

## Employee engagement in tough times

**These days many UK and international organisations operate in the knowledge and service intensive economy, where people are the source of production. Therefore, against today's backdrop of major economic turbulence, employee engagement has become not simply a "nice to have", to be addressed in good times, but may, suggests Linda Holbeche, be key to business survival and sustainability.**

High-performance theory places employee engagement, or “the intellectual and emotional attachment that an employee has for his or her work”<sup>1</sup>, at the heart of performance—especially among knowledge workers. That is because, while definitions of engagement vary, the state of employee engagement is generally characterised as a feeling of commitment, passion and energy that translates into high levels of persistence with even the most difficult tasks, exceeding expectations and taking the initiative.

At its best, engagement is what Csikszentmihalyi<sup>2</sup> describes as “flow” — that focused and happy psychological state when people are so pleasurably immersed in their work that they freely release their “discretionary effort”. In such a state, it is argued, people are more productive, more service-oriented, less wasteful, more inclined to come up with good ideas, take the initiative and generally do more to help organisations achieve their goals than people who are disengaged.

Employee engagement has been linked in various studies with positive key business indicators such as higher earnings per share, improved sickness absence, higher productivity and innovation —the potential business benefits go on and on. For instance, a Corporate Leadership Council (CLC) study found that companies with highly engaged employees grow twice as fast as peer companies. A three-year study of 41 multinational organisations by Towers Watson found those with high engagement levels had 2–4% improvement in operating margin and net profit margin, whereas those with low engagement showed a decline of about 1.5–2%. Many studies also suggest that highly-engaged employees tend to support organisational change initiatives and are more resilient in the face of change.

Employee engagement, therefore, is critical in stimulating growth and the organisation provides the context in which engagement is created. When people are energised, motivated and performing, they are more likely to be engaged with their organisation and want to contribute to its success. If what employees and employers want from each other is matched by what they offer each other, a positive psychological contract is thought to exist — in the mind of employees at least — who are then likely to be positively engaged with the organisation. Of course, it is possible to be engaged purely with one's job and the state of engagement tends to reflect the quality of the employment relationship between individuals and employers. For instance, many academics are more engaged with their discipline than with their employer university. When that happens, many of the potential business benefits of engagement can be lost.

## Engagement deficit

An increasing body of research suggests that, even at the best of times, the UK suffers from an “engagement deficit” relative to many other countries, including the US, and that engagement levels are generally very low currently. CIPD research in 2010<sup>3</sup> found that only three in ten employees were engaged with their work. Aon Hewitt<sup>4</sup> reported in June 2010 that 46% of the companies they surveyed had seen a drop in engagement levels— a 15-year record.

So concerned was the previous government about the UK's “engagement deficit” that the Department for Business, Innovation and Skills (BIS) sponsored “Engaging for Success” (or the “MacLeod report”, published in 2009) to explore the assumed links between employee engagement, performance and productivity. The report's conclusion — that the business case for employee engagement is overwhelming — has been strongly reinforced since then as more research continues to be published.

During today's challenging times when many organisations are downsizing or implementing other cost-reduction measures, it becomes more important than ever to understand how to maintain or enhance employee engagement. Interestingly, the MacLeod report found that "engaging managers" and "engaging leadership" are pivotal to creating contexts conducive to engagement, yet UK top leadership generally tends to ignore the issue. In some cases that is because leaders and managers are unaware of employee engagement or do not understand its importance. In other cases, leaders appear ill-equipped to implement engagement strategies, especially if these might challenge their power base: "The issue seems to lie in their unwillingness to 'talk the talk' and truly relinquish command and control styles of leadership in favour of a relationship based on mutuality"<sup>5</sup>.

So should business leaders be worried? I think so. After all, the declining level of engagement has a number of implications for UK businesses and the economy. The first is how it reflects a weakening of trust, which is an essential precondition for employee engagement. Now people are more inclined to distrust first rather than trust, and are less willing to give discretionary effort.

The second implication is the longer-term risk to the retention of key people. The deep recession and ongoing economic turbulence has strained the employment relationship between employers and employees. With high levels of unemployment currently, it is easy to dismiss this in the short term, but recruitment firms are aware of wide-scale, pent-up career frustration and predict that, as soon as the jobs market improves, there is likely to be significant employee turnover.

The third consequence is that employees who remain may no longer give their discretionary effort, with potentially damaging consequences for performance. In the public sector there is growing protest about unilateral changes to pensions, job cuts, work intensification and the general destabilisation of the psychological contract. In all sectors, against a backdrop of ongoing change and pressure, business targets remain stringent. Employee engagement is key to these aims but how can this be achieved when employees themselves fear for their future and when workforces are being downsized? The longer the downturn goes on, and the tougher the measures taken to keep organisations viable, the greater the risk of strained employee relations and employees simply "hunkering down", doing the minimum necessary to get by. Given that tough times are when organisations most need people to willingly go "the extra mile", this really is the worst of all worlds.

## Stimulating growth through employee engagement

As the professional people function in organisations, HR can and should be able to make a difference to employee engagement. Yet changing workforce demographics and dynamics, a more educated workforce and different motivators by generational group mean that there is no "one size fits all" solution to attracting, engaging and retaining people.

