Straight Talk about Employee Engagement

Employee engagement bombards businesses everywhere. We hear about it at workshops, conferences, seminars, social media forums, in journal articles, survey reports and conference room presentations
Everybody's talking about it. Few understand what it is – or how it works.

When managed well, engaged people can take organizations to unheard of heights. When it's not--and it usually isn't--it drains finite resources. Companies spend millions, presumably to engage people. Many have little or nothing to show for it.

This white paper is intended to clarify what employee engagement is and what organizations can do to capitalize on it.

How I Discovered Employee Engagement

Engagement became part of my world on January 17, 1994 when an earthquake that registered 6.7 on the Richter scale did a lot of damage north of Los Angeles. It was called the Northridge Earthquake because of its proximity to the town by that name. I was working at Towers Perrin at the time, where I was a principal and leader of a consulting center of excellence.

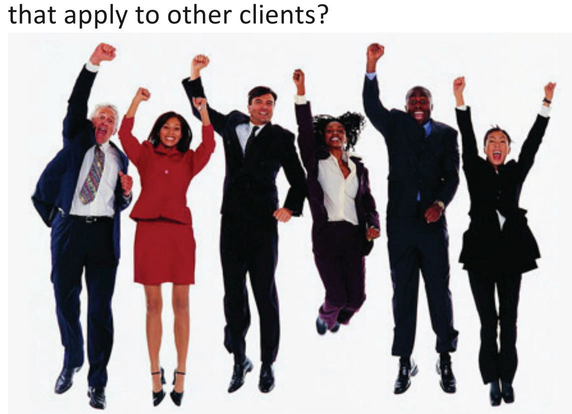
The people at GTE, then a client and the largest independent telephone company in the U.S., sprang into action, rushing generators, food, clothing and shelter to thousands of people who needed help. They performed at unheard of levels, bypassing purchase orders and cumbersome approvals from the bosses.

A few weeks later, I received a call from my client at GTE asking if I would conduct a study to identify how GTE could capture some of what it did in the Northridge emergency and apply it in their daily work lives. "We operated like a truly high performance organization," Jorge told me. "I want to learn what we can do to take performance to a higher level on a regular basis," he said."

I spent a week in West Lake Village near the GTE offices studying the phenomenon my client described. I interviewed GTE leaders, conducted focus groups with employees and spoke with customers who were the recipient of GTE services. I also rode through midnight aftershocks from the earthquake.

After reviewing my work and recommendations with GTE, I presented my information to a small team of some of the best and brightest people performance consultants at Towers Perrin. They included Monica Oliver, Diane Gherson, Doug Friedman and Doug Barile.

We couldn't replicate the event of course, nor could people sustain the performance levels under which they operated during the crisis. But what could we learn from the event in order to help GTE perform at higher levels for their customers on an ongoing basis? And how might that apply to other clients?



Several months later, we had developed a process that captured the best of the GTE experience and was replicatable in the non-crisis world. We called it *employee engagement.*

What is Employee Engagement?

It was our belief that employee engagement has three components:

- People share the organization's values and identify with its purpose. This is often referred to as cognitive identity.
- Because of this people have an emotional attachment to the company. They're proud of their relationship with it.
- People are willing to go the extra mile to make the organization a success. When they're confronted by options about how to act, they'll choose the course of action that best meets the organization's operating or financial goals. This is often referred to as the use of discretionary effort.

We simplified the definition of employee engagement as a condition that exists among employees when they feel passionate about their jobs, are committed to the organization, and use their discretionary effort to improve results. We began testing it with our clients and it worked.

How to Engage Employees

From our client work, we determined that four conditions were required for people to be actively engaged.

<u>Line of Sight</u>

There needs to be clear line of sight between what people do and the results they can influence.

People need to understand how they affect goals such as quality, sales, service delivery, costs, productivity or safety. They need to know what they do in their jobs affects outcomes and contributes to the success of the business.

For instance, a sales person might say: "When I get my order in on time I contribute to on-time delivery to the customer which, in turn, can affect cash flow." They also need to understand what cash flow is and why it's important.

An operator on the factory floor might say: "When I follow standard work to get this part made I'm likely to avoid creating scrap or re-work. The job will be done right the first time."

