

ENGAGEMENT: A LEADING INDICATOR FOR FINANCIAL PERFORMANCE

**TWELVE STEPS CRITICAL TO THE
ALIGNMENT OF YOUR EMPLOYEES
TO YOUR ORGANIZATION'S GOALS**



Introduction

It is perhaps “common sense” that motivated and engaged employees drive high levels of productivity, experience lower workforce turnover, and provide better customer service. Research has also demonstrated a strong connection between employee engagement and customer loyalty¹, longer employee tenure, and increased workplace safety.²

However, many businesses have not considered that:

Properly measured
employee engagement is
a leading indicator for
financial performance.

1 Harris Interactive, 2010

2 Harter, Schmidt, & Hayes (2002). Business-unit-level relationship between employee satisfaction, employee engagement, and business outcomes: A meta-analysis. *Journal of Applied Psychology*, 87, 268-279.

The Campbell Soup Example

When Doug Conant became CEO of Campbell Soup in 2001 he committed himself to engagement as “Job 1”. He fired over 300 managers who disagreed with his plans to focus on employee engagement. Since 2008, revenue has grown nearly 30% during the same period S&P500 declined nearly 10%.

Leonard, Bill. “Businesses Face an Engagement Crisis”, Society for Human Resource Management, July 2011

In any economy, organizations face constant pressure to increase revenue, productivity, profitability and increase shareholder value. What is often overlooked is the importance of how an unengaged workforce can negatively affect the bottom line. CEOs and business

**What kind
of financial
performance?**

**Isn't
engagement
an HR
'fluff word'?**

leaders who effectively address engagement can reap large increases in productivity and increase their shareholder value.

This executive briefing will provide an overview of how a “soft” metric like engagement can and should be treated as a leading indicator for financial performance. We'll also give you twelve steps you can take to evaluate and increase engagement in your organization.

**Workforce, Personnel,
Human Resources,
Human Capital...**

Plenty of terms abound to refer to the people that work for an organization. Whatever the name you choose, the “people cost” on your income statement is a significant amount.

Your people are certainly more than a set of numbers. That said, if you don't apply reasonable quantitative measures to them

it is difficult, if not impossible to lead, plan or manage them effectively. To complicate things, not all numbers are created equal so HR and Finance have to agree on what gets measured and how both departments have ideas to help the other when the right information is available.

To use the “Human Capital” model for a moment, think of your people as a valuable collection of investments. Some “cost” more than others, some produce more “output” than others. It is common to consider revenue, EBITDA³ or profit per employee (PPE) as examples of Return on Investment (ROI) in Human Capital. Employee engagement is a leading indicator of *EBITDA/employee* and PPE⁴.

Often “engagement” is confused with “satisfaction”. A poorly motivated and poorly supervised employee could spend all day

³ Earnings before Interest, Taxes, Depreciation and Amortization.

⁴ “Metrics make the intangible more tangible ... you can't game a metric such as PPE as easily as you can more-traditional measures of return-on-capital, because the conservative accounting around profit and the simplicity of an employee count make the measure straightforward” Lowell Bryan, quoted by Scott Leibs “Measuring Up”, CFO Magazine, June 2007.

Engagement is not Satisfaction

“Employee Engagement’ refers to the ‘Human Capital’ alignment of the employee’s energy and efforts to the organization’s goals, values and mission.”⁶

on Facebook or on the phone with their friends and be “satisfied” with their job position. Would you call that “engaged”? If you measured employee satisfaction alone the results do little to predict financial or productivity results.

Unfortunately, a number of popular surveys of “engagement” **actually** measure “satisfaction”.⁵

All “highly engaged” employees are likely to be “satisfied” but the reverse is **not necessarily true**.

Recent studies have shown that more than 50 percent of the US and Canadian working population is not engaged in their work.⁷

Many business leaders and HR specialists have observed that our labor force is changing: employees appear less motivated, often want less responsibility, are relatively well educated in non-work related subjects but less educated

⁵ If you already are using an engagement measure this is easy to identify from the content of the questions. Picture yourself as a ‘slacker’ and if you can answer the survey questions all positively you have a weak survey, and should consider a replacement.

