ENGAGE FOR SUCCESS

THE EVIDENCE

Employee Engagement Task Force
"Nailing the evidence" workgroup

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INTRODUCTION

This paper sets out the evidence for the effectiveness of employee engagement in raising performance and productivity across the UK economy.

It is intended to be an up-to-date and comprehensive summary of the evidence from individual organisations, academics and research houses. It is written with an audience of chief executives and chief financial officers, as well as investors, shareholders, company analysts in mind and will also be available to all those managers and leaders who are still semi convinced that this topic needs prioritising.

We hope the sheer weight of this evidence will convince even the most hardened sceptic that employee engagement is not soft and fluffy, but a bottom line issue, impacting on the profitability or on service outcomes. In other words it is a must-do, not a nice-to-have.

Simultaneously with this paper we are launching a free for use website, a national resource that will make the wider case for employee engagement in a more engaging and people-focussed way. All the evidence is, however, that making a convincing argument about the impact on the bottom line is crucial in getting the attention of a key section of our workplace leaders.

The Engage for Success taskforce is very grateful to Marks and Spencer and to the University of Bath for their support in compiling this report. We would like in particular to acknowledge the contributions of Tanith Dodge, Gillian D'Analeze, Bruce Rayton, James Court-Smith, Denise Fairhurst, Julian Birkinshaw and of course the Nailing the Evidence sub group of the Task Force.

David MacLeod and Nita Clarke

EXECUTIVE SUMMARY

The UK has an employee engagement deficit. Survey after survey indicates that only around one third of UK workers say they are engaged – a figure which leaves the UK ranked ninth for engagement levels amongst the world's twelve largest economies as ranked by GDP (Kenexa 2009).

The UK also has a productivity deficit. The most recent ONS survey found that output per hour in the UK was 15 percentage points below the average for the rest of the G7 industrialised nations in 2011; on an output per worker basis, UK productivity was 20 percentage points lower than the rest of the G7 in 2011. This represents the widest productivity gap since 1995.

We believe these two factors are related. As this paper demonstrates, there is a firm correlation between employee engagement and high organisational productivity and performance across all sectors of the economy.

Employee disengagement is therefore clearly contributing to our disappointing productivity figures. Analysis indicates that were the UK to move its engagement levels to the middle of the top quartile such as that for the Netherlands this would be associated with a £25.8bn increase in GDP. (Kenexa).

No wonder then that increasing employee engagement is seen as a major priority by UK leaders. In the latest CBI Harvey Nash employment trends survey (July 2012) securing high levels of employee engagement was the top workforce priority for UK businesses, ahead even of containing labour costs. This year the Head of the Civil Service identified increasing engagement among public sector employees as a priority.

This paper highlights the evidence for the effectiveness of employee engagement strategies in improving performance, productivity and, in the private sector, profitability. This evidence comes from academic research, and from research using data compiled by research houses such as Towers Watson, Kenexa, Hay, Aon Hewitt and Gallup. It comes from case studies compiled by many leading companies and organisations. The cumulative effect of these different studies leaves little room for doubt about the statistical importance of engaging employees. But the evidence also comes from our own experiences of working in organisations which care about engaging and inspiring their employees – and the effect that has on performance.

As well as performance and productivity, employee engagement impacts positively on levels of absenteeism, on retention, on levels of innovation, on customer service, on positive outcomes in public services and on staff advocacy of their organisations.

It is also clear that engagement impacts more on performance than the other way around. A study in a leading retail bank found that employee engagement levels predicted subsequent business level performance over a three year horizon while business unit performance predicted engagement only over a single year.

No wonder that 94% of the world's most admired companies believe that their efforts to engage their employees have created a competitive advantage (Hay).

INCOME GROWTH

Organisations with high employee engagement levels outperform their low engagement counterparts in total shareholder returns and higher annual net income. The top 25% had twice the annual net income (profit attributable to shareholders) compared to the lowest quartile and returned seven times more to shareholders over a 5 year period than the lowest quartile (Kenexa research 2008).

Even in turbulent economic times engagement works. Research from organisations representing more than five million employees worldwide in the Aon Hewitt database showed that in 2010 organisations with engagement levels of 65% or greater outperformed the total stock market index and posted total shareholder returns that were 22% higher than average; companies with engagement levels of 45% or less had a total shareholder return that was 28% lower than the average return in 2010.

Companies with high and sustainable engagement levels had an average 1 year operating margin that was close to 3 times higher than those with lower engagement (Towers Watson 2012).

Marks and Spencer's research shows that over a four year period stores with improving engagement had, on average, delivered £62 million more sales to the business every year than stores with declining engagement. Sainsbury's have found clear link between higher levels of engagement and sales performance, with the level of colleague engagement contributing up to 15% of a store's year on year growth.

PRODUCTIVITY AND PERFORMANCE

85% of the world's most admired companies believe that efforts to engage employees have reduced employee performance problems (Hay 2010).

