THE
GOOD WORK COMMISSION

Provocation Paper 2

Engaged staff: What do they look like and why might you want them?

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The idea that, in an ideal world, staff should be highly engaged, has been around in the media for about 15 years – and for another 15 years before that in academic writing. Currently it is taking a bit of a beating, as companies reduce some of what they see as discretionary activity, to focus on the basics. Or should engagement be a basic? Why is it important to create an atmosphere of engagement? This paper outlines the rationale, and poses some questions for us to take forward into our May debate.

Why drive for a motivated and engaged workforce?

Motivation and engagement, while officially different terms, have become almost synonymous when applied in the context of employment. Multiple studies over the last 20 years or so have looked to define what engagement is and what drives it, luckily with a remarkable degree of alignment in the key topics. The definition we will use here says that an engaged employee:

- Is committed and will go ‘above-and-beyond’;
- Is passionate and takes personal ownership for the quality of their work;
- Paints a positive image of the organisation and recommends it and its products/services to others;
- Understands how their work results in meaningful outcomes;
- Vigorously pursues the organisation’s goals.

Achieving an engaged workforce takes effort. It’s important therefore to understand why it’s so beneficial to an employer. The most helpful way to think about this may be to differentiate between different places on a scale from ‘disengaged’ to ‘engaged’. Just off the left hand side of the scale is a ‘satisfied employee’. At this level, an employee will turn up and do what they are asked to do, so long as it remains within prescribed expectations of their role. They are not dissatisfied with conditions, but equally they will not go ‘above and beyond’ in their role.

Moving further towards engagement, a committed employee will aim to perform their job well, drive for results, and be prepared to take on additional responsibility, but without that extra level of engagement they will not have the deeper understanding of how what they do contributes to overall company goals, and therefore be able to adapt their behaviour appropriately to deliver stronger performance.

While a committed employee will do what they are asked, and occasionally more, an engaged one will spot the opportunity themselves. They will contribute discretionary effort, proactively seek opportunities to serve the mission of the organisation, and be prepared to withhold criticism in favour of constructive debate on how the organisation can improve. In addition, a well connected and engaged employee will have more chance to disseminate their positive mind set throughout the organisation because they are more open to making friends at work, thus leading to further performance improvement potential.

Thus highly engaged organisations show higher levels of financial and operational performance. Watson Wyatt's recent WorkUSA survey, for example, showed a 26 per cent total return to shareholders (TRS) for high engagement companies, an 18 per cent TRS for companies with committed staff, and a 12 per cent TRS for the average company in the survey. Thus building an engaged workforce for these participating companies translated to a more than 100 per cent improvement in TRS.[1] Several similar sources concur.

An additional angle comes from McKinsey's Organisational Health Index (OHI) survey. This database of over 300,000 respondents and 600 global companies reviews all aspects of organisational health, including motivation. Analysis of the database shows that motivation is strongly linked to overall performance, but only if performance on motivation is in the top quartile – merely being good enough does not result in a performance uptick.

So companies are well advised to invest what it takes to build an engaged workforce – the next step is how?

How to drive engagement

There have been many studies over 20 years aimed at understanding the drivers of empowerment. Although different studies use different language, there are common factors that seem to recur[2]:

- **Trust and integrity**: The extent to which employees feel that management are concerned about their well-being, tell the truth, and demonstrate the espoused company goals through their own leadership and behaviour.
- **The nature of the job**: The extent to which the employee derives emotional and mental stimulation from their role, including level of autonomy and the ability to participate in decision-making.
- **Link between company and individual goals**: How well the individual understands company goals, and his/her contribution to them.
- **Career growth opportunities**: Degree to which an employee feels there are opportunities for career growth and promotion within the company; the availability of 'career paths' within the company.

[1] Watson Wyatt *'Debunking the myths of Employee Engagement'* 2007
[2] Summarised in *'Employee Engagement, A review of current research and its implications'*, The Conference Board, 2006

- **Employee development**: Degree to which the employee feels specific efforts are made to build their skills.
- **Pride**: The level of self esteem that the employee derives from being part of the company relates directly to the extent to which the employee would recommend the company to potential employees or customers.
- **Coworkers**: The influence that an employee's colleagues have on his/her level of engagement. Multiple studies show that companies which invest in the social connection of their staff have lower turnover rates, higher satisfaction levels, and contribute more to revenue growth – although more connection is not necessarily better. Too many connections may lead to inefficiencies – this is about having friends at work, and about organisations facilitating the right connections between engaged brokers.
- **Personal relationship with manager**: Degree to which the employee values the relationship they have with their manager.

