

Everyone Wants an Engaged Workforce

how can you create it?

By Amy Richman, Senior Consultant, WFD Consulting Inc.

Engagement seems to be the buzzword these days, but many worry that despite its vernacular popularity, it's in short supply. Workplace research, conference agendas and business journals carry a consistent message that engagement is critical for business success, but recent surveys show that only a fraction of the U.S. workforce is highly engaged — Gallup estimates as low as 26 percent; Watson Wyatt, as high as 57 percent. It's becoming apparent that knowing how to create and sustain employee engagement is a crucial part of successful total rewards strategies.

Today's increased focus on engagement is due in part to the turbulent changes, organizational churn and cost cutting of the last few years. As organizations find they need to ask even more of employees than in the past, they worry whether they will be able to keep the commitment of their top talent and whether employees will indeed be willing to work harder to help the business succeed.

Companies have reason to worry. In the wake of tough decisions that examined every expense to increase the efficiency and effectiveness of

operations and investments, few organizations have asked how the current work environment affects the commitment of their workers. And even fewer have made plans to leverage and grow employee engagement.

Employee commitment, or engagement, as it is more recently called, is not just about having enthusiastic, happy workers. Rather, it refers to a well-defined, research-based cluster of employee attitudes and behaviors that can be measured and has been shown to make a difference to business results. Moreover, engagement is something that organizations either foster or undermine. It is

more influenced by management practices and features of the work environment than by employee demographics or personality. So if a company is not intentionally building commitment, chances are it is minimizing it — or even crushing it.

The Products of Engagement

Recent studies have made it clear that high employee engagement translates into increased discretionary effort, higher productivity and lower turnover at the employee

QUICK LOOK

- ➔ Today's increased focus on engagement is due in part to the turbulent changes, organizational churn and cost cutting of the last few years.
- ➔ Companies with the highest employee engagement levels have a four-year average total shareholder return (TSR) of 20 percent or higher, nearly triple that of businesses with lower levels of engagement.
- ➔ A 0.5 increase in ratings of leaders' work-life supportiveness led to a 2.08-percent increase in customer loyalty, resulting in \$16.3 million more profit over five years.

level, as well as increased customer satisfaction and loyalty, profitability and shareholder value for the organization. According to a 2004 Hewitt study, companies with the highest employee engagement levels have a four-year average total shareholder return (TSR) of 20 percent or higher, nearly triple that of companies with lower levels of engagement. The Great Place to Work Institute found that stocks of the public companies on *Fortune's* "100 Best Companies to Work for" list produced more than three times the gains of the broad market between 1998 and 2004. And Watson Wyatt found three-year TSR to be three times higher for high-commitment firms compared to low-commitment firms (24 percent versus 8 percent). Gallup studies estimate that highly engaged employees account for 90 percent of a company's productivity.

By contrast, employers also need to be concerned about the costs of *disengagement*. Workers who are actively disengaged tend to be less productive, less loyal to their companies, more stressed, absent more and less satisfied with their personal lives. Gallup estimates that the 19 percent of U.S. workers who are actively disengaged miss 118.3 million more workdays than engaged employees. They have 33.3 million more sick days than engaged employees, and use seven times as much health care as engaged employees.

Taken together, these statistics indicate much room for improvement: either increasing the number of highly engaged employees or reducing the number of disengaged employees can have a huge impact on the business in terms of health-care costs, productivity, retention, customer loyalty and profitability.

How Engagement Works

Engagement is what fuels discretionary efforts and concern for quality. Engaged employees are highly involved and

attached to the organization. They believe they have a stake in the organization, and that belief is reflected in their behavior. Engagement is what prompts employees to identify with the success of the company, recommend the company to others as a good place to work, and "go the extra mile" in looking for creative solutions that help the organization succeed. Given how engaged employees behave (see *What Do Engaged Employees Look Like?*), imagine the benefit to your organization if you could increase by just 5 percent the number of engaged employees.

What Causes High Engagement?

