

# INTRODUCTION

Human resource lessons often come from odd places.

In the 1830s the American writer Charles Henry Dana, in his book *Two Years Before The Mast*, told the tale of his experience as an ordinary seaman on the merchant brig *Pilgrim*, sailing round Cape Horn to California. The voyage was gruelling, made worse by a captain who went by the rules even when the rules made no sense. The result, by the time the ship reached California, was a crew willing to do the exact minimum required of them to avoid punishment, but not one bit more. As Dana described it:

*“Where things are done with a will, everyone is like a cat aloft — but with us, it was all dragging work. No one went aloft beyond his ordinary gait, and the chain came slowly over the windlass. The mate exhausted all his official rhetoric in calls of ‘heave with a will!...give us cheerly!’, but there was no cheerly for us. The captain walked the quarter-deck, and said not a word. He must have seen the change, but there was nothing he could notice officially.”*

In today’s parlance Dana’s hapless captain had a problem with employee engagement — a problem found in less dramatic form in many contemporary organizations.

This report is about innovative research into the factors that drive employee engagement, coupled with case studies on initiatives that enhance employee engagement in 10 Canadian organizations.

The report provides lessons that can be applied by any firm that wants to enhance the engagement of its employees in the life of the firm.

## What is employee engagement and why does it matter?

*“I can’t define it but I know it when I see it”*

There is no single widely accepted definition of employee engagement. Nor does this report propose a definition. However, a review of the literature suggests that a weaving together of factors can produce an organization in which both employees and managers make logical or emotional commitments to the organization and to each other, and act on the basis of these commitments. According to the literature the five job and workplace features that are most likely to be “proxies” for the degree of engagement are:

1. satisfaction;
2. absenteeism;
3. commitment;
4. performance; and
5. turnover.

As well, the literature suggests that three major outcomes emerge from engagement practices:

1. employee mental health;
2. employee satisfaction; and
3. retention.

The basis of engagement may be affective (based on feelings and emotions): an employee may feel an emotional bond with the organization, akin to the feeling a soldier exhibits toward her unit or a gymnastic team member feels toward his team.

On the other hand, the basis of engagement may be based on logic alone: on the thought-through conclusion that commitment to the organization will benefit the person making the commitment, and will also benefit the organization.

But many analysts of engagement argue that the evidence of engagement is not how people feel or what they have logically concluded. The proof lies in how they behave. Do they act in ways that bolster the organization, or do they (like Dana’s crew) do the bare minimum necessary to keep their jobs?

Engagement is not a magic wand waved by active managers over passive employees. It is something that employees initiate as much as employers do, and that they sometimes initiate together (a lesson from this is that managers must sometimes get out of the way and let employees take the lead in fostering engagement).

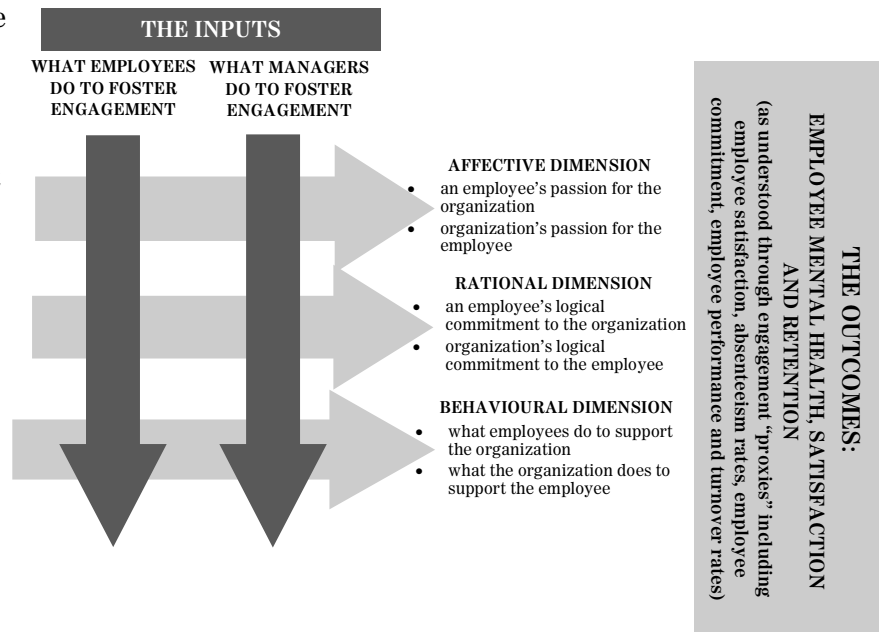
Schematically the strands look like this:

While this view of engagement is provided as context, the study that led to this report did not try to analyze each of these stands. It concentrated on answering three questions:

1. From the point of view of executives in Canadian companies, how important are specific employee engagement factors in achieving positive outcomes in terms of employee mental health, satisfaction and retention?
2. From the point of view of these same executives, to what extent are these engagement factors found within their companies?

Much of this report answers these two questions. But in answering these questions we were able pose — and to answer — a third question:

3. From the point of view of HR leaders in a sample of companies that are performing well across a range of employee engagement practices, what are some of the specific practices they use to achieve high performance in several selected practices?



### ***Why does engagement matter?***

Three arguments are made in support of employee engagement.

The first of these is the ***appeal to ethics***. This argument puts forward the proposition that it is an ethical imperative to maximize the degree to which employees can achieve a sense of self-worth (including positive employee mental health and employee satisfaction).

The second is the ***appeal to preference***. According to this argument, an engaging workplace is a more pleasant environment in which to work. From a pleasant workplace may flow a host of other organizational benefits (including employee retention), but a pleasant workplace is a preference in and of itself.

The third and most powerful is the ***appeal to effectiveness***. This argument posits that an engaged workforce is more likely to help an organization achieve its goals — the overriding goal of profit in the private sector, and of effective service to the public for not-for-profit organizations.

Profit is more measurable than effective service to the public — and even when profit is used as the unit of measure, it is not yet possible to prove that employee engagement leads to higher profit for private-sector firms. However, there is mounting evidence of a correlation between engagement and profit.

One source for this correlation is Fortune's annual list of the 100 Best Companies to Work For. Deciding which U.S. companies make the top 100 relies in large measure on company assessments carried out by the Great Place to Work Institute. The assessments include surveys of employees and managers on elements of the organization that do seem to have a relationship to engagement — elements such as communication with employees, delegation of responsibility, involving people in decisions that affect their jobs or work environment and offering training and development. Annual studies conducted since 1984 have indicated that on a range of profitability measures, publicly traded companies on the top 100 list outperform other companies in their field (see the Great Place To Work Institute web site at [www.greatplacetowork.com/great/graphs.php](http://www.greatplacetowork.com/great/graphs.php)).

So while there isn't proof that employee engagement increases profitability, there is evidence pointing in this direction.

# EXECUTIVE SUMMARY

## Questions underlying this study

This report is called *How Much And How Important? An Executive View of Employee Engagement Factors* because it was meant to address two key questions:

1. From the point of view of executives in Canadian companies, how important are specific employee engagement factors in achieving positive outcomes in terms of employee mental health, satisfaction and retention?
2. From the point of view of these same executives, to what extent are these engagement factors found within their companies?

Much of this report answers these two questions based on the results of an online survey of leaders in Canadian organizations. But in answering these questions we were able pose — and to answer — a third question:

3. From the point of view of HR leaders in a sample of companies that are performing well across a range of employee engagement practices, what are some of the specific best practices used to achieve high performance in several selected practices?

The third question was answered as a result of interviews with leaders of 10 organizations that had participated in the survey.

### The three key questions

1. How important are specific employee engagement factors in achieving positive outcomes in terms of employee mental health, satisfaction and retention?
2. To what extent are these engagement factors found within organizations?
3. What are some of the specific best practices organizations use to achieve high performance in several selected practices?

## The executive perceptions survey and its results

In mid 2005 Canadian HR Reporter and WarrenShepell collaborated in carrying out a survey of leaders in Canadian private- and public-sector organizations to uncover the perceptions of these leaders about employee engagement issues and practices.