A Gallup study (2006) looking at data from over 23 thousand business units has demonstrated that those with the highest engagement scores (top 25%) averaged 18% higher productivity than those with the lowest engagement scores (bottom 25%).

A Fortune 100 manufacturing company reported that quality errors were significantly higher in poorly engaged teams (DDI 2005). The RSA insurance company found that their units with higher levels of employee engagement had 35% less downtime between calls – in effect the equivalent of one 'free of charge' employee being added to every 8 engaged employees.

ENGAGEMENT AND CUSTOMER/CLIENT SATISFACTION

An analysis of 1,979 business units in ten companies showed that those units that scored above the median on both employee and customer engagement were on average 3.4 times more effective financially than units in the bottom half of both measures, judged on total sales and revenue performance and annual gain in sales and revenue (Harter, HBR).

70% of the more engaged have a good understanding of customer needs against only 17% of the disengaged (PWC). 78% of the more engaged employees in the public sector felt they could impact public service delivery positively; only 29% of the disengaged felt the same way (Towers Watson 2007).

Work by Serco and Aon Hewitt looking at 274 Serco client contracts demonstrated a longitudinal relationship between employee engagement and the Net Promoter Score (NPS), a measure of customer loyalty. Those contracts serviced by employees whose engagement had improved over the year had NPS scores 24% higher than those employees whose engagement had declined.

Patient satisfaction is significantly higher in NHS trusts with higher levels of employee engagement.

INNOVATION

59% of the more engaged employees say that work brings out their most creative ideas, against 3% of the less engaged (Gallup 2007.)

Encouraging shop floor input at BAE and creating a more engaged workforce has reduced the time taken to build fighter planes by 25%.

Academic research (Hakanen 2008) showed that employee engagement plays a central role in translating additional job resources into innovative work behaviour.

ABSENCE AND WELL-BEING

The annual cost to the UK economy of sickness absence is over £17 billion according to the CBI. The same organisation found that engaged employees take an average of 2.69 days sick a year; the disengaged take 6.19.

Companies with highly engaged staff report employees taking an average of 7 absence days per year, approximately half the 14 days per year reported in low engagement companies (bottom 25%). Those employees in high engagement companies also report significantly less workplace stress, 28% versus 39% (Aon Hewitt 2012).

Leading plastic bottle producer Nampak recorded a 26% reduction in absence levels following the introduction of an engagement programme that improved employee engagement by 5%.

RETENTION

Replacing employees who leave can cost up to 150% of the departing employee's salary. The CLC reports that highly engaged organisations have the potential to reduce staff turnover by 87%; the disengaged are four times more likely to leave the organisation than the average employee (CLC 2008).

Gallup demonstrated that in those companies with high turnover (over 60%) those with the lowest engagement (bottom 25%) had a 31% higher turnover than those in the top quartile. The same relationship applied for companies with lower annualised turnover, clearly demonstrating the link between engagement and retention.

According to Hay, companies with high levels of engagement show turnover rates 40% lower than companies with low levels of engagement.

Rentokil found that their teams that most improved engagement saw retention increase 6.7%, providing an estimated saving of almost £7 million.

HEALTH AND SAFETY

Gallup reports that those organisations with engagement in the bottom quartile averaged 62% more accidents than those in the top quartile (Gallup 2006).

54% of the disengaged say work has a negative effect on their physical health as against 12% of the engaged (Gallup).

The Olympic Delivery Authority by June 2011 had an Accident Frequency Rate of 0.17 per 100,000 hours worked, which was less than half the construction industry average, and attributed this to strategies known to improve employee engagement.

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I. INTRODUCTION

David MacLeod and Nita Clarke were asked by the UK government in the autumn of 2008 to take an in-depth look at employee engagement and to report on its potential benefits for companies, organisations and individual employees. Their report, often referred to as the 'MacLeod Review',[1] identified four key 'enablers' that are found in highly engaged organisations, and which are linked to various pieces of evidence throughout this document.

Figure 1: The four enablers of engagement

Visible, empowering leadership providing a strong ***strategic narrative*** about the organisation, where it's come from and where it's going

Engaging managers *who:*

- Focus their people and give them scope
- Treat their people as individuals
- Coach and stretch their people

There is ***employee voice*** throughout the organisation, for reinforcing and challenging views; between functions & externally; employees are seen as central to the solution

There is organisational ***integrity*** – the values on the wall are reflected in day to day behaviours. There is no "say-do" gap

Since the publication of the MacLeod Review a new government has asked for additional evidence of the links between employee engagement and performance. The Employee Engagement Task Force responded by calling for evidence of connections between employee engagement and organisational outcomes from UK-based organisations, and this paper summarises the results of these efforts.

