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# Measuring the Benefits of Employee Engagement

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# Measuring the Benefits of Employee Engagement

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BY V. KUMAR AND ANITA PANSARI

OVER THE YEARS, the media and academia have paid close attention to various customer-driven strategies — aimed at improving measures such as customer satisfaction, customer loyalty and company profits. However, in recent years, the focus has changed. Although the ability to deliver a good product or service to customers who want it and are willing to pay for it is still seen as the key ingredient to success, there is a growing interest in understanding the impact of employees on the bottom line.

That some companies are choosing to invest in better-trained and more service-oriented workforces should be no surprise. With increasing competition, technological advances and globalization,



## THE LEADING QUESTION

Why should companies care about employee engagement?

## FINDINGS

- ▶ Measuring employee engagement can reveal areas of employee development that need attention.
- ▶ Employees personify the company's service philosophy.
- ▶ Having highly engaged employees is associated with higher profit growth.

many companies, especially those selling services, have come to realize that employee expenditures are more than a cost: Employees are the face of the business and sources of innovation and organizational knowledge. They interact with customers at every touch point and create lasting brand impressions. They personify the company's service philosophy and are expected to live by its culture and values. While the products and services many companies offer can appear quite similar on the surface, exceptional service can be a competitive advantage. Competing through service is only possible when the organization treats its employees as a valuable resource.

Well-known service-focused companies, including Whole Foods Market, Starbucks, Marriott International and Southwest Airlines, have long invested in initiatives focused on maintaining a holistic framework of making both their customers and their employees happy. Herb Kelleher, the founder and chairman emeritus of Southwest, summarized this philosophy well when he said, "You put your employees first, and if you take care of them, then they will take good care of you, and then your customers will come back, and your shareholders will like that, so it's really a unity."<sup>1</sup> Howard Schultz, the CEO of Starbucks, echoed this view: "[Employees] are the true ambassadors of our brand, the real merchants of romance and theater, and as such the *primary* catalysts for delighting customers."<sup>2</sup>

### Defining Employee Engagement

For the past two decades, employee engagement has been a topic of interest both in the academic literature and among managers. Initially, it was thought of as personal engagement with the organization and indicated that an employee's focus was on the performance of assigned tasks.<sup>3</sup> Over the years, several definitions have emerged. Some researchers focused on worker burnout, the idea being that employees who are not experiencing burnout are engaged.<sup>4</sup> Others went beyond burnout and fatigue to focus on the basic needs at a workplace, noting that if employees are engaged, then they "are positive about their work being meaningful, their workplace being safe and the availability of sufficient resources for completing

tasks."<sup>5</sup> Still others explored the emotional side of work and provided a comprehensive definition that focused on the cognitive, emotional and behavioral components associated with an individual's performance.<sup>6</sup>

Recognizing that there were various meanings attributed to employee engagement and no overall consensus about what it involved, we set out to examine how employee engagement was practiced in the business world. We conducted qualitative research in North America, South America, Asia, Africa and Europe, interviewing more than 200 HR and marketing managers from 52 companies in the hotel, telecommunications, airline, retail and banking industries. (See "About the Research.")

An HR manager from a leading banking organization admitted that the employee attrition rate at his company was high, with most of the employees leaving within two years of joining the organization. Given that the company invested a lot of money in employee training and development, he said this was a serious problem. Across the board, the marketing managers we interviewed expressed deep concern about employees who quit and eventually ended up poaching valuable clients. In organizations where attrition was lower, managers faced other challenges involving senior employees who had become less productive. In many cases, the issue was not retaining employees or building loyalty but ensuring that employees performed at their highest levels of productivity. Many managers complained of the absence of any sense of ownership among the employees.

We wanted to use our discussions with managers and a review of the literature to understand how employee attitudes and behaviors affected company performance. This led us to define employee engagement as "a multidimensional construct that comprises all of the different facets of the attitudes and behaviors of employees towards the organization."<sup>7</sup> The five dimensions of employee engagement are: *employee satisfaction*, *employee identification*, *employee commitment*, *employee loyalty* and *employee performance*.