A total of 323 respondents completed the online survey, including HR managers, company CEOs and financial managers.

The survey results, once analyzed, suggested that:

- Thirty-seven engaging job and workplace characteristics (see Appendix One) identified in literature on employee engagement can be grouped into two largely unrelated global clusters — **intrinsically rewarding factors** (psychological and emotional factors for example) and **extrinsically rewarding factors** (compensation and perks for example). Thinking of “engagement” in this way may help organizations to craft high-level HR initiatives.

The 37 engaging job and workplace characteristics can also be grouped into nine **specific clusters**. These nine clusters (renamed “practice areas”) formed the basis for interviews with 10 firms, as described below. The nine clusters are:

1. clarity and feedback;
2. connection to the big picture;
3. empowerment;
4. fair compensation;
5. employee career development;
6. healthy attachments;
7. meaningful work;

### Clustering the 37 engaging job and workplace characteristics

#### THE GLOBAL CLUSTERS

1. intrinsically rewarding factors
2. extrinsically rewarding factors

#### THE SPECIFIC CLUSTERS

1. clarity and feedback;
2. connection to the big picture;
3. empowerment;
4. fair compensation;
5. employee career development;
6. healthy attachments;
7. meaningful work;
8. pleasant work environment; and
9. reasonable work demands.

8. pleasant work environment; and
9. reasonable work demands.

Despite some differences in assessments of the presence, absence or importance of key characteristics in their workplaces (generally we found that HR leaders were less positive than non-HR leaders in their perceptions of job and workplace characteristics in their organizations), HR and non-HR leaders generally agree on perceptions of how important or impactful various job and workplace characteristics are in affecting organizational performance.

Relationships among intrinsically rewarding job/workplace characteristics and key employee outcomes (mental health, satisfaction and turnover) are in many cases *twice* that of similar relationships involving extrinsically rewarding characteristics.

There was no significant relationship between levels of extrinsically rewarding job and workplace characteristics and employee turnover.

When intrinsically rewarding characteristics are abundant in the workplace, increasing the presence of extrinsically rewarding characteristics does little to move the meter any higher on employee mental health, satisfaction or employee retention.

Increasing the intrinsically rewarding job and workplace characteristics in organizations is likely to have a one-time cost. Increasing the presence of extrinsically rewarding job and workplace characteristics in organizations leads to rolling, continuous costs.

Organizations stand to gain the highest boosts in employee mental health, satisfaction, and retention through changes that increase four dimensions of engagement: reasonable work demands, connection to the big picture, meaningful work and empowerment (in that order). These four dimensions have the highest “unique” relationships with employee mental health, satisfaction and retention outcomes when other variables are held constant.

When broken out into 37 individual job and workplace characteristics, these “Super Seven” are most consistently associated with positive levels of employee mental health, satisfaction, and retention (these seven items were correlates of at least three of the following: positive mental health, negative mental health, satisfaction, and turnover):

1. employees trust senior management;
2. employees are asked for their ideas and opinions on important matters;
3. employees clearly understand the organization’s vision and strategic direction;
4. employees trust their supervisors;
5. employees receive recognition and praise for good work;
6. employees have a clear say in decisions that affect their work; and
7. employees perceive supervisors as caring and considerate of their well-being.

Six other characteristics were “runners up” because they were correlates of at least two of the following: positive mental health, negative mental health, satisfaction and turnover.

1. employees enjoy the kind of work they do in their jobs;
2. employees deal with work processes and procedures that foster excellence and innovation;
3. employees understand how they contribute to the overall goals of the organization;
4. employees feel they are being paid fairly for their contributions to the organization;
5. employees receive performance feedback from their supervisors; and

**Generally we found that HR leaders were less positive than non-HR leaders in their perceptions of job and workplace characteristics in their organizations.**

**The Super Seven characteristics most consistently associated with mental health, satisfaction, and retention**

1. employees trust senior management;
2. they are asked for their ideas and opinions on important matters;
3. they clearly understand the organization’s vision and strategic direction;
4. they trust their supervisors;
5. they receive recognition and praise for good work;
6. they have a clear say in decisions that affect their work; and
7. they perceive supervisors as caring and considerate of their well-being.