⁶ D.E. Meikle, “Taking Stock: Your Human Capital Inventory”, OrgCommit, 2010.

⁷ Studies available include those run by: Conference Board 2011, Gallup 2010, 2011

and equipped in work related skills, and are widely diverse in lifestyle. **Does this observation match your experience?**

In terms of practical observations you may have noted that engaged employees tend to be:

- Attentive
- Responsible
- Energetic and passionate
- Accountable
- Finish work on time
- Never miss work
- Help others in the workplace
- Recognize own strengths and weaknesses
- Participate in out of office activities

The same study found that disengaged employees are more likely found to:

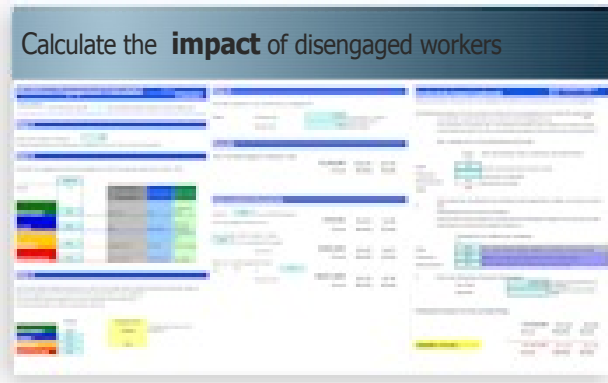
- Be perceived as lazy
- Difficult to trust
- Passive
- Irresponsible
- Slow to get their work finished
- Show up late to work
- Respond slowly to emails
- Complain about work

Given the research showing the abysmal level of engagement, the key question to ask is:

How much is your
current engagement
level costing
your organization?

We provide a calculator at

www.engagement-survey.com/calculator.html



What would a 10% increase in engagement in your organization mean for productivity?

Consider:

“Improving managers' capabilities to support engagement is an area of relatively low investment, which can reap dividends at this time. Enabling this requires leadership support, appropriate rewards for managers and training to develop managers' coaching skills.”⁹

⁹ Nick Tatchell, Towers Perrin, in a letter to CFO Magazine, December 2008

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Determine the Drivers:

Steps to Address Engagement

Former General Electric CEO Jack Welch placed engagement at the head of the top three measures to a company's health¹⁰ (the next two are customer satisfaction and free cash flow). Given the importance of engagement to successful companies such as GE and Campbell's Soup, we offer the following twelve steps to act upon:

¹⁰ Jack and Suzi Welch. *Bloomberg Business Week*, 8 May 2006

1. Measure Current Employee Engagement, Motivation and Satisfaction

As part of our diagnostic study, we recommend the use of an effective workplace engagement survey to identify your current levels of both job engagement and satisfaction with their manager relationship. This information should initially be compared to an external benchmark and will either confirm you're already on the right track or provide information needed to identify and fix what needs improvement.

2. Measure both Team Chemistry and Manager-Employee Fit

A number of commercial tools exist that measure the characteristics and effectiveness of teams. Ensure that workgroups and

**Our Human
Capital
Inventory
process
provides
you with the
information
you need to
plan and. . .**

manager-employee fit is examined to identify problem areas in engagement, productivity or workplace conflict.

3. Take stock of your Human Capital Inventory

Every person is motivated in a different way, so there is no “magic bullet” to engagement. Do you know what skills, knowledge and abilities you have in your workforce? Do you know what their capability and potential is?

There are number of effective tools that address these questions and perhaps you already use them.

Are you using your workforce information effectively?

Are you using this information to its full potential to drive engagement and business results?

Ensure that any HR program identifying the attributes of Human Capital is linked with a concrete business objective and measured with a financial metric as well as the traditional HR metrics.

4. Ensure open lines of communication, data collection and feedback

Your primary resource is your team of line managers. Have they clearly presented the organization's objectives and vision to the employees? Is there an "overseer" mentality or a "coaching" mentality? Does management listen and "forward up" ideas in return, giving credit where it is due, or do good ideas only seem to come from the managers themselves? Put yourself in the place of an employee- how do they understand the importance of their contribution? We encourage their engagement when we sincerely solicit their ideas and feedback and recognize them for good ideas by showing how their feedback is being used.