Many organisations answered the Task Force's call for evidence by submitting valuable, often commercially sensitive, information for this report. Additionally, the submissions from consulting firms and

[1] MacLeod, D., and Clarke, N. 2009. *Engaging for success: enhancing performance through employee engagement*. London: Department for Business Innovation and Skills. Crown copyright.

academic experts provide invaluable evidence of the links between engagement and performance that reach across organisations, rather than being limited to single case environments. The case study evidence includes evidence from public, private and third sector organisations, as well as representations from the breadth of UK industries. All of these cases are available in an appendix accompanying this document as well as on the Engage for Success website. Some cases have been presented in anonymous form by request, and we are indebted to all of the participants for their support and collaboration.

This document presents a selection of this evidence to make the case for the existence of a mission-critical link between employee engagement and performance. We present research evidence from academics and practitioners, as well as some of the recent case study evidence provided to the Task Force by UK-based organisations. Reflecting the wide variety of definitions of engagement and performance evident in use, this document examines as wide a set of contexts as possible to provide an evidence base that places the performance benefits of employee engagement, as broadly defined by its usage by practitioners, beyond reasonable doubt.

We start from the premise that the performance of every organisation is, to a greater or lesser extent, influenced by the people within. Each organisation will have employees who are central to the execution of the business strategy, and the attitudes of these people can greatly affect the way they perform their jobs as well as their willingness to remain in their current employment. Organisational policies should be chosen that resonate with the strategic mission of the organisation,[2] but even the best policies are of little value unless they are put into practice as intended.[3] The failure to do so would undermine the clarity of the 'strategic narrative' as well as the 'organisational integrity' of the firm. The importance of 'engaging managers' has grown in importance, as line managers have been increasingly asked to accomplish the decentralised delivery of organisational policies to their direct reports,[4] and employee engagement performs a crucial linking role between line manager behaviours and employee

[2] David P. Lepak and Scott A. Snell, "The Human Resource Architecture: Toward a Theory of Human Capital Allocation and Development", *The Academy of Management Review*, Vol. 24, No. 1 (Jan., 1999), pp. 31-48; and Purcell, J., S. Hutchinson, N. Kinnie, J. Swart and B. Rayton (2004). *Vision and Values: Organisational Culture and Values as a Source of Competitive Advantage*. London: Chartered Institute of Personnel and Development, Research Report.

[3] Purcell, J., N. Kinnie, J. Swart, B. Rayton and S. Hutchinson (2009). People management and performance, Taylor & Francis; and Purcell, J., Kinnie, N., Hutchinson, S., Rayton, B. and Swart, J., (2003). *Understanding the People and Performance Link: Unlocking the black box*. London: Chartered Institute of Personnel and Development, Research Report; Purcell, J., N. Kinnie, S. Hutchinson and B. Rayton (2000). 'Inside the Box ', *People Management*, Volume 6, Issue 21 (26 October).

[4] Purcell, J., N. Kinnie, J. Swart, B. Rayton and S. Hutchinson (2009). *People management and performance*. Taylor & Francis.

performance.[5] While there is room for discussion about the specific attitudes and behaviours that drive performance in any given setting, the basic premise of this chapter is that employees play a central role in translating the vision of corporate leaders into reality.

This document builds on this premise by assembling layers of evidence of varying depth, breadth, geographic focus, measurement strategy and methodological design. Some of the evidence passes the highest standards of methodological rigour while other pieces bring these findings to life in the current context of UK-based organisations. Each piece of evidence has strengths and weaknesses, but the combined impact is substantially greater than the simple sum of the parts. The intent is to provide the clearest and strongest possible case not only for the existence of a link from engagement to performance, but of a link which is too large for modern managers to ignore.

Employee engagement has been variously defined, *inter alia*, as employee attitude, employee behaviour and organisational programme. This lack of precision has produced vocal criticism of the concept of employee engagement amongst academic researchers, but these critiques have focused on the appropriate definition of employee engagement and its separability from previously studied concepts. The academic evidence base for the importance of what practitioners typically mean when they refer to “employee engagement” is actually very strong. Inspection of typical practitioner definitions of employee engagement reveal strong connections to academic concepts like work engagement, flow, job satisfaction, organisational commitment, organisational citizenship behaviour, employee voice and employee involvement. These concepts have been the subject of academic research for over 50 years, and all of them have been linked to performance (variously defined) in academic studies. Indeed, the hypothesis that changes in employee attitudes lead to changes in employee behaviours with implications for task, group and organisational performance continues to lie at the heart of substantial amounts of current academic research in organisational behaviour, organisational psychology, human resource management and change management. Academic research has provided an evidence base that moves beyond simple cross-sectional correlations and demonstrates longitudinal synergistic relationships between engagement and performance.

The academic research presented in this document is reinforced by research from leading consulting organisations that provides timely cross-organisation evidence and client-specific case studies linking engagement to performance. The document also benefits from the

[5] Alfes, K., Truss, C., Soane, E., Rees, C. and Gatenby, M. (2013 – in press) ‘Linking Perceived Supervisor Support, Perceived HRM Practices and Individual Performance: The Mediating Role of Employee Engagement’. *Human Resource Management*.

incredibly detailed and diverse case study evidence supplied to the Task Force by UK-based organisations. These cases bring the research evidence into sharp relief in the context of the current economic and business environment by illustrating the ways engaged employees aid their organisations' efforts to survive and thrive in difficult times.