**Employee satisfaction** is the positive reaction employees have to their overall job circumstances, including their supervisors, pay and coworkers. When employees are satisfied, they tend to be more

committed to their work and have less absenteeism, which positively influences the quality of the goods they produce and services they deliver. Satisfied employees also connect with the organization's values and goals and perceive themselves to be a part of the organization.

**Employee identification** refers to the emotional state in which employees identify as part of the organization. Employees who identify with the organization see themselves as intertwined with the success or failure of the company's brand. When people say good things about the brand, employees with a close identification to the brand consider it as a personal compliment. Such identification can be strengthened through an emphasis on brand distinctiveness, competition, charismatic leadership, individual mentorships and a strong culture with its own distinctive rituals and symbols.

**Employee commitment** is much higher for the employees who identify with the organization than for the employees who don't. Commitment is an important facet of employee engagement, as it induces employees to do more than what's in their job descriptions. It develops over time and is an outcome of shared experiences. It is often an antecedent of loyalty.<sup>8</sup> Earlier research found that employees with the highest levels of commitment perform 20% better and are 87% less likely to leave the organization.<sup>9</sup> A committed employee guards the organization's secrets and works for its best interests.

**Employee loyalty** to an organization creates a positive attitude about the organization, which can motivate employees to do more than expected and which can trickle down to have positive effects on the employees' work and, ultimately, on customer satisfaction.<sup>10</sup>

**Employee performance** can be seen in the quality of goods and services the company produces and in customer interactions and feedback.

The investments companies make in training, orientation and branding activities provide the underpinnings of stronger employee engagement. Effective training and orientation, for example, can help employees align their behavior with the organization's values and goals. Organizations can strengthen bonds with their employees by making employees a priority in day-to-day operations. The most employee-centric organizations are the ones

## ABOUT THE RESEARCH

Although employee engagement is widely seen as an important construct, there has been no consensus on its definition or the components of employee engagement either in business or in the academic literature. In this article we define the concept of employee engagement, describe a scale for measuring it and present strategies for maximizing it. Based on the findings from an extensive review of marketing literature and open-ended interviews with managers about their existing employee strategies, we have developed a comprehensive scorecard to measure employee engagement in organizations. We categorize companies along a continuum of being "disengaged" to "highly engaged."

To execute our research, we collected data from 208 managers at 52 companies in order to test the scorecard's validity and reliability. We then implemented our employee engagement scorecard framework in 75 companies on three continents (North America, Europe and Asia). The results of our analysis indicate that an organization's overall employee engagement level is directly influenced by the components of employee engagement (employee satisfaction, employee identification, employee commitment, employee loyalty and employee performance) and are therefore the result of the aggregation of these components. To illustrate the benefits of measuring employee engagement and working on strategies to improve employee engagement, we did a follow-up study with 30 of the 75 companies a year later. In general, we found that companies with higher levels of employee engagement showed higher levels of profits. Eight companies that moved from a low level of employee engagement (disengaged) in the first year to the next level (somewhat engaged) the following year showed a 19% average increase in earnings per share; furthermore, two companies that moved from a moderate level of employee engagement in the first year to the highest level of engagement the following year showed a 132% average increase in earnings per share.

that provide employees with regular training programs to enhance their knowledge and skill sets, and with career advancement opportunities to help them reach their potential. They can assist employees in achieving a better work/life balance and empower them to make decisions that benefit the company and its customers. When employees receive high levels of attention and good training, they feel obliged to respond with greater levels of engagement, which is reflected in the quality of their work and their interactions with customers.

