MANAGEMENT EXTRA

A monthly review of current thinking in the key areas of strategy, human resources, marketing and finance.

HUMAN RESOURCES

FINDING THE RIGHT BALANCE

What makes a satisfied worker? **Andrew Mayo** offers advice on managing employee engagement and performance in your company.

Employees are in a special position in an organisation. It is a popularist myth of course that 'they' are collectively an organisation's most valuable assets. After all some of them are 'liabilities', in subtracting value rather than adding it. But many of them are clearly the key means of adding value to stakeholders, and yet they are also stakeholders themselves.

In a steady state of interdependency between an organisation and any stakeholder group, there is an equilibrium between what a stakeholder offers an organisation and what it receives. Illustrated in Figure 1, the 'Principle of Stakeholder Equilibrium' is about the exchange of value that takes place between an organisation and its stakeholders. Where the expectation of value delivered on either side is perceived as inadequate, the party will seek to redress the balance, and if unsuccessful will think about working with an alternative. The value that is exchanged may be either financial or non financial or a combination of both.

The principle works provided the stakeholder has choice: in the case of beneficiaries from a charity, or the public dealing with a government department, this may not be so. However, the 'healthy value-creating' organisation encourages this equilibrium to be live and sustained by dialogue. And for good reason: this is an equilibrium that is 'upwardly mobile' as each party seeks more value over time. We are all on an escalator of ever improving performance. As time progresses, most stakeholders expect more from their relationship with an organisation. As the value given on one side increases, so the expectation of value received increases too.

When it comes to value-creating employees, an organisation has to keep that relationship sound. This is the foundation for being concerned with motivation and engagement, which are now proven to be the strongest factors affecting individual performance.

The question we have to answer is 'what is the tipping point' for an employee – which tells them that the value exchange is no longer satisfactory? It may be from either the financial package or an element of the non financial. The financial package includes the mix of salaries, benefits, future pension, bonuses and maybe equity in the firm if it is available. In the days of defined benefit pensions, basic salary was all important as it was (and still is for public sector employees) the foundation of a pension. We might be led to believe that in the financial services sector money is everything. But for most people it is not. The problem is that for each individual the answer is different, but some of the following are likely to be important to them:

- opportunities for personal growth and career development;
- challenging and interesting work;
- responsibility;
- location and ease of access;
- job security;
- work life balance;
- equipment and resources otherwise be accessible to them;
- being associated with an organisation of high repute
- status and self esteem;
- recognition – by the person's managers, or by peers, or even publicly;
- interesting colleagues to work with;
- a satisfying and stimulating environment;
- social events; and
- opportunities for travel and the perks that can go with it.

Each factor that is critical to an individual may become the threshold of breaking the stakeholder relationship, unless a perception of fair value exchange is restored. Employees in a state of dissatisfaction are naturally less likely to be motivated and engaged than those experiencing a 'fair exchange'.

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FIGURE 1 THE PRINCIPLE OF STAKEHOLDER EQUILIBRIUM

Stakeholders in an organisation, and the organisation itself, have a relationship because they add value to each other. Either party will only continue the relationship for as long as it believes it is receiving a satisfactory return of both financial and non-financial benefits which, when combined, are sufficient to balance the value provided by the other party. This equilibrium is not static; it is in the interest of both parties that the overall sum of value exchanged is constantly increasing.

THE STAKEHOLDER OFFER	→ ←	(£ ADDED VALUE) + (NON £ ADDED VALUE)

Satisfaction and more...

Satisfaction, motivation, commitment and engagement – these are all words that are associated with employee's feelings about their work and organisation. For many years the best employers rigorously and extensively checked how their employees were feeling, shared the results, committed themselves to take action, and benchmarked their results with other similar employers. This was typically an annual exercise. There are a number of questions to be raised about the traditional 'employee satisfaction surveys'.

Often they are 'one size for all' questionnaires which rarely ask how important each question is to the respondent – when in fact many of the issues raised may not matter much to individuals, even though they respond negatively.

And there is certainly evidence that groups of highly satisfied employees may not be linked with high performance. Their satisfaction may be due to a comfortable and undemanding work environment.

Figure 2 illustrates the connection between the various words. We need to start by ensuring that 'dissatisfaction' does not exist. If it does, then we are not even started on the engagement road, as people are preoccupied with their disgruntlement. The second starting point is the 'intrinsic motivation' people bring to the task. This varies with roles and with personality – but characterised in the diagram with 'I love my job and I want to do it well'. This is what we have to get right when recruiting someone.