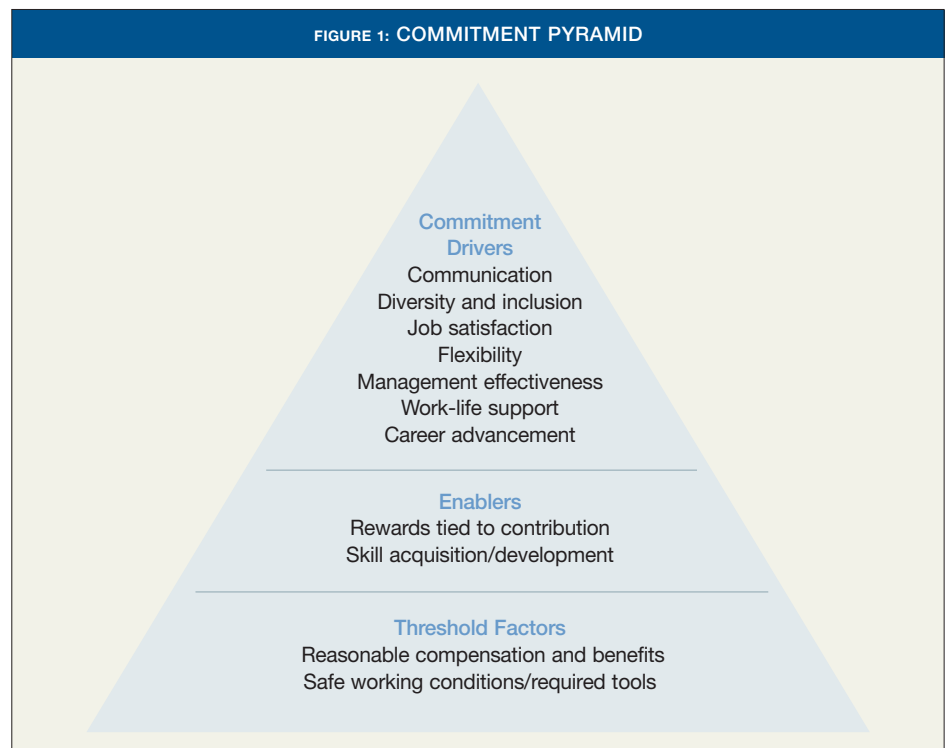
Based on its studies in many industries and organizations, WFD Consulting developed the Commitment Pyramid to show the hierarchy of factors that are the building blocks of employee engagement within an organization. (See Figure 1.) The bottom of the pyramid is made up of the threshold factors: factors that have to be in place in order for an organization just to be at the table as an

What Do Engaged Employees Look Like?

Engaged employees:

- Are energized, committed and work hard to help the company succeed
- Use their energy, skills, experience and creativity to satisfy customers and deliver results
- Say that they work for the firm because they want to
- See their role as following through to make sure that problems they identify get solved
- Are action-oriented and know how to take intelligent risks
- Believe they have a stake in the company
- Exert extraordinary effort to do whatever it takes to make and keep the company successful, while embracing the company's culture.

FIGURE 1: COMMITMENT PYRAMID



Source: WFD Consulting, National Study 2002.

effective competitor for the best human capital. The second level contains the enablers: the ingredients that begin to set a business apart from the competition and enable employees to align their activities toward the organization's objectives. Although these building blocks are essential to creating an effective workplace, the real competitive payoff for employees and the business is at the top of the pyramid — in the commitment drivers. These are the factors that encourage the full engagement of employees in the business of the enterprise. It is crucial that an organization address these factors if it is to derive a real competitive advantage from its workforce by attracting and keeping the best employees, and by drawing out their full potential.

