EMPLOYEE ENGAGEMENT: A THEORETICAL STUDY

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ABSTRACT

Most organizations today conducting employee surveys refer to their programs as “engagement surveys,” or they measure employee engagement as one of their survey topics. We estimate 90 percent of our current global survey clients conduct employee engagement surveys. As others note (Macey & Schneider, 2008; Wefald & Downey, 2009), employee engagement, while a relatively new construct, has grown in popularity and acceptance, in large part because organizations believe they can leverage employee engagement for positive organizational outcomes, such as higher employee retention, greater customer satisfaction and improved financial performance (Harter et al., 2002).

KEYWORDS: Employee Engagement Index, Gross Domestic Product, Organizational goals

INTRODUCTION

We accomplish several objectives with this chapter. First, we provide a definition of employee engagement and a method for its measurement. Second, we rank the countries representing the world’s 12 largest economies on our measure of employee engagement. Third, we identify the global drivers of employee engagement and compare and contrast these
drivers with those derived from an analysis of country-level data. Fourth, we build an overall model of employee engagement and validate the model against organization-level measures of financial performance. Lastly, we suggest actions organizations can take to drive employee engagement levels higher.

DEFINITION AND MEASUREMENT

Literature reviews suggest most definitions of employee engagement are similar in terms of their key components. These common components include enthusiasm for work, commitment, organizational pride, employee alignment with organizational goals and a willingness to exert discretionary effort (ibid; Vance, 2006; Robinson, 2007; Schneider et al., 2009). Our definition is mainstream; we define employee engagement as: “The extent to which employees are motivated to contribute to organizational success, and are willing to apply discretionary effort to accomplishing tasks important to the achievement of organizational goals.”

The literature acknowledges there is no universally accepted way of measuring employee engagement. Organizations typically measure employee engagement using survey items addressing organizational antecedents and/or drivers of employee engagement, the engagement construct itself, behavioral outcomes of employee engagement, or some combination of all four. Vance (2006) provides a useful summary of the most common employee engagement measurement approaches.

Our approach to measuring employee engagement treats engagement as a desired state (Macey & Schneider, 2008), measured by an equally weighted combination of four individual elements: pride, satisfaction, advocacy and retention. The rationale is straightforward: an engaged workforce is one whose employees have pride in and are satisfied with their organization as a place to work, and who advocate for and intend to remain with their organization. In this conceptualization, employee engagement is a result of organizational policies and practices and leadership and managerial behaviors that precede the state of employee engagement, which itself precede the display of discretionary effort that promotes heightened individual, team and organizational performance.

We measure employee engagement with the items presented below rated on a balanced five-point Likert agreement scale:

- I am proud to tell people I work for my organization.
- Overall, I am extremely satisfied with my organization as a place to work.
- I would recommend this place to others as a good place to work.
- I rarely think about looking for a new job with another organization.

These four items comprise the Kenexa Employee Engagement Index (EEI), typically reported as percent favorable, that is, the average level of agreement across the four items. EEI coefficient alpha, an internal consistency estimate of reliability, is quite high at 0.91.

EMPLOYEE ENGAGEMENT COUNTRY RANKING

Prior to a review of global and country-level EEI scores, we must first describe the Work Trends survey, which provides the data from which our findings are drawn. Work Trends is a research program begun under the direction of the senior author in 1984. Originally, the Work Trends survey was administered only in the United States. In 2007, the
survey program expanded to include several additional countries. The dataset used for the analyses presented here was collected in 2009 from workers in the following countries: Brazil, Canada, China, France, Germany, India, Italy, Japan, Russia, Spain, the United Kingdom and the United States. While these are not the only countries covered by Work Trends data, they do represent the 12 largest economies as measured by gross domestic product (GDP), accounting for around 70 percent of the world’s GDP (IMF, 2009). In its current form, the Work Trends survey is a multi-topic survey completed online by a sample of workers screened to match a country’s worker population in terms of industry mix, job type, gender, age and other key organizational and demographic variables. Those who work full time in organizations of 100 employees or more are allowed to take the survey. The survey has 115 items that cover a wide range of workplace issues. In 2009, approximately 10,000 workers in the United States, 750 in Russia and 1,000 in all other listed countries completed the survey. For the analyses described below, a representative subsample of 1,000 U.S. workers was drawn to equalize the impact of the U.S. data on the determination of employee engagement drivers.