...lead your workforce to outstanding productivity by "taking stock" of your Human Capital and addresses gaps in capability and engagement.

5. Place, train and plan for where people belong through effective hiring, training and promotion policies and processes

Ensure you have an effective, executable workforce plan that promotes from within whenever possible. Consider implementing a career-pathing, or coaching/career management program. Allocate training resources to support that plan, so that you have the right person, in the right job, at the right time to support your business objectives.

6. Ensure your HR department is a key part of engagement's measurement and business impact

Most HR practitioners have skills well suited to making your engagement program a success in three key areas:

1. Subject matter expertise on the implementation and measurement of your engagement initiatives
2. Managing the “onboarding” process to ensure that new employees are properly introduced into the organization’s culture, values and expectations.
3. Providing the insight and linkage between the “people” measures and effects on “hard” metrics like EBITA or Profit per Employee (PPE).

7. Identify the “Mid Level Gaps” to identify different perceptions of vision and priorities

Ensure you clearly distinguish between performance assessments and development assessments. For development, use 360 or multi-rater instruments with line managers. To avoid subjectivity and popularity contests, these **must** always be used as a three part process (360 + coaching/development period + 360) to get a before and after trend. They are very effective at detecting gaps in alignment, which directly impacts engagement.

8. Provide clear performance expectations that are assessed as objectively as possible, more frequently than annually

Performance is more complicated than clear expectations of division sales, transactions processed or widgets made. These are important measures, but also include a measured understanding of the employee's capability and job fit as well as their manager's capability and job fit. This is the critical Human Capital information you need to understand the "why" and "how" behind the measures of output. This is the place where HR and Finance meet and where engagement meets earnings per share.

9. Regularly, review salary, recognition and the quality of life components of your compensation plan

Earlier, we pointed out that satisfied doesn't necessarily mean "engaged" but dis-satisfaction is the mortal enemy of engagement. Ensure your salary, benefits and recognition programs are competitive within your industry. Do not neglect some of the employee frustrations such as dealing with an Employee Assistance Plan or Retirement consultant that gives poor service. Some changes in this area can be amongst the cheapest to quickly implement.

10. Track engagement level regularly in relation with operating revenue, EBITDA per employee, PPE or other financial metric

Any human resource initiative that will be accepted as business relevant must link with a financial measure. For most companies we recommend *EBITDA Per Employee* since it adjusts for non-workforce related factors influencing profit.

11. Identify common attributes that correlate with high engagement for each job description or division

What specifically engages and motivates people differ depending on many factors. That said, common attributes can often be identified that predict the likelihood an employee has the

stuff” to become and remain engaged. By identifying and tracking these similarities you gain insight into the “how’s” and “why’s” of your current engagement level and what will influence it to positively trend. Segmented engagement information is useful to building a more productive and engaged workforce.

12. Consider your organization’s culture: Where you are, where you want to be

Executives must take the lead in honestly appraising their corporate culture. Would you define your culture as one that has the trust of the workforce in their leadership? The finest strategy or plan, along with the finest processes of execution to support them will still fall short if your workforce does not trust its leadership.

Is your culture of engagement one that emphasizes high performance

and accountability?

If so, what do “high performance” and “accountability” “look like”, for the executives, mid managers and workforce- are you SURE you’re on the same page?

What system do you have in place to monitor this and to capture the different motivational drivers of your work population?

By taking stock of your existing situation including the perceptions of your managers and employees you’ll gain some insight into “where you are”, have you defined clearly where you want to be? We recommend your whole workforce be part of that process.

How we can help you with your engagement program?

We jointly offer a **Workplace Engagement Check-up** designed to uncover engagement issues, provide an outside opinion on your current initiatives or confirm you're on the right track as compared to our current research data.

It takes less than an hour of your time to begin, book a time with us today at:
www.engagement-survey.com/checkup.html



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