People with line-of-sight understand the big picture--the high-level financial, economic, market and strategic aspects of the business. They know what shareholder value is and what the business drivers are. They understand the company's strategy for creating short and long-term results. They understand the high-level company goals and plans.

<u>Autonomy and Involvement</u>

People need varying degrees of autonomy or the ability to make decisions that influence their work. Autonomy enables people to take action to improve results. They don't have to wait around for someone's approval. Waiting around is wasteful. It chews up time and responsiveness. Enhancing autonomy requires people with a lot of information to make informed decisions.

Involvement builds ownership in the work or the problem that an employee is trying to solve. Involvement also enables people to tap into the wisdom of the employees who do the jobs every day. Who knows best how to do a job or how to improve a job? The people who do it every day.

Through involvement and autonomy people have what they need to influence results. This, in turn, creates ownership and commitment. Involvement comes from asking employees, "What do you think?" as well as from more formalized process-improvement activities and team problem solving.

When we asked employees at a large distribution center why a lot of products were damaged on the forklifts they told us that the company hired people without forklift experience and didn't take enough time to train the new forklift drivers. By getting all the employees involved in the improvement process we reduced damage by 65 percent and improved productivity by 16 percent.

Information

People need the right information at the right time so they can make the right decisions and take the right actions to improve the business. The right decisions are defined by the business strategy and by ongoing updates based on relevant performance measures.

You can hire the best people and train them well. However, if they don't have access to information to make smart decisions, they won't make smart decisions.

You can understand your goals and how you can influence them, but unless you have a continuous flow of accurate, timely information, you won't have the information you need to make the right decisions when you need to. Information *is* power.

Because today's businesses are so dynamic, changing from minute to minute, we need to make sure we're creating environments where people throughout our enterprises have the information they need when they need it to make the right decisions on behalf of the team. People need information at twitch speed. Twitch speed is fast. Anything less slows down decision-making. When decision-making slows down, the business slows down. In today's competitive world, opportunity follows speed. We can't slow anything down without a cost. That especially goes for information sharing.

Linkage or "what's in it for me?"

People need to understand why it's in their best interests to help the business succeed. Whether it was the intrinsic satisfaction of fulfilling a higher purpose at Northridge or the promise of higher pay, there needs to be an answer to "what's in it for me?" When engaged people help the organization succeed, the organization and the individual benefit.

Rewards and recognition are one key answer to the question, "What's in it for me?" "How will I benefit if I do things that will help our business succeed?" Rewards and recognition include short-term incentives for individuals and teams, broad-based success sharing programs, recognition and celebrations, long-term wealth-building programs such as savings and stock programs as well as non-financial rewards such as interesting work, appreciation of the work that was done, a chance to advance, opportunities to learn and paths for career advancement and growth.

Connecting the Dots

People will become engaged when we connect the dots that help people understand the big picture, get them involved in running the business, make huge amounts of decision-making information available and make sure they understand "what's in it for me."

Inside these four roles are two big jobs.

The first is to create context and define the company's vision and strategy clearly. This helps people understand the "why" of change, what it will look like when the company gets there and what the plan is for getting there. It's not so much about telling as it is about reaching agreement and moving forward together.

For anyone who doubts the importance of this role, ask two people to each put together a 1,000-piece puzzle. Show one person what the puzzle box top with a depiction of the puzzle when it's completed. Withhold the picture of the completed puzzle from the other person. Guess who will complete the puzzle faster and more efficiently.

The second job is more operational--removing communication breakdowns that cause people and their organizations to underperform. Our traditional role as communication practitioners-sending out news and information is output and process-focused. This role must shift to focus on outcomes and results.

People need day-to-day information that guides their work. Mixed messages, slow-moving and inaccurate information and sometimes the complete absence of information-cause confusion and guesswork.

Neither contributes to high performance. Pairing the overarching and operational roles adds measurable value to the enterprise because it increases the engagement needed to drive performance.

What employee engagement is not

Engagement is not a synonym for involvement although involvement is required for people to be engaged. Engagement does not happen just because someone attends a meeting. Unlike in social media, engagement is not about someone "liking" something. It's not an employee suggestion. It's not a program, activity, initiative or something you get from a motivational speaker. It's not an employee of the month award or a pizza party. It's a complex combination of cognitive identity and discretionary effort that drives results.