Measuring employee engagement as described above, the global average and 12-country ranking of EEI scores is presented in Figure 1. In absolute terms, the average EEI score across these 12 countries is 56 percent. Clearly, for the countries studied, workers feel engaged at their workplace in varying degrees.

Organizations in certain countries are not inherently more or less likely to engage their employees, but we acknowledge that cultural dynamics might affect scores. In fact, the spread between countries is substantial. The EEI score for India, the top-ranked country, is slightly more than twice that of Japan, the lowest-ranked country. In general, North American countries score higher than Western European countries. India notably outpaces other Asian countries, perhaps due in part to its bright economic future and educated workforce. Among the fastest growth economies, Brazil ranks the highest; other fast-developing economies such as Russia and China rank lower, but their EEI scores could rise as their economies continue to grow and leadership and managerial practices strengthen.

FIGURE 1: COUNTRY RANKING ON THE EMPLOYEE ENGAGEMENT INDEX
GLOBAL DRIVERS OF EMPLOYEE ENGAGEMENT

Promoting employee engagement is at the top of many organizations’ talent management agendas. The question becomes “how?” Relative weights analysis (RWA) is used to identify the key drivers of employee engagement (see Johnson, 2000; Lundby & Johnson, 2006, for a description of this advanced statistical procedure). The analysis reveals the top 10 global drivers:

- Confidence in the organization’s future
- Organization supports work/life balance
- Excited about one’s work
- Promising future for one’s self
- Safety is a priority
- Corporate responsibility efforts increase overall satisfaction
- Opportunity to improve one’s skills
- Satisfied with recognition
- Confidence in the organization’s senior leaders
- Co-workers give their very best

On reflection, this list can be further reduced. In broad terms, we believe that there are four “macro drivers” of employee engagement, or in other words, that employees are engaged by:

- Leaders who inspire confidence in the future (drivers 1, 4 and 9)
- Managers who recognize employees and mobilize their teams for peak performance (drivers 8 and 10)
- Exciting work and the opportunity to improve their skills (drivers 3 and 7)
- Organizations that demonstrate a genuine responsibility to their employees and the communities in which they operate (drivers 2, 5 and 6)

Embedded in these macro drivers is the concept of the employees’ future. Not only do employees need to do their current job well, they also need to feel secure about the future of the organization, and visualize their own future within the organization. An employee’s trust in the future hinges on the competence and trustworthiness of senior leadership.

An employee’s immediate manager influences his or her engagement, and understandably so. The manager is the representative of the organization through which work, resources, support and communication flows. Two critical elements of a manager’s job appear to have a special influence: Giving recognition for a job well done and enabling his or her staff, through direction, resources and problem solving, to give their very best.

Management and leadership matter, but the work itself also plays a significant role. Beyond mastering the job’s tasks, employees need to be enthusiastic about what they are doing, about meeting challenges and enjoying that sense of excitement when goals are achieved. Employees need to feel pride in what is being accomplished and they need to feel as if they are building their own skill set and becoming more capable of taking on new assignments.

Every organization has its own identity and goals. Employees care about the organization’s mission, and they value working for an organization committed to serving others. Employees are more engaged when they feel their organization is committed to its employees’ livelihood and community, through both support of an employee’s work/life balance and corporate responsibility efforts. These findings are intuitive; why would the employee care about the health of the organization if the organization does not care about him or her?