The evidence in this document supports a strong link between employee engagement and performance across a wide range of sectors and situations. The evidence is drawn from three distinct perspectives: academic publications, research by consultancies and organisational case studies. Each of these perspectives has its own strengths and weaknesses, but the combined weight of this evidence indicates that managers cannot afford to ignore the links between employee engagement and performance.

II. THE STATE OF ENGAGEMENT IN THE UK

There has been substantial focus on employee engagement in recent years, as evidenced by the MacLeod Review,[6] as well as a rapidly growing seam of academic and practitioner research in the area. The Corporate Leadership Council (CLC) has recently shown that 70% of business leaders now believe that engagement is critical for their businesses,[7] and some argue that employee engagement is a key element to the success of any organisation.[8]

Despite the strength of advocacy behind this issue the UK still lags behind other large economies. Results supplied to the Task Force from a 2012 survey by Towers Watson has shown that just 27% of employees in the UK are 'highly engaged', with an equivalent proportion of employees being 'disengaged'. These engagement levels compare unfavourably to a global average of 35% 'highly engaged'.[9] This lack of engagement by UK employees has been demonstrated by research for over a decade.

- The CIPD reported in 2010 that only 8% of employees were strongly engaged.[10]
- Kenexa compared UK engagement levels to those in other large world economies in 2009, and the UK ranked 9th amongst the 12 largest economies as measured by GDP.[11]

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[6] MacLeod, D. and Clarke, N. (2009) Engaging for Success: *Enhancing Performance through Employee Engagement*. Department for Business, Innovation and Skills (BIS), London.
[7] CLC, Essay: Building Capital Engagement, 2011.
[8] Hayward, S. (2010). "Engaging employees though whole leadership," *Strategic HR Review* 9(3): 11-17.
[9] Towers Watson. 2012 Global Workforce Study.
[10] Kerstin Alfes, Catherine Truss, Emma Soane, Chris Rees and Mark Gatenby (2010). *Creating an engaged workforce: findings from the Kingston employee engagement consortium project*. London: CIPD.
[11] Wiley, J., Herman, A., Kowske, B. (2012), 'Developing and Validating a Global Model of Employee Engagement,' in Handbook of Employee Engagement: Perspectives, Issues, Research and Practice, ed. S. L. Albrecht, Cheltenham: Edward Elgar Publishing Limited.

- Truss et al (2006) found that just over one in three employees (35%) were actively engaged.[12] They also reported that less than one in five employees (18%) were engaged on a daily basis, with 59% reporting engagement once a week, with the remainder reporting engagement less frequently.
- A 2004 study by the CLC found that just 24% of employees were highly engaged.[13]
- A 2001 Gallup survey in the UK revealed only 19% of employees were ‘engaged’, with 61% ‘not engaged’ and 20% ‘actively disengaged’.[14]

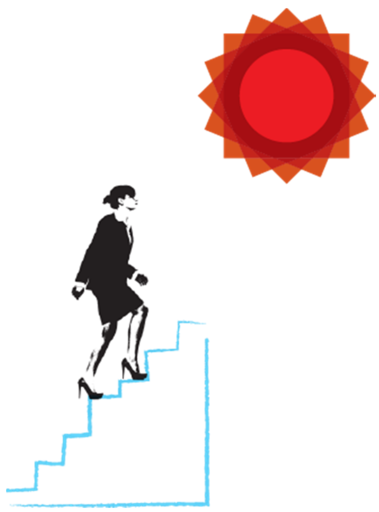
Variations in the definitions of engagement used to produce these results make direct comparison of these numbers impossible, but these studies collectively point to substantial levels of disengagement in the UK workforce and reveal a gap between the engagement levels in the UK and key competitors in the global marketplace. More positively, they also reveal a large pool of employees whose engagement levels could improve, and whose attitudes towards their employers have not hardened into disengagement. As such, there is an opportunity to improve the performance of the UK economy if UK businesses can release the energy, creativity and dedication of these people.