One company that experienced this payoff is American Express, which began an internal program in 2006 focused on training and incentivizing staff to engage more actively around purchases (for example, airline tickets) and customer care (for instance, discussions about billing questions). The company scrapped its rigid outbound calling policy geared toward keeping interactions short and invited service representatives to decide for themselves how long they wanted to spend on each call. The results were impressive: Customers increased their spending on Amex products by 8% to 10%, and the overall profits on services widened.<sup>11</sup>

### Measuring Employee Engagement

For companies to get the most out of employee engagement, it is imperative that they develop a thorough understanding of their current employee engagement strategies and the effects those strategies are having on employees. To assess an organization's current status, we developed a measurement system that includes a scale for examining the various components of employee engagement and a comprehensive scorecard that pulls everything together. The scorecard is composed of a number of items used to measure the individual employee engagement components (based on a 1 to 5 scale, with 1 being lowest and 5 being highest). This approach allows managers to identify the areas in need of development. (See "The Employee Engagement Scorecard.") We developed the scorecard through an extensive research process of academic literature and managerial interviews across the world. After pre-testing the scorecard and conducting additional interviews with managers, we modified the items to ensure more accuracy and to capture the essence of the variables being measured. An organization's overall employee engagement level is directly influenced by the components of employee engagement (employee satisfaction, employee identification, employee commitment, employee loyalty and employee performance) and are therefore the result of the aggregation of these components.

### Implementing the Employee Engagement Scorecard

We implemented the employee engagement scorecard at 75 companies in India, China, Germany, Belgium, the Netherlands, Austria and the United States. We sorted the scores into four groups. Scores of 20 to 39 indicated that the company's engagement level was low and suggested that the company needed to focus on enhancing the various components of employee engagement at an individual level

(such as ensuring their employees were more satisfied, identified with the organization and showed higher levels of commitment to the company). A score of 40 to 59 indicated that employees were somewhat more engaged with the company but implied that some employee engagement factors required immediate attention. A score of 60 to 79 pointed to a still higher level of employee engagement, suggesting that while the overall level might allow the company to function smoothly and perform fairly well, there was room for improvement. Scores of 80 to 100 were evidence that the company had adhered to employee engagement best practices and that employee engagement was high.

How is employee engagement connected to profitability? To understand this, we did a follow-up study a year after the original study with 30 companies (a subset of the original 75 companies) in the airline, telecommunication and hotel industries. Many people have assumed that there is a close relationship between employee engagement and growth in profits, and our study with the 30 companies confirmed this link. After controlling for other relevant factors including GDP level, marketing costs, the nature of the business and the type of goods, we found that the highest level of growth in profits (10% to 15%) occurred in the group of companies whose employees were highly engaged; the lowest level of growth in profits (0% to 1%) occurred in the group of companies whose employees were disengaged.

Regionally, U.S. companies in our sample had the highest employee engagement scores, with scores ranging from 40 to 80, followed by European companies. Asian companies had lower scores as a group, with scores ranging from 22 to 50. There were also variations among different types of businesses: Business-to-business companies tended to score higher than business-to-consumer companies, and service-based companies scored higher than manufacturers.



While the products and services many companies offer can appear quite similar on the surface, exceptional service can be a competitive advantage.

## THE EMPLOYEE ENGAGEMENT SCORECARD

For companies to get the most out of employee engagement, they need to understand their current HR strategies and the effects of those strategies on employees. Each of the items in the five bulleted lists represents an area in which employees can rate their experience with the organization on a scale of 1 to 5; the minimum possible score on the scorecard is 20, and the maximum is 100.

	EMPLOYEE SATISFACTION	EMPLOYEE IDENTIFICATION	EMPLOYEE COMMITMENT	EMPLOYEE LOYALTY	EMPLOYEE PERFORMANCE		
<b>Number of items:</b>	5	7	3	3	2		
<b>Items used to measure the concept</b>	<ul style="list-style-type: none"> <li>•Receives recognition for a job</li> <li>•Feels close to people at work</li> <li>•Feels good about working at this company</li> <li>•Feels secure about job</li> <li>•Believes that the management is concerned about employees</li> </ul>	<ul style="list-style-type: none"> <li>•Proud to tell others about employment</li> <li>•Feels a sense of ownership</li> <li>•Feels a sense of pride</li> <li>•Views the success of the brand as his own</li> <li>•Treats organization like family</li> <li>•Says “we” rather than “they”</li> <li>•Feels like it’s a personal compliment when the brand is praised</li> </ul>	<ul style="list-style-type: none"> <li>•Commitment to deliver the brand promise increases along with knowledge of the brand</li> <li>•Very committed to delivering the brand promise</li> <li>•Feels like the organization has a great deal of personal meaning</li> </ul>	<ul style="list-style-type: none"> <li>•Content to spend the rest of his/her career in this organization</li> <li>•Does not have intention to change to another organization</li> <li>•Intention to stay is driven by competency in delivering the brand promise</li> </ul>	<ul style="list-style-type: none"> <li>•Performance in the last appraisal exceeded expectations</li> <li>•Believes there is increased opportunity for improved performance in this organization</li> </ul>		
<b>Minimum score:</b>	5	7	3	3	2	<b>TOTAL</b>	
<b>Maximum score:</b>	25	35	15	15	10	<b>20</b>	
						<b>100</b>	