Three other observations about this list of 10 drivers deserve attention. The first is the noteworthy overlap between these drivers and Vance’s (2006) listing of the 10 common themes encompassing the ways organizations measure employee engagement. Three of Vance’s themes correspond directly to how we measure employee engagement: pride, satisfaction and retention.
Among the remaining seven on his list, six match directly or very closely to our list of drivers. The seventh, which deals with discretionary effort, is neither measured by the EEI nor a driver of the EEI, but is captured in our definition and assumed a consequence of an elevated state of employee engagement.

A second observation: Our listing of employee engagement drivers reveals a pattern quite dissimilar from the observation of others who conclude that an EEI comprising items measuring pride, satisfaction, advocacy and retention is typically explained by job satisfaction, satisfaction with benefits and opportunities for promotion (Schneider et al., 2009). While those measures were included as potential drivers in our analysis, they failed to emerge as such. One could argue that job satisfaction and work excitement occupy the same explanatory space, but work excitement, even on the surface, reveals a much more nuanced sense of enthusiasm and passion about the work itself than does job satisfaction. In addition, not only did satisfaction with benefits and opportunities for promotion not appear in the top three drivers, they failed to make the list of the top 10.

Finally, an observation about stability in the listing of drivers is warranted. Our 2008 Work Trends study surveyed workers in 10 of the top 12 GDP economies; Spain and France were not included. When we compare the 2008 10-country RWA listing of drivers to the same 10-country RWA listing of drivers for 2009, the overlap is 100 percent. This reveals remarkable stability and demonstrates the reliability of conclusions drawn regarding the four underpinnings of employee engagement: leaders, managers, exciting work coupled with skill development and responsible organizations.

COUNTRY-LEVEL DRIVERS OF EMPLOYEE ENGAGEMENT: SIMILARITIES AND DIFFERENCES

Identifying the drivers of employee engagement across the world’s 12 largest economies creates a generalized understanding of areas to leverage to push employee engagement levels higher. Are these findings generalizable across country borders? Recognizing a country’s unique history and culture frame the broader context for organizational values, leadership styles and management/employee relations, how does this impact employee engagement? Subjecting country-level data to the RWA procedure helps answer these questions.

The analysis reveals that the global drivers of employee engagement serve as an excellent predictor of the employee engagement drivers for any given country. In fact, for five of the 12 countries, the country-to-global employee engagement driver match is 90 percent; for another five countries, the match is 80 percent; and for just two countries, China and Spain, the match drops to 70 percent. On average, the country-to-global match of employee engagement drivers is 82.5 percent.

It is helpful to have an understanding of the drivers that emerge as universally important. The two drivers in the top 10 lists for all 12 countries are both future oriented: confidence in the organization’s future and the belief that there is a promising future for one’s self. A combination of important workplace practices, including support for work/life balance, placing a priority on safety, providing psychological recognition and opportunities for skill enhancement, are almost as common, emerging on the lists of 11 of 12 countries. Only one of the top 10 global drivers appears on the lists of fewer than eight countries: Co-workers giving their best is a driver for just four countries.

Identifying each country’s unique drivers is perhaps equally important to understanding the degree of commonality among employee engagement drivers across countries. They are summarized in Table 1. From patterns evident in the table, the following five observations seem noteworthy:
• For workers in Canada and the UK, more so than for workers in other countries, the perceived effectiveness of their immediate manager is a key determinant of employee engagement.
• For workers in China, their employee engagement level is more influenced by their perceptions of fair pay than by their satisfaction with recognition. This could be due to the speed of economic growth in their country and the resulting need for pay levels to keep pace with the cost of living, or it could be, for Chinese workers, to a greater degree than in other countries, pay is a primary mechanism for delivering recognition. Chinese workers are the only ones for whom pay appears as a top 10 driver. For workers in Russia, employee engagement levels are somewhat uniquely driven by the emphasis their organization places on product quality and customer service.
• For workers in France, Germany and Japan, employee engagement levels are influenced by the perceived organizational and leadership support for diversity in the workforce.
• Of the drivers specific to a country’s top 10, only one is common to at least three countries: their organization serves the interests of multiple stakeholders, including employees, customers, suppliers and financial stakeholders.
• The countries for which employee engagement is particularly influenced by this notion are Brazil, Canada and Italy.