Understanding the causes and consequences of employee engagement is important for UK-based organisations because a disengaged workforce is costly. The most recent estimate of the cost of a disengaged workforce to the UK economy comes from Kenexa. They measured engagement in 27 countries that accounted for 80% of global GDP in 2011 and examined engagement’s relationships with both GDP growth and labour productivity. The average level of engagement in the UK was 3.19 out of 5.0, relative to a global average of 3.48. Kenexa reported that engagement was linked to GDP growth worldwide, with a 0.25 point increase in engagement being linked to a 1.2 point increase in economic growth. Simple extrapolation of these results for the UK suggests that improving engagement to 3.55, equivalent to placing UK engagement levels at the middle of the upper quartile of countries sampled (on par with the Netherlands), could yield an increase in GDP of £25.8 billion per year.[15] Researchers at Gallup using different methodologies have produced even larger estimates.[16]

[12] Truss, K., Soane, E., Edwards, C., Wisdom, K., Croll, A. and Burnett, J. (2006). *Working life: employee attitudes and engagement 2006*. Chartered Institute of Personnel and Development, London, UK.
[13] Corporate Leadership Council, Driving Performance and Retention Through Employee Engagement, 2004.
[14] Cited in Fairhurst, D. (2008), ‘Am I ‘bovvered’?: Driving a Performance Culture through to the Front Line,’ Human Resource Management Journal, 18, 321–326.
[15] Calculations supplied to the Task Force by Kenexa.
[16] Cited in Fairhurst, D. (2008), ‘Am I ‘bovvered’?: Driving a Performance Culture through to the Front Line,’ *Human Resource Management Journal*, 18, 321–326.; and MacLeod, D., and Clarke, N. 2009.

The scale of the engagement deficit in the UK is staggering. David Fairhurst of McDonald's Restaurants Limited, in contextualizing the results of the Gallup 2001 survey reported earlier which found that only 19% of UK employees were engaged, asked us to imagine the likely managerial response to learning that only 20% of the organisation's computers worked properly, that 60% were unreliable and that 20% either did nothing at all or spent their entire time infecting other systems with viruses. Alternatively, he suggested considering a manufacturing facility that ran at full capacity on Monday, at half capacity Tuesday through Thursday, and either shut down or produced substandard products on Fridays. Fairhurst rightly concluded that resource inefficiencies of this magnitude would not be tolerated.[17]

Ignoring the engagement deficit in the UK is clearly not an option, but the recent recession has had the dual effect of making engagement more important than ever while also moving it further down peoples' agendas as they focus on what they perceive as 'bigger' issues. The topic of organisational performance is naturally of acute interest as leaders struggle to cope with lost revenue and resources, but employee engagement is all the more important during times of crisis and uncertainty. At these times employees can become increasingly disengaged due to concerns about the impact of the unstable market on their lives and jobs.[18] Employees look for credible and candid information during times of crisis, and employers who fail to provide this communication leave employees to learn of the local effects of the economic crisis through the rumour mill.[19] Survey results commissioned by Weber Shandwick Worldwide in 2008 indicated that 54% of respondents had heard nothing from senior leaders about the implications of the financial crisis even though 71% of employees thought they should be told by their company's executives about the economic challenges.[20]



The relatively low engagement levels in the UK represent both a problem and an opportunity. The evidence of higher engagement levels elsewhere shows that it is possible to increase employee engagement in the UK, and the cost estimates attached to a

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Engaging for success: enhancing performance through employee engagement. London: Department for Business Innovation and Skills. Crown copyright.

[17] Fairhurst, D. (2008), 'Am I 'bovvered'?: Driving a Performance Culture through to the Front Line,' *Human Resource Management Journal*, 18, 321.

[18] Veronica Hope-Hailey, Ros Searle and Graham Dietz (2012). *Where has all the trust gone?* Research Report. London: Chartered Institute of Personnel and Development.

[19] Gallo, Carmine. "Financial Crisis: Communicating with Employees." *Bloomberg BusinessWeek*, Small Business, 21 October 2008.

[20] Weber Shandwick. (2008). Company Leaders Not Communicating With Employees On Financial Crisis, According To New National Research From Weber Shandwick [Press release]. Retrieved from http://www.webershandwick.com/Default.aspx/AboutUs/PressReleases/2008/ CompanyLeadersNotCommunicatingWithEmployeesOnFinancialCrisisAccordingToNewNationalResearchFromWeberShandwick

disengaged workforce imply that any failure to do so would represent a substantial missed opportunity for UK businesses, particularly in the current economic climate. Indeed, 85% of the World's Most Admired Companies believed their efforts to engage employees had reduced employee performance problems,[21] and Towers Watson research into the features of financially high performing organisations has suggested that these organisations have been able to maintain their already high levels of engagement during the financial crisis.[22] A clear understanding of the nature of the linkages between engagement and performance is therefore required if UK business is to act on this opportunity.

III. ENGAGEMENT PRECEDES PERFORMANCE

This section presents evidence on the linkages between engagement and performance over time. Does engagement drive performance? Does performance itself drive engagement? Marcus Buckingham has studied this area for many years, and he told MacLeod and Clarke (2009) that the relationship between engagement and performance was four times stronger than the reverse,[23] leading him to conclude that it was engagement that drove performance.

