



Why does
**Employee
Engagement**
matter to CEOs

We've all heard the one about the CEO who was asked how many people worked in his organisation. "Oh, about half of them," he replied >>

Joking aside, how true is this within your organisation? If you don't know chances are it's not being measured or at least not being measured in a way that gives you the same top line data such as profit, debt days outstanding and units shipped. It's interesting that many organisations just don't know, even when perhaps half of their salary bills, their biggest costs, are

going on people either not contributing – what we call non-engaged – or, worse still, those who are actually pushing in the wrong direction. In other words, actively disengaged.

After all, who needs competitors if you've got actively disengaged employees on your payroll?

Why Does Employee Engagement Matter to CEOs

No one would seriously argue against engaging employees in the daily running and the long term goals of the organisation – but how many leaders work consciously towards it? Measuring how engaged your staff really is with your organisation could make for frightening reading. But, these days more than ever, employee engagement must be part of any company's key performance indicators and should be tied into decisions that effect return on investment.

All of our research shows that employees want to work and want to work hard, it's what human beings naturally want to do. That's the good news. Given that the vast majority of us want to work, what then is the driving force behind those that want to work in the same direction as the employer and those that don't? That's the question a good engagement study seeks to answer. And the answers matter. A well aligned workforce results in better bottom-line performance. It delivers higher scores on pretty much any business critical key performance indicators you care to mention, whether they be profit, innovation, safety or anything else. It also means comparatively better share performance.

To the question of whether employee engagement matters to the CEO the answer is undoubtedly 'yes'. Highly engaged workers make for better business outputs, more loyal customers, fewer 'problems' and better financial performance. What's not to like?

Engagement and return on investment

The science of measuring and following up on employee engagement (the measure of enthusiasm and alignment to organisational goals) has come a long way in the past three decades. Years of global research with many millions of employees of all levels and demographic groups has given Hay Group a pretty definitive understanding of what really drives people to come to work and to work effectively.

Better still, it's very possible now to tie these measures to your key performance indicators so that you are able to understand not only the resulting impact on the wider business but more importantly to appreciate the return on investment of addressing prioritised areas.

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Like any other business metric such as profitability, sales per square metre, reliability, units produced and so on, companies need to be measuring the item that most links to the business performance outcome in question and then deal with the findings in a way that makes a difference.

For organisations who already do this, it really is a bit of a 'no brainer' – it's one of the few remaining largely untapped areas of significant organisational improvement left available to CEOs today. The advantages this offers are immense – CEOs are already pressing the buttons called 'cost efficiency', 'innovation', 'sales' and 'production' amongst others but to what extent are they pressing the one labelled 'employee engagement'?

Surveying employees – but for what?

Today approximately 85 to 90 per cent of European headed multinationals survey all their employees. Of these about 50 per cent specifically address the matter of 'engagement' albeit to varying degrees.

Surprisingly few, however, then go on to action the data they collect in a way that is linked to specific business outcomes. In most cases organisations try to improve individual scores but they neither prioritise areas that need to be addressed nor do they focus their efforts in an efficient manner so that the greatest gains are made from ever decreasing resources.

The analogy with other aspects of a business could not be starker. Which organisation would measure its profit levels, identify the major drivers behind it and then do little or nothing with that knowledge? It might sound odd but when it comes to employee engagement it's still largely true of many European organisations in comparison to their US equivalents – we in Europe have some catching up to do.

Our experience indicates that there are several reasons for this hold-up. The first is that employee engagement is not a science that is either well understood by or taught in European HR Educational programmes.

Therefore, it's largely left to the thought leaders in HR or on the board to initiate and pursue.

Secondly, those functions within the organisation that typically own the 'people research' piece are not usually tasked with thinking in terms of large 'Return on Investment' decisions. For example, an organisation might invest £1.5M in a programme designed to identify and follow up on global engagement levels in order to increase sales by £350M. Also, those organisations that have mastered the art, and that are actively pursuing the engagement agenda, are reluctant to expose or alert competition to their approach or results.

Another reason is that until recently there has been little industry standardisation.

This has meant that partnering with an external provider locks organisations into a unique process that, for historical trending purposes, means that they can't easily shop around in future years. It's something of a one-way street. But that's no longer the case and most major experts in the market now take a similar approach, at least with regards to the mechanics of running a survey.

Employee research has also been regarded as a tactical necessity, with a philosophy of 'let's do the minimum required at the lowest cost', instead of being a strategic exercise aimed at understanding and driving those elements that most allow people within the organisation to deliver.