**TABLE 1: COMMONALITY OF COUNTRY-LEVEL EEI DRIVERS**

<table>
<thead>
<tr>
<th>Country</th>
<th>Country specific drivers</th>
<th>Global list driver replaced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>• Organization serves multiple stakeholders</td>
<td>• Excited about work</td>
</tr>
</tbody>
</table>
| Canada  | • Effectiveness of immediate manager  
• Organization serves multiple stakeholders | • Co-workers give their very best  
• Excited about work |
| China   | • Concern for staff well-being  
• Fair pay  
• Communication open and two-way | • Corporate responsibility  
• Recognition  
• Confidence in senior leaders |
| France  | • Communication open and two-way | • Confidence in senior leaders |
| Germany | • Participative decision making  
• Co-workers display organizational values | • Safety is a priority  
• Co-workers give their very best |
| India   | • Ability to excel through diversity | • Support for work/life balance |
| Italy   | • Quality and improvement are top priorities  
• Organization serves multiple stakeholders | • Co-workers give their very best  
• Confidence in senior leaders |
| Japan   | • Leaders committed to diversity | • Co-workers give their very best |
| Russia  | • Higher-quality products and/or services | • Corporate responsibility |
BUILDING AND VALIDATING AN OVERALL EMPLOYEE ENGAGEMENT MODEL

While some differences exist between countries in their respective lists of the top 10 drivers of employee engagement, the more important implication is that country-level drivers are much more similar than dissimilar. Further, each set of drivers by country tends to have distinct components dealing with the four macro drivers: the performance of leaders, the behavior of managers, the alignment of the individual to the work itself paired with the opportunity to further grow their skills and the extent to which organizations demonstrate a sense of responsibility to their employees and the communities in which they operate.

DEVELOPING AND VALIDATING A GLOBAL MODEL OF EMPLOYEE ENGAGEMENT

As a result, we propose the overall model of employee engagement. This model views employee engagement in “system” terms: There are unique inputs and outputs. Employees are compelled to engage by drivers that aggregate into the macro drivers. When the drivers of employee engagement are optimized, employee engagement itself increases dramatically. Beyond a sense of employee well-being, employee engagement predicates certain organizational outcomes, including talent retention, product/service improvement and organization-level financial success. Is this model valid? Below are the results of a study exploring the relationship of employee engagement to important financial metrics.

We combined EEI results from 139 organizations with two key financial metrics: diluted earnings per share (DEPS) and three-year total shareholder return (3-year TSR). The EEI scores were derived from employees participating in the 2009 Work Trends study. To select organizations to include in this research, agreement statistics (Rwg) among raters within each organization with more than five employees were calculated. If the Rwg demonstrated low agreement (values greater than 1.0 and less than 0) (James et al., 1984), the organization was excluded. The resultant sample represents all major industries, including retail, banking and financial services, and manufacturing, hospitality, healthcare and business services.

Eighty-five percent of the sample organizations are multinational with locations and employees in more than 100 countries; 80 percent employ more than 10,000 workers. DEPS gauges an organization’s profit margin and its quality. More specifically, it is a ratio of an organization’s profit to the number of shares outstanding, and is often used by financial analysts when calculating the price-to-earnings ratio, which is referenced when classifying stock as buy, hold or sell. Total shareholder return is commonly used to compare the performance of organizations, and reflects a given organization’s performance during a certain period by combining share price appreciation and dividends paid. Both metrics were collected in 2009 subsequent to the reporting of 2008 fiscal year results. For this study, DEPS is a metric of short-term recent performance, whereas 3-year TSR is a metric representing longer-term performance.