### Enhancing Employee Engagement

Since the employee engagement scorecard is made up of the individual scores for the employee engagement components, managers have the ability to identify the areas of employee development that require their immediate attention. By analyzing and using this scorecard, organizations can allocate their resources to the specific things employees need.

**Enhancing employee satisfaction** If employees are dissatisfied, their enthusiasm for the company’s day-to-day activities and operations is apt to be low, increasing the likelihood of absenteeism and poor work quality, which can drain the organization of valuable time and money. Once managers link a company’s low employee engagement score to low levels of satisfaction, they can tap a variety of measures to boost employee satisfaction. For example, they can rearrange work duties and responsibilities to correspond better with employee skill sets and interests, or begin to mentor their employees more actively. They can also develop new incentives for performance or offer flexible work hours.

### Promoting employee identification with the organization

If employees are satisfied but don’t score high on employee identification, then they will not be able to represent the organizational culture and values as well as employees who identify closely with the organization. This may hinder team-building activities and impede the generation of new ideas for employee development. In such a scenario, the organization might offer mentorship programs or idea-development platforms, in addition to reinforcing the organizational culture and values, to connect the employees with the organizational culture and nurture growth.

### Enhancing employee commitment levels

Employees who are satisfied and connect with the organization may still not be emotionally committed to the organization. Without this commitment, they will resist taking on additional duties or responsibilities. Some will look for new opportunities outside the company, possibly with a competitor, which could be a real loss. To build commitment, companies should

review their work environment, performance incentives and reward and benefit structures, and should reassure employees that the company values their contributions. At the same time, companies should undertake initiatives that underline the organizational goal and vision. This may help employees develop a sense of commitment to the organization's cause and purpose.

**Ensuring employee loyalty** A loyal employee base is a valuable asset to any organization. Disloyal employees might give away trade secrets and may not treat customers fairly. Organizations that identify lack of employee loyalty as a barrier to optimizing employee engagement may try to implement employee development programs that empower employees to update their knowledge and skills or provide new avenues for individual growth. They could also try to extend and deepen their relationships with employees by developing initiatives and extracurricular activities (for example, programs for families).

**Managing employee performance** The most tangible aspect of employee engagement is employee performance. Low employee morale and productivity have a negative impact not just on employee behavior toward customers but also on the company's bottom line. An organization with low-performing employees should explore whether the performance gap reflects an underlying knowledge gap or fundamental failures in recruiting and hiring that put people in positions for which they are not suited or qualified. Whatever the reasons, companies can determine whether training and orientation programs, regular feedback/mentorship programs or performance incentives have the ability to enhance employee performance. If the company identifies its recruitment policy as a weakness, it can revisit its candidate sourcing and interviewing strategy.

We have seen the relevance and impact of employee engagement, along with the tools and strategies to measure and optimize it. Although we recognize that the ultimate focus of most organizations is on customers, companies can benefit from adding employee engagement to their list of priorities. Keeping employees engaged can have a major

impact on an organization's success, whether the organization is for-profit or not-for-profit. Engaged employees will pass on their enthusiasm to customers, and they will develop and deliver better products and services — thereby positively impacting sales and profit.

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