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Engagement falling fast: Study

Report links employee engagement and total shareholder return

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THE PROPORTION of organizations with falling engagement scores has doubled over the past two years, according to a study by Hewitt Associates. Forty-six per cent of 900 organizations surveyed worldwide experienced a decline in engagement levels in the quarter ending June 2010, compared to 24 per cent in June 2008.

This is the largest decline Hewitt has observed since it began conducting employee engagement research 15 years ago.

"When organizations have to make adjustments in a difficult economy often involving layoffs, it creates a degree of uncertainty on a personal level and (for) the future of the business," said Ted Emond, a senior consultant at Hewitt Associates in Toronto. "Those kinds of things affect how individuals look at their work environments, so a decline in engagement is logical."

Many companies expand or contract their workforce based on what they expect their stock to do, said Emma Hamer, an employee engagement consultant at Paul Alexander talent management consultants in Vancouver.

When it's bad, they panic. They only think about their results for the next quarter and start laying off employees, she said. Organizations fail to factor in the massive recruiting, hiring and training costs six months down the road.

"Engagement drastically declines when employees start to realize that loyalty is a one-way street," she said. "Why would I put up with this volatility and work 16-hour days for a company that will discard me like old luggage?"

Companies need to adopt a long-term view in order to improve employee engagement, found the report. Employers should also be thinking about how an engaged workforce will be beneficial.

"When the downturn ends and we can start climbing back out of the hole, we need people who are capable, knowledgeable and understand our products," said Hamer. "Those are the people who will be able to help the company get back on track."

Link between engagement, financial performance

A strong link between engagement levels and financial performance was suggested by the study. In 2009, total shareholder return for companies with high levels of engagement (65 per cent or more of employees are engaged) was 19 per cent higher than the average total shareholder return.

Conversely, companies with low engagement had a total shareholder return that was 44 per cent lower than the average.

There's no doubt employee engagement is connected to bottom line results, said Sharon Bar-David, owner of Bar-David Consulting in Toronto which specializes in creating engaged work environments.

"Engagement means holding on to a bank of talent, resources and organizational history," said Bar-David. "Those are the things that will keep an organization stable and able to move forward in flexible ways as conditions change."

Employees in organizations with high engagement said they had a high level of confidence in senior leadership to get them through the recession, said Emond. These companies didn't alter long-term strategies or plans for maintaining an engaged workforce since they know it takes a lot of time and energy and is a big investment, he said.

"You really need to do things consistently over time so your employees really believe you are committed to the work environment and to running a business that appreciates its people," said Emond.

The role of leadership

Obtaining buy-in from leadership is also very important in fostering employee engagement, found the report. Engagement should be a top priority and shouldn't take a back seat, as it often does in many organizations, said Bar-David.

Every decision, including things such as moving offices or launching a new product, should be analyzed in terms of how it will impact engagement, she said.

"In most companies, engagement becomes a separate entity," she said. "But it should be something that is thought about constantly and just becomes a natural part of how they think."

The difficulty with building this commitment from leadership is most high-level managers want to see results right away — often in the next quarter — which is very unrealistic when it comes to employee engagement, said Hamer.

Companies that maintained high levels of engagement throughout the recession made a lot of effort to communicate with staff, said Emond. They asked employees for ideas on how to cut costs, kept them up to date on what was really happening and reassured them they would be fine, he said.

Communication should start with the direct managers because they are "at the heart of engagement," said Bar-David. They should be sitting down with each employee and asking "What do you need from me?" since every employee has different needs, said Hamer.

"A lot of organizations still operate on a command-and-control structure but in modern day companies, where people make more decisions than they make things, that doesn't work anymore," said Hamer.

Leaders who are smart enough to have employees on their side, who are communicating with them, providing them with answers and showing them they care, will have a staff who is anxious to lend a hand when there is a challenge, said Emond.

Managers should also understand key employee segments, acknowledging "not all employees are necessarily equal," found the Hewitt report. This is important for increasing engagement as managers can focus on top talent and keeping them engaged during a difficult period, such as the recession.

"We need to take a better look at our workforce and identify those people who are absolutely critical to the future of the business," said Emond. "We need to keep those people because they are good, hard workers and their engagement is crucial for our long-term success."

Identifying employee segments is also a good way to pinpoint those employees who may need some extra training or development, said Hamer. There are more employees performing at 50 per cent than at 80 per cent, and working with them can have a profound impact on increasing productivity and engagement, she said.

Companies that wish to compete for top talent in this increasingly difficult market need to be serious about employee engagement, said Hamer. Many companies say their people are their greatest asset and now is the time to "put your money where your mouth is," she said.

"If you want to give that legs, you need to put some maintenance dollars into it," she said. "Otherwise, employees, knowledge and skills are going to leak away to competition or never be used again and it will all have been a huge waste of your money."