6. employees have opportunities to fulfil personally meaningful values.

Organizations stand to gain the highest boosts in employee mental health, satisfaction and retention through changes that increase the following individual job and workplace characteristics: trust in senior management, opportunities for employee co-operation and collaboration, reasonable work demands and regular performance feedback.

**There is a misalignment between what *is* and what *ought* to be present in Canadian workforces today in terms of engaging job and workplace characteristics.**

In general the findings lend credence to the assumption, long held by HR leaders, that intrinsic factors more than extrinsic factors drive employee well-being, satisfaction and retention.

Based on the perceptions of leaders in this study, there is a misalignment between what *is* and what *ought* to be present in Canadian workforces today in terms of engaging job and workplace characteristics. For each of the “Super Seven” highly important job and workplace characteristics (cited above), less than one-half the organizational leaders said each characteristic was in place to “a large extent” or “a very large extent”, or “often” or “always”. The same was true for three of the six runner-up characteristics (also cited above) that were only slightly lower than the Super Seven in terms of importance.

## The best practice interviews and their results

The results of the survey were the used to identify a sub-group of organizations that seem to be performing well in terms of carrying out practices related to employee engagement.

From this sub-group, 10 firms were selected for 90-minute interviews with the organization’s most senior HR leader to determine what best practices the organizations carried out, in each case related to two practice areas from the list of nine practice areas shown below. The two practice areas chosen for each firm were determined by the project’s designers, based on survey results that indicated the firm performed particularly well in terms of these two practice areas, while also doing well in other practice areas.

1. **clarity and feedback** (three companies);
2. **connecting employees to the big picture** (two companies);
3. **empowerment** (two companies);
4. **fair compensation** (two companies);
5. **employee career development** (two companies);
6. **healthy attachments** (two companies);
7. **meaningful work** (three companies);
8. **pleasant work environment** (one company); and
9. **reasonable work demands** (two companies).

One firm was asked to talk about only one of these best practice areas instead of two.

The results of the interviews were summarized and analyzed to produce a set of learnings about best practices within the nine practice areas. Among these learnings:

### 1. **Clarity and feedback:**

- In communications to employees, be sure there are feedback mechanisms in place so employees can respond to what you say, and organizations must act promptly to respond to issues staff raise.
- Communicating early, clearly and thoroughly keeps small problems from becoming big.
- Quarterly feedback on achievement of sales goals and job performance goals helps achieve clarity and feedback, but early in the year the employee should have the chance to indicate whether the goals are realistic.
- Clarity and feedback can also involve sharing with employees the experiences and tips of high achievers in the organization, and if necessary teaming them up with a high achiever over the course of the year who acts as a coach.
- Aligning performance appraisal and compensation structures with a strategic plan in which the organization’s values are embedded gives employees a clear sense of how they are contributing to the organization as a whole.
- Embedding the human resource function within business units means that line managers “own” the performance appraisal process in their business units.

## **2. *Connecting employees to the big picture:***

- It is important to allow the big picture to be shared in give-and-take sessions involving managers and employees.
- The big picture involves not only internal knowledge — it also involves knowledge generated by others that can be adopted. People who bring such ideas from the outside need to be recognized for contributing externally generated ideas to the big picture.
- Conferences can be used to let people “walk in each other’s shoes” and to help them learn to be comfortable carrying out big-picture problem-solving together.
- Employees who are given a chance to shape organizational goals become champions for these goals.

## **3. *Empowerment:***

- People feel empowered when they believe they will not be criticized for coming up with new ideas.
- Adoption of a new idea should be accompanied by a message that doing things the old way was not an error or a fault. This helps people to feel comfortable in changing how they do things, without shouldering any burden of blame for the old ways of doing things.
- Get beyond the recruitment paradigm (“you will fit the machine”) and replace it with the enabling paradigm (“what are you made to do?”).
- An employee who has a better sense of what he or she is meant to do is an employee who is better able to proactively contribute to the organization, based on a better understanding of personal capacities and purposes.

