, feel constrained by continuous change and limited resources, and feel as though the work environment is becoming more complicated, how do we expect them to feel connected to their work or attain strategic initiatives? These issues fuel the erosion of revenue growth, decrease operating efficiencies, and destroy customer loyalty. Our senior-most leaders need to pay attention to this challenge. We must ask these questions:

- How engaged is our workforce?
- What is the bottom-line impact of our level of employee engagement?
- How do we create an environment that increases employee discretionary effort?
- What will actually move our employees to stay with the organization?
- How can we re-establish and maintain a strong connection with employees that backs our business imperatives?

Our Workforce

The research illustrates employee engagement is a bell curve with three main levels of engagement.



Group One, the “disengaged,” equals approximately 13% of the workforce. These individuals are decidedly uncommitted to their work, colleagues, manager, and the organization. Discontented individuals do the least they can and are significantly more likely to leave the organization than others. To have 13% of our population in this mode is a significant drag on the organization and a large enough concern that we should ask ourselves “why.”

Group Two represent the numbers 2, 3, and 4 on the bell curve, because they share many of the same characteristics. These are your “skeptics.” Nonbelievers connect to one thing in the organization, rather than many aspects. Many from this group slant toward being discontented. Another portion of this group tips toward strong commitment. The middle portion of this group is in doubt. Overall, this group represents a surprising 76% of the general workforce.

Group Three, represented by Section 5 of the graph, represents the “highly engaged” group of employees. These are the faithful high-performers who are innovative, assist others, and give more discretionary effort. These individuals are drastically less likely to leave than others in the organization. Here is the surprising thing about this group...they represent only 11% of the workforce.

Think about these statistics. Only 11% of our workforce is clearly engaged on a day-to-day basis. These highly motivated individuals carry our flag forward. Their commitment is what drives our success. How can we move more people into this category? What would be the impact if we were able to increase our commitment factor by even 5%?

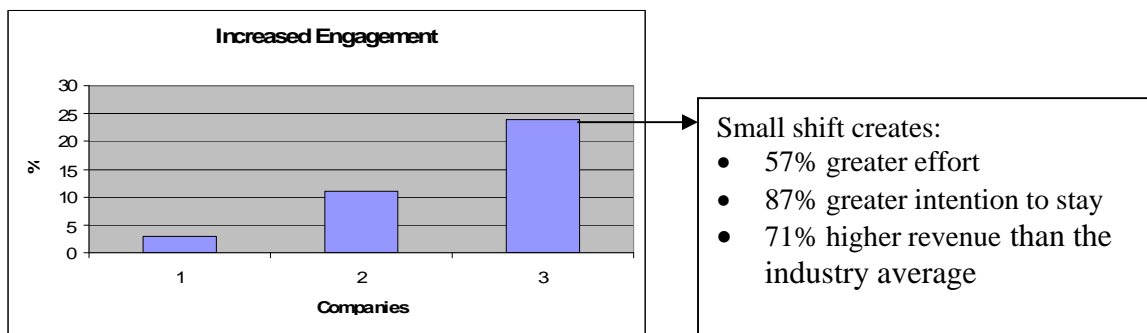
Impact

To truly appreciate the impact of engagement, we should look at three areas:

- Productivity or discretionary effort
- Retention
- Bottom-line results

First, we should examine the differences in the actual populations. Those people in the engaged group are nine times less likely to leave than those who are disengaged. They are also five times less likely to leave than those in the skeptic group. The reverse is also true. Those in the disengaged population are nine times more likely to leave than the engaged group and five times more likely than the skeptics.

How does that translate to organizations that achieve higher levels of engagement? Those organizations that were able to create much higher engagement levels see dramatic differences in the three areas mentioned above. While some organizations only had 3% in the highly engaged category, others maintained 24%. In fact, organizations that were able to develop a highly engaged group of approximately 24% of their populations saw dramatic results.