Is it possible then to generalise about what employees want from work? In researching our book<sup>6</sup>, Geoff Matthews and I examined a wide variety of studies about what employees appear to want and need from work. Acknowledging the risk of generalisation, we categorised these as desires for *connection*, *support*, *voice* and *scope*. We concluded that most employees want job security and work with meaning and purpose— and this is closely associated with motivation and ultimately the commitment and effort workers are prepared to put in. Employees want to be valued for their contribution, and to be dealt with in a fair and consistent manner. While pay remains important, other reward issues such as flexibility are also important. Employees want work of high quality that offers a degree of autonomy, control and task discretion and strong workplace relationships. They also want to be able to influence matters which affect their working lives, and therefore need to be able to participate in the direction of the organisation.

So what can employers do to engage employees? First, a common cause is essential, with an aligned strategy that people can sign up to. Brand values must be well communicated and translated into meaningful experiences for customers and employees alike. However, the most powerfully engaging vision and values are not developed as a top-down exercise and

two-way approaches are more likely to lead to effective engagement. Values that are truly “lived” provide parameters for people’s actions and thus enable people to use their initiative to deliver what is required without the need for micro-management.

With respect to stimulating performance in the current context, old-fashioned “stick and carrot” incentives are less likely to work. HR can contribute to a positive work climate by helping managers understand what motivates their employees and supporting them in designing challenging jobs through which people can experience meaning, purpose and enjoyment. HR can also co-create, and help line managers implement, simple and effective performance management processes which are relationship-based rather than system-led. Some managers may need coaching around their own leadership style or help with standard setting, providing clarity of goals and targets, managing team dynamics and developing team members. HR can build effective reward and recognition systems which differentiate and reinforce good performance and also offer a degree of individual choice in how performance is rewarded. HR can develop competent employees through relevant training, job rotation, and developmental assignments. After all, when people are valued and have opportunities to grow, they are likely to perform well<sup>7</sup>. HR must also remain focused on workforce planning to ensure the organisation has the talent it needs for future success. This may involve continuing to recruit new talent to bring in missing skills and expertise, even while downsizing.

Mutual trust is especially important in tough times, yet when jobs, or job quality, are at risk, employee trust will soon dissipate. Even if they keep their jobs, “survivors” may experience loss of status, role ambiguity and chronic work pressure. Typical reactions include people coming to believe worst-case scenarios, responding with inertia, risk aversion a sense of paralysis, change-weariness and cynicism. There may be lack of follow-through on key projects and increased political behaviour as people protect their backs. These reactions are symptomatic of damaged psychological contracts. When these are violated (such as by not being honest about the challenges faced by the business, or being uneven in sharing out cutbacks), employees tend to withdraw their goodwill, discretionary effort is suspended and trust undermined. The employment relationship then typically becomes more transactional. As Hamel points out, “Mistrust demoralises and fear paralyses, so they must be wrung out of tomorrow’s management systems” (*Hamel, 2009*)<sup>8</sup>.

To respond to the engagement challenge in this new era, leadership styles must evolve beyond command and control towards rebuilding a firmer foundation for mutual trust and respect. High performance workplaces tend to be characterised by a joint approach to solving business problems which involves establishing dialogue between the different groups and individuals within the business, mutual understanding and respect, and a genuine attempt at reconciliation and consensus-building, creating a shared vision and objectives based on the success of the enterprise, and committing to work together constructively to achieve that success.

Similarly, implementing change occurs best through genuine employee involvement and open and comprehensive consultation. This means that leaders and managers must communicate consistently, and with personal authenticity, about the bigger picture, strategy and direction. This is not just about top-down communication, but also about honest and genuine dialogue at the team level which in turn builds trust. Leaders should be visible, accessible and approachable — and willing to listen and act on what they hear. HR must keep a finger on the pulse of how people are feeling and ensure that executives respond promptly to the most important issues. HR can also coach managers who are struggling to navigate their own change journey or who find managing the “people side” of change daunting. And, since some of the reactions to change can be anticipated, HR can help managers take actions to reduce the negative impact on people. So, thinking about your organisation, identify the critical success factors for making your change work.

- Who will be most affected?
- How will their part of the organisation change?
- What are you asking people to do differently?
- How will they be affected?

- What reactions can you expect?
- What can you learn from past experiences?
- Do staff, including managers, have the right skills for the change or access to learning to develop those skills?
- What practical and other support will they need to make the changes required of them?
- How well equipped are executives to lead the organisation successfully through change and what help will they need to do this?

Looking ahead, today's tough times teach us that organisations from now on will need to be adaptable and "change-able" — simultaneously managing "business as usual" and also continuously managing change and innovation. If employers want to retain and motivate valued employees through the tough times, they need to remain focused on engagement. This is the time above all where the "values on the wall" need to work in practice. So, even if business leaders cannot provide job security, they can keep people informed and listen to what employees are telling them. While they cannot provide meaning for their employees, as this is individual and subjective, they can offer a clear purpose for their organisation.

Employers who are forward-looking, who sustain their investment in people and continue to develop the abilities of their workforce are likely to maintain their competitiveness and be well-positioned for growth when the economy picks up. Above all, HR can help shape new employment relationships based on fair and adult-adult, rather than paternalistic but ultimately instrumental parent-child assumptions. Ensuring mutual benefits (as well as risks) for both organisations and employees is potentially a more sustainable and honest basis for an employment relationship better suited to the demands of today's volatile globalised economy.

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