## **4. *Fair compensation:***

- Formally recognize the annual workload cycles in an organization (expect people to work hard and long during peak periods, and give them paid time off during slack periods).
- When introducing productivity incentives, measure quality to ensure it is maintained as part of enhanced productivity.
- It is important to look at fairness not only in terms of one employee’s compensation in relation to the work done by that employee. It is also important to look at fairness across an entire workforce, comparing one job to another.
- A joint employer-employee job evaluation committee, with experienced members committed to fairness, is a good tool for creating fair compensation.

## **5. *Employee career development:***

- Mentoring supports employee career development, but it shouldn’t be any more formal than the organization needs it to be.
- It should be recognized that employee joint problem-solving is a form of mentoring because it allows employees to teach each other.
- Supporting employees’ career development involves assisting them to make their own decisions rather than making decisions for them.
- Both coaching and mentoring are important dimensions of supporting career development.
- Once the employer has helped an employee to make a decision, the employer should stay involved as a sounding board, a listening post and a cheerleader.
- It is easy for an employee to assume that a suggestion from the employer is actually a directive from the employer. This is unfortunate because it reduces the capacity of the employee to make his own decisions. Accordingly, suggestions should be made carefully and within the context of the validity of other suggestions and ideas the employee may be considering.

## **6. *Healthy attachments:***

- An elected employee committee can be a useful tool to prevent and resolve workplace conflict and to build workplace cohesion.
- Workplace conflict can be reduced if the head of human resources maintains an open-door policy, allowing issues to be aired and resolved quickly in a spirit of compromise.
- Frequent social gatherings developed and organized by employees themselves help develop healthy attachments.
- Courtesy to those within the workplace community, consistently mirrored by courtesy to those not in the community, fosters healthy attachments.

### **7. Meaningful work:**

- Values drive meaningful work, and a workplace that values trust and a sense of community is a workplace where employees see their work as meaningful.
- Frequent informative multi-recipient communications about the activities of the workplace community can foster a sense of meaningful work.
- People's sense of meaning in their work is shaped both by what they are doing now and what they hope to achieve in the future.
- It is important to build processes into the workplace that support people in moving toward what they want to do in future, while also rewarding them for good work they are currently doing.
- Periodic employee roundtables which allow staff to learn about, discuss and apply their learnings about trends related to their trades or professions can bolster meaningful work.
- Attendance by managers at the roundtables can give them advance knowledge about issues and solutions that will need to be incorporated into the workplace.

### **8. Pleasant work environment:**

- A pleasant working environment is often characterized by a sense of belongingness — an environment in which synergies develop that mean people are not working in isolation from each other's ideas.
- Colourful individualized work environments can energize employees.

### **9. Reasonable work demands:**

- Routinely increasing the base targets for employees' performance acceptability can lead to unreasonable work demands, and is not the preferred way to create employee "stretch." Bonus systems are a better way to create stretch.
- Specialized resources should be put in place to ensure help is available if employees feel they are becoming over-stretched by work demands.
- Flexible core working hours help employees deal with their work demands in ways best suited to each individual employee's life schedule.
- Reasonable strategic production schedules developed with input from employees and followed up by the work of an experienced project manager help a company avoid unreasonable work demands.

Throughout the interviews and practice citations, six HR leaders' roles related to employee engagement emerged as important:

1. the role of designer of engagement tools and processes;
2. the role of rapid decision-maker to resolve issues quickly;
3. the role of highly accessible support resource;
4. the role of formal or informal manager and guardian of organizational processes meant to promote engagement;
5. the role of formal communicator (including communication in written and web-based formats); and
6. the role of information resource specialist.

#### **Six key employee engagement roles for HR leaders**

1. designer of engagement tools and processes;
2. rapid decision-maker to resolve issues quickly;
3. highly accessible support resource;
4. formal or informal manager and guardian of organizational processes meant to promote engagement;
5. formal communicator (including communication in written and web-based formats); and
6. information resource specialist.