The correlations of EEI to both financial metrics are, as expected, positive and significant. Clearly, those organizations in the top quartile of EEI scores outperform bottom quartile EEI organizations by substantial margins. While these results are correlational and conclusions about causation cannot be asserted, they demonstrate that attention paid to EEI
drivers and to elevating EEI scores is associated with superior financial performance. In addition, these results are among the few that demonstrate linkage between employee survey results and financial performance across organizations (Schneider et al., 2003). The generalizable nature of these results adds substantially to the potency of the conclusions drawn.

DRIVING EMPLOYEE ENGAGEMENT HIGHER

Having established the relationship between employee engagement and organization-level financial performance, it is prudent to ask what an organization can do to drive employee engagement higher. Using the macro-driver framework, we believe there are several system-level actions organizations can take (see Table 2). By way of illustration, multiple systemic-level influencers of “leaders who inspire confidence in the future” include: how effectively organizations assess, select and promote executive talent; the quality of both strategic plans and their execution; the techniques utilized to develop leadership; very specifically, the communication abilities of leadership teams and the extent to which they communicate the key role employees play in organizational success; and how leaders themselves are evaluated and the extent to which their evaluation is a multifaceted view of performance (that is, whether it contains employee, customer and financial components) versus a singular and narrow view of delivering financial results only. Each of the macro drivers can be viewed through the lens of systemic influencers.

TABLE 2: SYSTEMIC-LEVEL INFLUENCERS OF EMPLOYEE ENGAGEMENT

<table>
<thead>
<tr>
<th>Macro Driver</th>
<th>Systemic Influencer</th>
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<tbody>
<tr>
<td>Leaders who inspire confidence in the future</td>
<td>• Executive assessment/ selection</td>
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<td></td>
<td>• Quality of strategic plan</td>
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<td></td>
<td>• Leadership development</td>
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<td></td>
<td>• Communication abilities/ employee orientation</td>
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<td></td>
<td>• Balanced scorecard/ performance management systems</td>
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<tr>
<td>Managers who recognize employees and mobilize</td>
<td>• Management assessment/ selection</td>
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<tr>
<td>their teams to peak performance</td>
<td>• Management development/ behavior modeling</td>
</tr>
<tr>
<td></td>
<td>• Performance and talent management systems</td>
</tr>
<tr>
<td></td>
<td>• Quality and improvement plan/ initiatives</td>
</tr>
<tr>
<td></td>
<td>• Use of feedback systems: customers and employees</td>
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<tr>
<td>Exciting work and the opportunity to improve</td>
<td>• Job person match</td>
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<tr>
<td>skills</td>
<td>• Employee involvement in decision making</td>
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<tr>
<td></td>
<td>• On the job training</td>
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<tr>
<td></td>
<td>• Stretch assignments/ professional development</td>
</tr>
<tr>
<td></td>
<td>• Performance and talent management systems</td>
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<tr>
<td>Organizations genuinely responsible to employees</td>
<td>• Safety procedures/ training/ compliance</td>
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<tr>
<td>and community</td>
<td>• Work/life balance programs/ support</td>
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<tr>
<td></td>
<td>• Genuine, consistent leadership/ management support</td>
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<td></td>
<td>• Corporate responsibility investment level</td>
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<td></td>
<td>• Public relations and employee awareness</td>
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CONCLUSION

In this article, we set out to present both a definition of, and a measurement technique for, employee engagement. Global drivers of employee engagement, reducible to four macro drivers (leaders, managers, job/person match and organizational values) have been identified. Employee engagement drivers for the countries representing the world’s 12 largest economies have been compared and contrasted. Very importantly, the method of measuring employee engagement has been validated against both short-term and longer-term independent measures of financial performance, using a seldom-available cross organization and cross-geography design. Finally, systemic influencers of employee engagement have been suggested for driving levels higher. This chapter has demonstrated that employee engagement can be measured, that drivers of employee engagement tend to be more universal than country specific and that higher levels of employee engagement are associated with stronger financial performance.

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