This is then subjected to 'extrinsic motivation' – a bundle of factors that may strengthen or, sadly, diminish the intrinsic starting point. With strong factors all round we have a good chance of achieving commitment and engagement, two words that seem genuinely interchangeable.

What is engagement?

The term came into use with Marcus Buckingham and Curt Coffman's now famous book *First Break All the Rules: What the World's Greatest Managers Do Differently*. They used the terms 'engaged', 'not engaged' and 'actively disengaged' to distinguish levels of commitment.

Buckingham's team ran massive number-crunching studies based on the Gallup Company's access to millions of pieces of data from opinion surveys. He came up with twelve core questions (see Table 1), which if answered positively had a strong link to positive engagement. He then researched how these 'Q12' scores shaped business results.

Tim Miller, director of people and property at Standard Chartered Bank, defines an engaged employee as someone who:

- is 100% committed to their role and more productive as a result;
- enjoys the challenge of their work every day;
- is clear on their role and expectations;
- is in a role which uses their skills and strengths; and
- applies discretionary effort to the firm.

How can we test for engagement? One indicator is certainly excessive labour turnover. Disaffected people vote with their feet – if they can. But this measure is more one of non-engagement rather than positive engagement. Nevertheless it is important data in its own right. Consolidated attrition rates over many types of staff or functions do not tell us much. Nor do rates which are not broken down into the reasons for people leaving – data which seems very hard to come by in many organisations. We particularly need to know staff loss rates for 'job families' which are critical in the line of adding value. Likewise, excessive absenteeism is more an indicator of non engagement than the level of commitment we are after. Nevertheless it is reasonable to assume that if people do not want to come to work – often citing 'stress' – something is wrong. The average level of physical incapability to work is about 2.5 days per annum – for many it is none but for others it is many more.

The most common way to test engagement however is to ask people – through a short set of focused and relevant questions – quickly and frequently. These are sometimes called 'pulse surveys'. This has been strongly stimulated by the result of Marcus Buckingham's work at Gallup referred to above, and what has come to be known as the 'Gallup Q12' is copyrighted. Many organisations pay to use it and to receive the benchmark data that comes with it.

The correlation between a high Q12 score and performance has been repeatedly shown, so one has to recognise its value. However there are two issues with Q12:

FIGURE 2 EMPLOYEE FEELINGS

Satisfaction, motivation, commitment and engagement

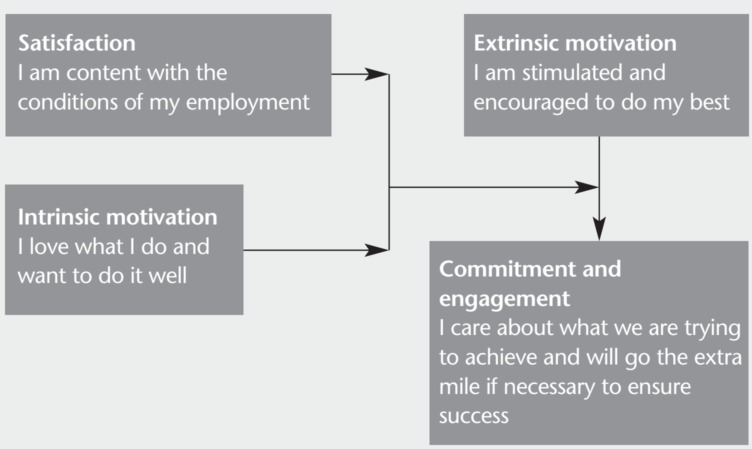

TABLE 1 THE GALLUP Q12 ENGAGEMENT SURVEY

- Do I know what is expected of me at work?
- Do I have the materials and equipment I need to do my work right?
- At work, do I have the opportunity to do what I do best every day?
- In the last seven days have I received recognition or praise for good work?
- Does my supervisor, or someone at work, seem to care about me as a person?
- Is there someone at work who encourages my development?
- At work, do my opinions count?
- Does the mission/purpose of my company make me feel like my work is important?
- Are my co-workers committed to doing quality work?
- Do I have a best friend at work?
- In the last six months have I talked to someone about my progress?
- At work, have I had opportunities to learn and grow?