The goal is to create a small shift which will produce significant differences in your work environment, culture, team dynamics, and results. When commitment is increased by 10%, organizations see an increase in productivity by 6% and performance is positively shifted by 2%. To clearly illustrate the impact of engagement, one only need look at the economy after 9/11.

The research also illustrates the significant differences in organizational performance based on engagement:

- 71% of companies with high levels of engagement enjoyed above-average financial performance.
- 62% of those organizations with low levels of engagement performed financially at below-average levels.

The three years after 9/11 were marked as the worst stretch for corporate profitability since the 1970's. During this period, the average company in the S&P 500 saw profits decline at a rate of 9.4% per year. However, against such a challenging backdrop, the average company on Fortune's 100 Fastest-Growing Companies list increased their revenues by 36% a year and earnings by 46%.

What made the difference in company performance? Execution. These companies built a competitive advantage through their people.

Amidst all of the distraction, it seems more challenging than ever to accomplish our goals. Of course, when we try to understand the source of the challenges, we all turn to the usual suspects: globalization, increased competition, tighter budgets, a renegotiated relationship between employees and employers, and so on. But these are all outside forces—many of which we are unable to influence, let alone change. What we can change...only ourselves. And by changing ourselves, we can more effectively change others. To truly influence the bottom line, we need to influence those who can impact the bottom line--that is what distinguishes company performance, and we can see it in Fortune's 100 Fastest-Growing Companies list.

Demographics

What is most amazing is that engagement seems to be difference-blind. Whether young or old, one race or another, executive or hourly, one industry or another, or one country or another, engagement is a universal concept. We struggle every day to accommodate differences in a fair and equitable manner.

Organizations study Generation X, Generation Y, the Aging Workforce, and other factors to identify employee differences and develop strategies to meet their particular needs. While those actions are commendable, no discernable differences appeared in the demographics with regard to commitment. Each segment of the population was represented in each of the three groups – disengaged, skeptics, and highly engaged – in much the same manner as the larger population. While there were some slight differences in some population segments, specific efforts customized to different populations will not provide the needed return on investment to outweigh the costs.

Engagement Drivers

Examining the employee population is a good indicator of the organization's engagement levels. However, it can be a distraction when looking for solutions. The biggest role in shaping engagement lies with the organization. Dramatic differences occurred in organizations with high versus low levels of engagement. Certain organizations had developed a highly engaged group with more than eight times the employees who were engaged in other organizations.

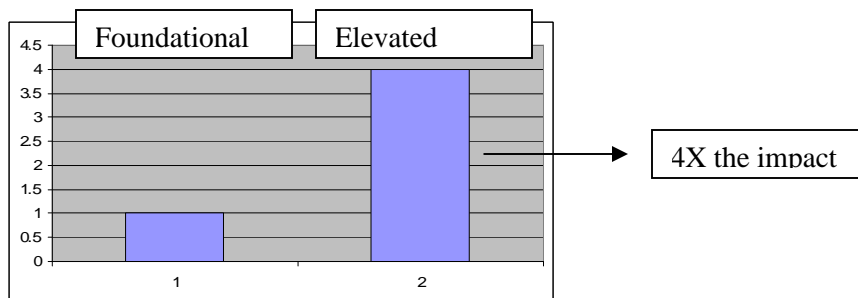
Organizations can utilize certain drivers to impact engagement. There are eight engagement driver categories:

- Direct Supervisor
- Leadership
- Rewards and Compensation
- Benefits
- Selection and On-boarding
- Work and Environment
- Development
- Culture

Each of these categories is made up of specific drivers. Interestingly, the use of these drivers impacts each employee segment in a similar manner. However, certain drivers have more impact than others.

Some of the drivers measure "Foundational" commitment which is the degree to which an employee feels their organization provides appropriate financial rewards, benefits, and developmental experiences. Other drivers measure "Elevated" commitment which is the degree an employee gains significance pleasure, and self-importance.