The academic and practitioner support for this view is already strong, and research investigating the relationship between engagement and performance over time continues to expand our understanding of this important longitudinal relationship. Several recent academic studies have investigated exactly this issue, providing a large amount of evidence of the links between engagement and performance at the level of the individual employee, and exciting new evidence of these relationships at business unit and organisational levels.[24]

The combined weight of academic meta-analytic evidence supports the view that employee engagement is linked to a wide variety of individual performance measures.[25] Meta-analysis is a statistical

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[21] Royal, M. and Stark, M. (2010). Hitting the ground running, what the world's most admired companies do to (re)engage their employees. The Hay Group.
[22] Towers Watson. 2012 Global Workforce Study.
[23] Quoted during a telephone conversation with the MacLeod Review team in 2009.
[24] Hakanen, J. J., R. Perhoniemi, et al. (2008). "Positive gain spirals at work: From job resources to work engagement, personal initiative and work-unit innovativeness." *Journal of Vocational Behavior* 73(1): 78-91; and Winkler, Silvan, König, Cornelius J., Kleinmann, Martin (2012), "New insights into an old debate: Investigating the temporal sequence of commitment and performance at the business unit level", *Journal of Occupational and Organizational Psychology* 85(3): 503-522; and Purcell, J., N. Kinnie, J. Swart, B. Rayton and S. Hutchinson (2009). *People management and performance*, Taylor & Francis.
[25] Harrison, D. A., D. A. Newman, et al. (2006). "How important are job attitudes? Meta-analytic comparisons of integrative behavioral outcomes and time sequences." *Academy of Management Journal* 49(2): 305-325; Halbesleben, J. R. B. (2010), 'A Meta-Analysis of Work Engagement: Relationships with Burnout, Demands, Resources, and Consequences,' in *Work Engagement: A Handbook of Essential Theory and Research*, ed. A. B. Bakker and M. P. Leiter, Hove: Psychology Press; Meyer, J. P., Stanley, D. J., Herscovitch, L., and Topolnytsky, L. (2002), 'Affective, Continuance, and Normative Commitment to the Organization: A Meta-Analysis of Antecedents, Correlates, and Consequences,' *Journal of Vocational Behavior*, 61 (1), 20-52; and Podsakoff, N. P., S. W. Whiting, et al.

technique for integrating the findings from multiple independent studies in order to produce results that are less influenced by the specific context of any individual sample: essentially exploiting the combined power of many independent samples. The meta-analysis of Michael Riketta of Aston University on the links between the engagement and performance at the individual level identified a robust significant link from engagement to performance, but not the other way around.[26]

Analysis of data from the retail branch networks of one Irish and three UK banking organisations showed that increases in the average level of employee engagement generated increases in customer satisfaction that cascaded into corresponding improvements in sales achievement, with a one standard deviation increase in engagement being linked to a 6% improvement in branch **sales relative to target**.[27] Research on service profit chains in other sectors has also demonstrated a longitudinal linkage between engagement and performance. For example, three years of data gathered from thousands of employees and hundreds of thousands of customers of a large European franchise retail chain in the do-it-yourself market has shown that improvements in engagement at the beginning of the three-year period worked through improvements in **customer satisfaction** to deliver significantly improved **operating profit** by the end of the period.[28]

While the case for the inverse causal story (performance drives engagement) is not well-supported in isolation, several recent academic studies employing longitudinal designs suggest that a third option is the most likely: namely, that engagement and performance are mutually reinforcing, leading to the opportunity to initiate synergistic feedback over time between employee engagement and performance.[29] These studies indicate a link between past engagement levels and current performance that is both larger in magnitude and longer in duration than the reciprocal relationship. For example, Winkler et al (2012, p. 514), in their analysis of multi-wave employee attitude survey data and area-level performance in a retail bank, find that employee engagement predicted subsequent business unit performance over a three-year horizon and that business unit performance predicted engagement only over a single year.

Marks and Spencer

Marks and Spencer recently completed a longitudinal study which found that long term employee engagement trends are directly linked to long term sales performance. Using data from a study group of 137 high street stores over four years, those stores with an improving engagement trend over the four years significantly outperformed the stores where engagement scores were declining (compared to respective sales targets).

Once store size was taken into account, both engagement itself and the changes in engagement from one year to the next were found to correlate to sales performance. Stores with improving engagement had on average delivered £62 million more sales to the business every year than stores with declining engagement.

(2009). "Individual- and Organizational-Level Consequences of Organizational Citizenship Behaviors: A Meta-Analysis." *Journal of Applied Psychology* 94(1): 122-141.

[26] Riketta, Michael (2008). "The Causal Relation Between Job Attitudes and Performance: A Meta-Analysis of Panel Studies." *Journal of Applied Psychology* 93(2): 472–481.

[27] Gelade, G. A. and S. Young (2005). "Test of a service profit chain model in the retail banking sector." *Journal of Occupational and Organizational Psychology* 78: 1-22.

[28] Evanschitzky, Heiner, Florian v. Wangenheim, Nancy V. Wünderlich (2012). "Perils of Managing the Service Profit Chain: The Role of Time Lags and Feedback Loops." *Journal of Retailing* 88(3): 356-366.