Benefits of an engaged workforce

If engagement is properly directed, it can create significant improvements in organizational results. Employee engagement is akin to tuning up your car so it runs on all cylinders. It makes the car--or organization--far more efficient and effective with the added power. According to an article in the Harvard Business Review the Gallup organization's research reveals that highly engaged organizations have double the rate of success of lower engaged organizations. Comparing top-quartile companies to bottom-quartile companies, the engagement factor becomes very noticeable. Top-quartile firms have lower absenteeism and turnover. Engagement also improves quality of work and health. For example, higher scoring business units report 48 percent fewer safety incidents; 41 percent fewer patient safety incidents; and 41 percent fewer quality incidents (defects). Substantial research demonstrates conclusively that engaged employees are more profitable, more customer focused, safer and more likely to stay with their organization.

Directing Engagement

Employee engagement is a means to a greater end. It's not the end unto itself. In a spirit of candor, some people define a "greater end" differently than other people. A surgical team at Johns Hopkins may be highly engaged when it successfully performs a complex surgical procedure. Similarly, someone who kills other people in the name of a cause might be considered engaged.

Properly directing engagement begins with selecting the desired result and getting people aligned around how to achieve it. Here's an example from one of our clients.

A manufacturing company had an ongoing problem with scrap and rework, meaning an unacceptable amount of the products they produced either had to be put on the scrap pile and shipped to a landfill, or it had to be "fixed" before it could be shipped to the customer. Scrap and re-work represent waste in the form of needless cost.

A team of the company's brightest engineers showed me a stack of Excel spreadsheets that "projected" those employees could reduce scrap and rework by at least 20 percent if they did their jobs the way the engineers thought they should do their jobs. They asked me for my opinion.

I told them their numbers looked solid. But I also suggested asking the operators on the floor what they thought they could save if given the chance. At first, the engineers looked at me in disbelief, like I had two heads. I had dared to question them and their fancy spreadsheets.

"Well, we've got the analysis right here," one young engineer said. "I doubt if the employees have seen this information. So how would they know?"

"I suspect they haven't either," I replied. "But what they have over us is local knowledge. The people who do a job every day know best how to do that job. When I want to know how to do a job better I ask the people who have been doing the job. All day long they think about ways they could improve their work if someone would listen to them."

"Do you think you know how to do your job better than an Excel spreadsheet?" I asked the engineers. At first I got blank stares. Then, in unison, “Of course.”

An epiphany! I excused myself, roamed out to the manufacturing floor and asked five different machine operators how much each could improve quality by reducing scrap and rework “if you had total control over your work.”

Their average answer was between 60 and 70 percent. Remember, the spreadsheets projected a 20 percent improvement. That’s a big difference. Who’s right?

Over the next several days we worked with the operators to devise an improvement process. We invited them to tell us what resources they needed and they did. Together, we set up a measurement system that would track progress. The operators designed a way to celebrate certain milestones. Too many old-school managers create the celebration or form of recognition as well as the rules of the game. That’s fine if you only want those managers to own the process. But if you want the people who need to deliver the goods to own the process, they need to have a hand in the design.

So how did this go? Predictably.

After three weeks there was a 50 percent reduction in scrap and rework.

After two months, scrap and rework was down 60 percent. Eventually it went down well beyond 90 percent.

The people had line of sight--they knew how they could improve their work.

We involved them in identifying the cause of scrap and re-work and invited them to help us reduce it.

They had the information they need to make smart decisions.

They celebrated when they succeeded--linkage or what’s in it for me. From underpowered to powered up in two months and still going strong.

This is not a one-off case. This is classic.

When people are engaged they will hit and usually exceed their goal every time!

For years people talked about the importance of employee satisfaction. Employee satisfaction referred to how content employees were with their jobs. With employee satisfaction the goal is happiness. The goal of employee engagement is to use discretionary effort to improve results.

Engaging some or everyone?