Foundational and Elevated commitment lead to higher levels of discretionary effort and intention to stay, thus increasing productivity and retention. While organizations acquire greater benefits from higher levels of Elevated commitment (4 times higher), an organization must have a certain amount of Foundational commitment before Elevated commitment can be impacted. In essence, Foundational commitment is a prerequisite to Elevated commitment.



My Organization

The following are factors organizations should work through when seeking to increase engagement:

Scalable: Each solution we utilize to produce results should be scalable. We spend an incredible amount of time working on exceptions, trusting a few who can “make it work,” or building boutique solutions for each stakeholder. The only efficient way to tackle engagement is through methods that can be leveraged across large segments of the population. One area to focus on is “Key Contributors,” realizing that these employees contribute more to the business.

High impact: Not every initiative or effort is equal. Certain engagement drivers create more impressive results than others. Understanding what will make the most difference is essential to creating a competitive advantage.

Focused: Less is more. A clear, focused strategy can be executed. One of the most common mistakes organizations make is trying to leapfrog. Creating movement in the appropriate direction in a concerted effort creates trust and furthers the effort much more than an aggressive strategy on which the organization will most likely fall short.

Business strategy: Any engagement effort should be tied to the organizational strategy, otherwise this issue is just a people issue. Directly connecting engagement to the goals and results of the organization, such as growth, sales, and service standards, creates meaning in the effort and boardroom support.

Impediments: Every organization must be willing to look inward and honestly answer the question, “What will stop us from improving our competitive advantage, our engagement?” Each organization has barriers and dysfunction that will impede progress. Those impediments need to be removed in order to create a successful strategy.

Benchmarks: Every organization is different. Many of the popular ideas that are brought forward work in one organization and therefore are expected to work in another. Unfortunately, each organization has different strategies, talent, competencies, systems, etc. While certain processes can be utilized to assess an organizational need, the solution should take into account an organization’s culture, strengths, and areas of improvement.

Performance Retention Index (PRI)

The PRI is an index based on data from over five studies. These studies included more than 55,000 employees from over 60 organizations and 11 industries globally. This assessment was then compared to over 5 other organizational surveys in order to further validate the item analysis. These items are also compared to clear measurable markers, such as intention to stay and discretionary effort, in each implementation.

The PRI reveals to an organization a(n):

- Measure of your organization's engagement levels
- Report on the health of your organization – summary and detail
- Highlights of the organizations engagement strengths and vulnerabilities
- Organization-specific set of recommendations for creating a competitive advantage through engagement

This is an innovative, bottom-line organizational assessment. The PRI is web-based and scalable for organizations of all sizes. The index was designed to help organizations formulate a cost-effective plan for improving financial results through people.

Performancepoint

performancepoint is an exceptional network of consultants backed by thought-leading research and current business solutions.

When you partner with performancepoint, you get the strength of an industry and the convenience of working with a single firm.

We assist organizations in:

- Increasing productivity/discretionary effort
- Reducing unwanted attrition
- Generating revenue

Areas of expertise:

- Organizational engagement and commitment
- Sales
- Leadership

Clients Come First

We are different. We are committed to putting your goals in the right place—first place. We provide best-in-class solutions by combining thought-leading content with proven cutting-edge methodology.

Our solutions are crafted and implemented differently for each of our unique clients. Every environment is different and we take that into consideration when partnering with our clients.

Expertise

When you employ performancepoint, you receive the services of a tested performance consultant. Most importantly, we know what we do well. We will only provide you with resources ready for your challenge. We know people and we know business.

Clear Focus

We will work to create a clear and concrete focus. We are determined to provide you with the solution that is right for you. Accomplishing such a task can be difficult, but by partnering with thought leaders and focusing on up-front assessment, we are able to help you make the best choices concerning your budget.

Impact

Research shows that 85% of all training has little impact on actual job performance and over 70% of organization initiatives fall short of expectations. Our upfront assessments, customized approaches, learning transfer support and measurement experience significantly increase your odds for success.

Resources

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