[29] Hakanen, J. J., R. Perhoniemi, et al. (2008). "Positive gain spirals at work: From job resources to work engagement, personal initiative and work-unit innovativeness." *Journal of Vocational Behavior* 73(1): 78-91; and Winkler, Silvan, König, Cornelius J., Kleinmann, Martin (2012), "New insights into an old debate: Investigating the temporal sequence of commitment and performance at the business unit level", *Journal of Occupational and Organizational Psychology* 85(3): 503-522.

A longitudinal study by Towers Watson with global reach analysed data gathered from opinion surveys of over 664,000 employees from more than 50 companies representing a range of industries and sizes. The study measured engagement alongside more traditional business performance measures over 12 months. Those companies with a highly engaged workforce improved **operating income** by 19.2% over the 12 month study period, and those companies with low engagement scores saw operating income decline by 32.7% over the same period. Similarly, those companies with high engagement scores demonstrated a 13.7% improvement in **net income growth** compared to a decline of 3.8% in low engagement companies.[30]
Several of the case studies in this report support the existence of longitudinal links between engagement and performance. Marks and Spencer has identified that both engagement and changes in engagement over time are strong predictors of **sales** and **sales growth** relative to target. This result reinforces earlier evidence from 174 retail stores over two years published by Gallup demonstrating that stores with year-on-year improvements in employee engagement grew **profits** by 3.8% compared to a 2% decrease in the profits of stores that did not improve engagement.[31] The Rentokil Initial case demonstrates the crucial role of employee engagement in delivering value through a service profit chain, and highlights not only the direct benefits of engagement, but also the value of avoiding the direct and opportunity costs of **employee turnover**. PwC has found that **voluntary turnover** numbers increase 12 months after engagement scores fall in their own business. The evidence clearly supports the view that engagement today drives performance for several years into the future. There is also evidence that good performance in the current period can make improvements in future engagement levels, though this effect appears to be smaller and less enduring.

The weight of evidence supports a causal relationship from engagement to performance. Actively monitoring engagement and managing based on this information is important even if this relationship reflects only the impact of some unmeasured third factor on both engagement and performance because forewarned is forearmed. Pity the miner who fails to listen for the canary.

PwC

PwC is a professional services firm that specialises in providing tax, advisory and accounting services to its clients. It has over 16,500 UK employees with annual UK revenue of £2.6 billion. Parts of the business will be at various points in their growth cycles at any particular point in time, and in the 2011/12 financial year the firm grew 7%.

PwC runs a six monthly survey to measure engagement among staff and Partners. These scores are tracked on a firm-wide, line of service and business unit level. Each business unit analyses the results and identifies recommendations for action and how these will be communicated to staff.

PwC's internal data shows a clear link between engaged people and better business performance. Voluntary turnover numbers increase 12 months after engagement scores fall, and the top performing businesses for people engagement have higher average client engagement. Analysis of historical data demonstrates that this link follows through to financial success: top performing businesses for people engagement also have higher average gross margins.

[30] Towers Perrin-ISR (2006) *The ISR Employee Engagement Report,* as cited in MacLeod and Clarke (2009).
[31] Gallup (2008) *UK retailer – 174 stores over two years,* as cited in MacLeod and Clarke (2009).

Rentokil Initial

Rentokil Initial plc has a 66,000 employee group, £2.5bn-turnover with services ranging from pest control to parcel delivery. As a people based service organisation, Rentokil Initial's service and business results depend heavily on how engaged their employees feel. The determination and discretionary efforts of employees, particularly sales employees, are crucial to business success, and the cost of replacing employees is approximately 1.5 – 2 times annual salary plus opportunity costs.

Rentokil used a combination of correlation and gap analysis using 15 months of data and found that those teams who went on to produce the best gross margin began the period with higher engagement levels (+5%) than the initial engagement levels of underperforming teams. The work revealed a key role for engagement in employee retention, especially for sales employees. Rentokil Initial found that a one percentage point improvement in engagement improved retention by 0.39%. The teams that improved engagement the most saw retention increase by 6.7 percentage points, providing an estimated savings of £7 million.

IV. ENGAGEMENT IS LINKED TO MANY TYPES OF PERFORMANCE

Understanding the range of performance outcomes influenced by engagement is important because of the established connections between past engagement and future performance, and there is a wealth of evidence illustrating this variety. Multiple meta-analytic studies have demonstrated robust cross-sectional links between employee engagement and increases in profits, productivity, innovation, beneficial discretionary effort, customer satisfaction and customer retention. These studies have also demonstrated that employee engagement reduces absence, voluntary turnover, sabotage, and a range of other negative behaviours.[32]

The case study evidence submitted to the Task Force vividly illustrates the range of performance outcomes influenced by employee engagement, and this section leverages a selection of this evidence that has not already been discussed. We separate these into effects on business performance (profits, productivity, innovation and customer measures) and people indicators (well-being, absence/turnover and health and safety). These supplement the cases presented in the MacLeod Review. They provide further evidence that employee engagement has a material effect on the bottom line in a wide variety of settings and that engaged employees can provide things that are essential for organisations to navigate a turbulent business environment.