In a perfect business world, we would want everyone in our organization highly engaged in activities that continuously improve our performance. In work we do to turn an operation around we usually employ the same processes throughout the organization. It’s our goal to help the entire organization get to a much higher level than it is when we begin our work. However, there are times when focusing the engagement work on one process or activity generates a greater return than it would in another area of the company. For instance in an upstate New York operation, data we collected revealed that one particular area of the company represented the most common source of defective products. We worked with the people in that area more than we worked with people in other areas and in five months improved productivity by US$1 million and generated a 700 percent return on the investment. Nowhere else in that operation could we have created that kind of return on investment? So, while we want every part of the organization highly engaged and performing at its peak, finite resources often dictate that we focus the engagement process at least initially where it will do the most good.

Because engagement is not an end unto itself but rather a means to improved performance, it’s important to be clear about three closely related factors.

- What are the *performance targets* of the engagement effort? What numbers are you trying to improve: quality, service, cost, speed, productivity, safety, sales?
- What is the likely cost of hitting that performance target? Creating line-of-sight, involving people in the process, sharing accurate information rapidly, and rewarding

and recognizing people requires time, energy and money.

- Is the projected *return on the investment* acceptable?

We worked with FedEx Express to generate a 23 percent increase in sales by engaging people in its Los Angeles operation. That represented a 1,447 percent return. We extended the engagement effort to five more cities and increased revenues by US$6.1 million and created a 1,660 percent return. For any engagement effort, the return must be acceptable.

One of our clients had a 300 percent turnover rate. That's high. Using engagement techniques to reduce turnover should be made until reducing turnover reaches a point of diminishing returns. It might be far less expensive to reduce the first 75 percent of turnover than it is to reduce the last 25 percent. Reducing all 300 percent might sound like a good idea, but it might necessitate spending money with no return.

The goal at the manufacturing plant was to reduce scrap and rework. Therefore we focused our engagement efforts on the people who could reduce scrap and re-work. Because the people in shipping and receiving were hitting their targets regularly, there was no compelling reason to extend our engagement work to them.

If a pharmaceutical company has little in its new product development pipeline, engagement efforts may need to focus on research and development or clinical development instead of in sales where people are frustrated that they're running out of things to sell.

Are there times when engagement needs to be focused universally across a company? Of course. But in many cases the best returns come from focusing the performance improvement effort where it will generate the best return.

Measuring engagement

Various diagnostic tools can tell us whether employees are engaged. Some questions we use in our assessments measure drivers of engagement. Others measure the degree of engagement. Sometimes we use online or written surveys. Sometimes we use group discussions or focus groups. Sometimes we use a combination of qualitative and quantitative assessments. The methodology is driven by the size and geographic dispersion of the company and the demographics of the workforce.

- "I am willing to put in a great deal of effort beyond what is normally expected to help my organization succeed" is a question that is often used to determine engagement levels. A high score suggests a high level of engagement.
- "I understand how my role is related to my organization's overall goals" is a question we might use to identify what we need to do to improve engagement. We know that line of sight between what a person does and the impact that he or she can make drives engagement.

Evaluating engagement scores

There's considerable debate among employee survey experts about what level of score is considered positive. Some researchers consider scores below about 67-70 percent on a given question to be a "cause for concern." Some use 80 percent and 90 percent as the threshold.

A study of one of our global clients revealed that only 56 percent of its employees were engaged. "That's the equivalent of operating at only 56 percent capacity," the CEO of our client company told his leadership team. "We're paying our people full market price but only getting 56 percent of their capacity. We have two choices. Continue to operate at less than capacity or lead these people in a way that increases that capacity. This is a no-brainer."

We were able to have a significant impact on his engagement levels and the operation's results.

Do engagement scores matter?

Yes, but not nearly as much as the results engagement can influence. The real issue isn't whether people are engaged or not. It's whether people are engaged in what it takes to improve business results.

Too many people in businesses today are chasing engagement scores. This is foolish. A lot of people also lose sight of the fact that creating an engaged workforce requires a comprehensive support structure-- strong leaders, intense communication, the right pay plans, skills, knowledge, tools, superior work processes and a culture of excellence and continuous improvement.

In summary, employee engagement is a condition that needs to be directed. It's a means to an end--improved performance. It can drive people to do good things or bad things. It needs to be focused where it will create value for an organization. As with anything else that can generate a huge payoff, creating a highly engaged workforce isn't easy. It takes hard work, discipline, focus, strong leadership, intense communication in multiple directions and a reinforcing infrastructure.

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