Notably, financial reward doesn't appear on this list. It obviously comes up as part of the engagement research, but the usual outcome is that it is a hygiene factor, rather than a determinant of engagement. Clearly pay can be a powerful recognition lever, and recognition is a part of engagement – most obviously, part of 'trust', above. But the research says that as recognition levers go, it's a weak one. Staff need to feel they are adequately compensated, but exceptional reward results in short-term boosts of excitement, and not longer term, sustainable engagement with the company. In particular, five decades and 229 studies show that there is no evidence that executive stock options help increase company performance.

It is not clear, however, whether the importance of pay as a lever for engagement – or as a direct link to driving company performance – might vary with type of job or industry culture. Are there some jobs which are just so unpleasant that it's critical to pay at the top of the range to recognise the effort employees put in? Or are there cultures where compensation is the critical recognition lever, and therefore strongly linked to engagement? This argument is frequently made about pre-2008-crash investment banking, but the question is whether these banks ever had highly engaged staff – or rather just staff highly committed to the specific goals they were set. Once the reward lever was removed, staff showed little loyalty to their organisations. We'll explore this set of drivers and further thoughts on compensation in greater detail in May.

The effect of the downturn

The clear effect of the downturn so far is that staff are less engaged. Across Asia, for example, Watson Wyatt has found that employee engagement has slipped four percentage points, with the most pronounced falls in Singapore (11 points) and Hong Kong (16 points).[3] The Corporate Executive Board has found that employee engagement is falling faster among top executives than in any other group – only 13 per cent of senior executives say they are willing to go above and beyond what is expected of them, compared to 29 per cent two years ago.[4]

These falls are concerning because of the strength of the connection between engagement and performance outlined above. We know that engaged employees are more productive and contribute more to revenue growth. Managing well through a downturn clearly involves making the most of any productivity improvement a company can drive.

The fall in engagement is likely due to the announcement of measures to address the performance drop, common across global markets – particularly redundancies, but also a big drop in focus by senior leaders. In the good times, leaders who know they help motivate staff by walking the corridors, showing appreciation, mentoring more junior colleagues, but to whom it doesn't necessarily come naturally, may still spend the time to do so. In a downturn, with increasing pressure on short term numbers, it is harder to spend so-called 'discretionary' time on activities which don't feel urgent. There is an inbuilt attitude that staff should be – and perhaps are – just glad to have a job. But these data suggest that staff are more willing to look outside for opportunities than companies may realise, and certainly not as loyal as the difficult environment suggests – among high potential employees (identified as such by their employers) 25 per cent plan on leaving in the next 12 months.

In addition, analysis of the last few downturns shows real concerns with ignoring the issue of engagement during a downturn. Downsizing without the right safeguards in place leads to an inability to grow out of the downturn, or indeed to seize opportunities within it for companies which are less badly affected. Downsizing also increases voluntary turnover – for example, in a recent analysis of companies seeking to be included in Fortune's annual '100 best companies to work for,' a downsizing of just one per cent of the workforce was found to precede, on average, a 31 per cent increase in turnover.[5] A belief that no one will move jobs during a downturn is contradicted by observed high turnover among top performers in a downturn. So the answer is that continued efforts on engagement are likely to drive continued value – but they have to be done carefully and responsively to the context.

[3] Watson Wyatt: WorkAsia report 2008/2009
[4] Conference Executive Board, December 2008
[5] Trevor and Nyberg, Academy of Management Journal, April 2008

Companies that handle this well and protect engagement continue to follow the levers described above throughout the bad times. For example – carry out redundancies but be open about the reasons for them and ask employees for input. At Pool Covers Ltd in the US, for example, at one of their regular monthly company-wide meetings to review results, in September 2008 a big fall in the order book was indicated, and hence a fall in future profits. Sales dived 49 per cent in one month. The review – a regular occurrence – had a big effect on some of the installers. At the October meeting seven of them volunteered for redundancy. Their perspective was that if they didn't take the hit, the whole company would struggle, and employees with families to support or big mortgages would be in trouble.[6] Larger companies clearly need to adapt this kind of approach to their own situation, but the ethos is consistent – if you treat staff with respect even in the hard times, staff will respect the company and give more of themselves to company goals.

What should I do with this information?

We want to ensure the May discussion is focused on the most important aspects of this topic for you. Next week we'll solicit some quick input on your reactions to this paper, and the questions it leaves you with. Before we meet in May, we'll deepen the perspectives presented here, develop more examples of how this looks in practice, and look in more depth at how these factors have changed over time. In addition, we'll build in any additional perspectives or questions you have.

[6] Wall Street Journal *'Running the Show – An Open book'* 23 February 2009

Commissioned by The Work Foundation on behalf of The Good Work Commission

The Work Foundation is registered as a charity no: 290003

First published: May 2009

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