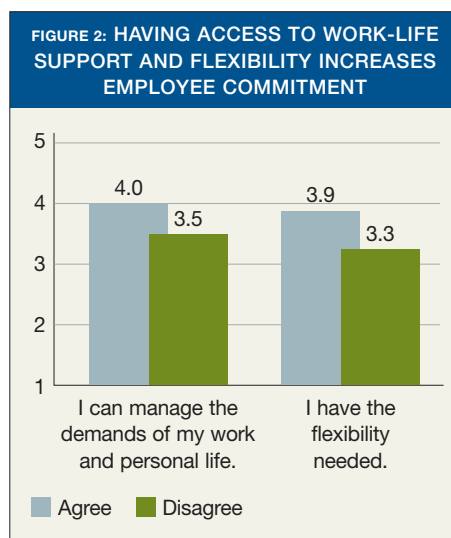
Commitment Pyramid

Ironically, most companies focus HR efforts on the base of the pyramid, but the differentiating aspects of total rewards are actually at the top of the pyramid. What differentiates the Commitment Pyramid is that it highlights what research has repeatedly found but which is often overlooked in other models of commitment: namely that work-life support, flexibility and diversity/inclusion are critical components for building a highly committed, engaged workforce.

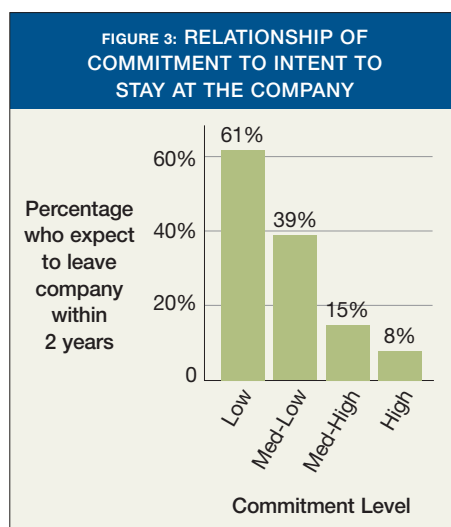
The Importance of Work-Life Support and Flexibility Has Been Overlooked

In a 2002 national study of employees from medium- to large-size companies, WFD found that employees who agreed they have the flexibility they need and who have work-life support scored 14 percent to 20 percent higher in commitment than those who did not agree. (See Figure 2.) In client-specific studies, WFD has found increases in commitment due to flexibility and work-life support to be as high as 30 percent. Increased

commitment levels also correlate strongly with intent to stay at the company. This has clear implications for talent management and reducing the cost of turnover. (See Figure 3.) Recent research by the Corporate Leadership Council (CLC) concludes that every 10-percent improvement in commitment can increase an employee's level of discretionary effort by 6 percent and performance by 2 percent, and decreases likelihood of turnover by 9 percent. Based on the CLC figures, access to flexibility and work-life supports that increase commitment can boost performance by 4 percent or more and reduce turnover by as much as 18 percent.




Source: WFD Consulting, National Study 2002.



Source: WFD Consulting, National Study 2002.

These findings about the relationship of flexibility, work-life supports, commitment and retention are confirmed by other research, such as the 2002 National Study of the Changing Workforce, which found that employees who have flexibility are 18 percent more likely to be highly engaged than employees who do not have flexibility. A study conducted at First Tennessee Bank explicitly linked flexibility, employee engagement and financial performance. A 0.5 increase in ratings of leaders' work-life supportiveness led to a 2.08-percent increase in customer loyalty, resulting in \$16.3 million more profit over five years.

Summing Up

The evidence is clear that employee commitment/engagement has powerful effects on business outcomes. Cross-industry research conducted over a decade has shown repeatedly that commitment is not driven primarily by compensation and benefits but by the total rewards of a supportive and flexible workplace characterized by the commitment drivers at the apex of the Commitment Pyramid. Employers who are concerned about leveraging employee commitment will not only offer a competitive benefits and compensation package, but also will develop a broad engagement strategy that encompasses advancement opportunity, effective managers, job challenge, diversity, flexibility and work-life supports. 

ABOUT THE AUTHOR:

Amy Richman is a senior consultant at WFD Consulting Inc. She can be reached at amy.richman@wfd.com or 617/219-8723.

RESOURCES PLUS

- For more information related to this article: Go to www.worldatwork.org/advancedsearch and:
- Type in this key word string on the search line: **employee engagement.**
- Go to www.worldatwork.org/bookstore for:
- Love 'Em or Lose 'Em.*