- it benefits from simplicity, consistency and therefore benchmarking – but suffers from the assumption that all employees are actually driven by the same 12 issues; and
- the twelve questions are actually 'input' questions – i.e assumed drivers of engagement. It does not actually measure the engagement level – which is the desired 'outcome'.

With regard to the first point, there is undoubtedly a core set of questions based on motivation theory that will apply to 75% of the people. But if one ran focus groups for a group of sea-based oil exploration engineers, or for a group of call centre operators, or for a group of retail store managers, it is certain that they would add quite different issues to the questions about 'significant motivation' and 'significant demotivation'. These additional questions could be the killer questions. When my own company researched postmen/women for example, we found a very different profile to Gallup's Q12. So in the pursuit of simplicity, as always, we have to be beware of false assumptions.

The second point is of greater concern because we do need some absolute measures of the existence of engagement or not.

Some of the questions that might indicate the actual existence of engagement would be:

- Would I recommend my company to a friend as a good place to work?
- Am I proud to tell others I work for the company?
- Do I really care about the future of my company?
- Am I willing to put in a great deal of effort beyond what is normally expected to help my company succeed?
- Am I personally motivated to help my company be successful?
- If I had a better opportunity to go elsewhere over the next three months, what is the likelihood of my taking it?

Based on the Q12 – and the assumption that these are the factors that lead to engagement – Gallup in 2008 reported figures of 19% highly engaged, 61% not engaged, and 20% actively dis-engaged. This kind of distribution represents a common pattern repeated by other surveys.

Engagement and performance

A number of companies, especially in retail and banking, have conducted studies over the last few years of the relationship between engagement and various bottom line performance measures. Every study confirms positive correlations.

In these studies, each branch completes the survey and it is consistently scored. The scores are then ranked. The top and bottom percentiles are analysed against the business figures to see what the difference is. Such differences are quite startling, and many companies – such as Macdonalds, Standard Chartered, RBS, Nationwide, B&Q – have found that investing in engagement of staff has a guaranteed return. Readers will have noted that in the 'Q12', it can be said that eleven of the questions concern matters that are within the control of a manager, whatever the organisation's culture. One key investment therefore is in management development – in enabling managers to really understand the behaviours and actions that can lead to higher engagement.

> 'There is certainly evidence that groups of highly satisfied employees may not be linked with high performance. Their satisfaction may be due to a comfortable and undemanding work environment'

Gallup in 2006 examined 23,910 business units and compared top quartile and bottom quartile financial performance with engagement scores. They found that:

- those with engagement scores in the bottom quartile averaged 31%-51% more employee turnover, 51% more inventory shrinkage and 62% more accidents; and
- those with engagement scores in the top quartile averaged 12% higher customer advocacy, 18% higher productivity and 12% higher profitability.

The Corporate Leadership Council carried out extensive statistical analysis and made this conclusion, which they called the '10:6:2' rule:

- every 10% improvement in commitment can increase an employee's effort level by 6%; and
- every 6% improvement in effort can increase an employee's performance by 2%.

Summary

Employees have a special role as stakeholders – and keeping them loyal, productive and willing to give of their best requires an understanding of what each individual looks for through their work.

People bring to the workplace a basic level of enthusiasm and commitment which varies with both individual personality and the nature of work that they do. Factors, and other people, in the workplace either build on and enhance this enthusiasm or degrade it. Beyond the threshold of mere satisfaction lies commitment to, and engagement with, the goals of the organisation. Since we know that high performance is more dependent on these factors than anything else it behoves us to take them seriously, which means understanding, measuring and monitoring them. Indeed, this is probably a much more productive path to follow than continual tinkering with the 'performance appraisal' process as the supposed cornerstone of performance management.

It is worth noting in conclusion that in 2009 the government-commissioned 'Mcleod report' on engagement was published. It says nothing new on the subject but is a rich source of background and case studies.

FURTHER READING

Marcus Buckingham, *First, Break All the Rules: What the World's Greatest Managers Do Differently*, Simon & Schuster, 1999.

Corporate Leaderhip Council, *Driving Performance and Retention Through Employee Engagement*, 2004.

David Mcleod and Nita Clarke, *Engaging for Success: enhancing performance through employee engagement- a report for the UK Government*, 2009

D Robinson, S Perryman, and S Hayday, 'The Drivers of Employee Engagement', *Institute of Employment Studies Report* No. 408. Brighton, 2004