But perhaps one of the main reasons for ignoring this data is simply that it's quite scary. What if I measure engagement and find that the score is low? Is simply not knowing the best option? Scary or not, with competitors picking up the baton and with legislative reporting guidelines on the horizon - this head in the sand approach is increasingly dangerous.

Bringing tangible benefits

More than ever, the benefits of real engagement are being recognised. Even minor improvements in employee engagement see measurable, often significant, improvements in business outcomes. In turbulent times a highly engaged workforce dramatically improves the chance of weathering the storm - it's a real differentiator between winners and losers at such times.

The share performance curve of organisations with highly engaged employees is generally smoother and generally moves in an upward direction, compared to that of organisations with poor engagement levels. In other words market forces have less of an effect on high engagement environments. Investors are increasingly seeing the link between engagement and business outcomes.

Engagement is a great predictor of future financial performance. Engagement effects business outcomes – and business outcomes affect engagement. The two are closely correlated and symbiotic. In good times engagement is bolstered by high profits, in difficult times, engagement drives up profits.

Simply to say that engagement stems from profitability (a common myth) and therefore to ignore it as a required 'measure & action' activity is to see only half of the picture and to ignore this two way connection.

Employee Engagement – a quick guide for CEOs

- Ensure the exercise is a strategic initiative with the sole objective of providing the board guidance around the matter of how and where to invest in people to maximise business performance. In other words, keep the end goal firmly in sight at all times.
- Drive engagement from the top. A lack of senior sponsorship usually results in poor buy in from employees and a poor purchase decision based on local tactical needs, for example the lowest cost provider.
- Pick an expert to help. It's a specialised science - few suppliers can handle the strategic, analytical and logistical needs of a multinational organisation undergoing a full blown engagement research project. The key items to look for are a global presence but a

customised research since every organisation's needs and issues are different. Standardised methodology so that you can change from one supplier to the next is also important, as are advanced analytics, which are capable of delivering straight answers and which are backed by rigorous research and relevant global normative data.

- In the 70's we had 'satisfaction', in the 80's we had 'commitment', in the 90's we had 'engagement'. All these increasingly mattered, the evolution had been one of working toward the factors that most related to business outcomes. The noughties (00's) brings us closest yet to that holy grail – 'employee effectiveness'. The measure of engagement combined with enablement. If you're not hearing that from your providers you might well not be getting the best out of your employee research.

It's also likely legislation and/or guidelines from the likes of the Accounting Standards Board will at some point soon force the matter of reporting measures of intellectual capital – something that has historically been intangible but increasingly is now well understood and defined. In the UK this was very nearly the case with the postponed UK OFR legislative revisions earlier in 2006, which included measures of Human Capital. Behind the scenes there was much talk of 'employee engagement' being one of the reported measures.

So, engagement is the measure of the 'state of being' with regard to employees and more importantly how that relates to the aims and ambitions of the organisation.

In other words, you could potentially be very enthusiastic but be pushing in the wrong direction. To be engaged with the organisation means to actively pursue the goals and objectives of that business.

It almost goes without saying that to measure and know this metric provides management with an invaluable pool in determining how aligned the workforce is with the direction in which they are meant to be going.

The article could end here but there is one other key fact to consider. Engagement is important and is, relatively speaking, a business advantage but it's only part of the 'whole' when it comes to understanding how people link to business outcomes.

Perhaps it's useful to step back for a moment and see how the picture has evolved; in the 70's we had 'satisfaction', in the 80's we had 'commitment' and in the 90's we had 'engagement' – each an evolutionary step beyond the former, each taking us closer toward a true understanding of how people affect business.

Most recently, research has lead us to appreciate something that many of you will already take for granted (but it may surprise you how often it's actually overlooked) and that's 'enablement'. It's one thing to have engaged employees all pushing in the right direction but if they are not properly enabled to do their work then, well... you work it out. Measure engagement AND enablement, analyse their interdependence and links to business outcomes and you really start to get an idea of what drives your 'greatest asset' to deliver fully. At the extreme, engagement without enablement is somewhat like having a car without wheels - it's not usually that bad but the quality of enablement inside your organisation can make all the difference in an otherwise level playing field.

But that's a topic for another time. We live in interesting times. The opportunities currently available for any organisation to improve its bottom line by actively engaging a workforce have never been so good – and the time to act is now.

About Hay Group Insight

Hay Group Insight, Hay Group's survey research division, is a global leader in employee opinion research. Through customised survey programs focused on organisational objectives, we partner with clients to attract and retain talent, improve operating efficiency, manage change more effectively, and enhance customer loyalty and organisational performance.

To read more about how employee engagement can create better financial performance, visit our website www.haygroup.com/insight