[32] Such studies include: Christian, M. S., A. S. Garza, et al. (2011). "Work Engagement: A Quantitative Review and Test of Its Relations with Task and Contextual Performance." *Personnel Psychology* 64(1): 89-136; Halbesleben, J. R. B. (2010), 'A Meta-Analysis of Work Engagement: Relationships with Burnout, Demands, Resources, and Consequences,' in *Work Engagement: A Handbook of Essential Theory and Research*, ed. A. B. Bakker and M. P. Leiter, Hove: Psychology Press; Meyer, J. P., Stanley, D. J., Herscovitch, L., and Topolnytsky, L. (2002), 'Affective, Continuance, and Normative Commitment to the Organization: A Meta-Analysis of Antecedents, Correlates, and Consequences,' *Journal of Vocational Behavior*, 61 (1), 20-52; and Podsakoff, N. P., S. W. Whiting, et al. (2009). "Individual- and Organizational-Level Consequences of Organizational Citizenship Behaviors: A Meta-Analysis." *Journal of Applied Psychology* 94(1): 122-141.

A. BUSINESS

1) Profit

There is an abundance of evidence to back up the assertion that increased levels of employee engagement can in turn lead to improved revenue growth, profit margins and overall shareholder returns. These results demonstrate that there are measurable and compelling differences between those organisations with higher employee engagement and those with lower employee engagement.

The Kenexa High Performance Institute published evidence based on their research in 158 organisations from a wide range of industries illustrating that both **diluted earnings per share** and **three-year total shareholder return** were directly linked to employee engagement.[33] Analysis on WorkTrends survey data from 22,500 employees in 14 countries has also led Kenexa to conclude that organisations with high employee engagement levels outperformed those with low engagement in total shareholder return and annual net income. Those organisations with engagement scores in the top 25% of those surveyed by Kenexa had twice the **annual net income** ('profit attributable to shareholders' in the UK) of those in the bottom 25%. Those high engagement organisations also returned a staggering 7 times more to shareholders over a 5-year period than those in the lowest quartile.[34] The strong link between employee engagement and a company's overall financial performance has been reinforced by several other sources. Kenexa research established the link between engagement and **total net income** using data from 64 organisations. Organisations with highly engaged employees achieved twice the annual net income (profit) of organisations whose employees lagged behind on engagement, even after controlling for organisation size.[35]

Towers Watson's 2012 Global Workforce Study reported that companies with high and sustainable engagement levels had an average **one-year operating margin** that was close to three times higher than companies with low engagement levels. The Hay Group reported that organizations in the top quartile of engagement scores demonstrated **revenue growth** 2.5 times greater than those organisations in the bottom quartile.[36] Gallup data has also been used to show that the **earnings per share growth** rates of those units with engagement scores in the top quartile were 2.6 times those of units with below average engagement scores.[37] Harter et al. (2006) reinforce these results by comparing organisations in the top and

Belron

Belron is the world's largest dedicated vehicle glass repair and replacement service. Ranking 36 regional managers across four countries using "Profit versus Budget" as the key performance indicator, Belron established that those regional managers who created "high performance and energising climates" were 4.2 times more likely to deliver above average profit.

Sainsbury's

Sainsbury's are a prime example of an organisation that has continued to increase their employee engagement scores against a challenging economic backdrop with positive business results. Sainsbury's have found a clear link between these higher levels of engagement and sales performance. Engagement had a positive and significant impact on sales growth with the level of engagement contributing up to 15% of a store's year-on-year growth.

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[33] Wiley, J. (2009). *Driving Success Through Performance Excellence and Employee Engagement*. Kenexa Research Institute.
[34] Wiley, J. (2008). *Engaging the Employee*. Kenexa Research Institute.
[35] White paper (2009). *The Impact of Employee Engagement*. Kenexa Research Institute.
[36] Royal, M. and Yoon, J. (2009). *Engagement and Enablement: the key to higher levels of individual and organisational performance*. *Journal of Compensation and Benefits* 25 (Sept./Oct.): 13-19.
[37] Gallup (2006). 'Engagement predicts earnings per share'.

bottom quartile of engagement using Gallup data from 23,910 business units, finding that firms in the top quartile of engagement scores had 12% higher **profitability** and 18% higher **productivity**.[38]

Aon Hewitt research shows a strong correlation between employee engagement and financial performance, even in turbulent financial times. They analysed their Employee Engagement Database of more than 5,700 employers, representing five million employees worldwide, and their work showed that in 2010 organisations with engagement levels of 65% or greater posted **total shareholder returns** that were 22% higher than the market average. Conversely, companies with engagement of 45% or less generated returns that were 28% lower than the same market benchmark.[39] Kenexa also examined the relationship between employee engagement and total shareholder return by assessing the circumstances of 39 organisations and found that organisations with highly engaged employees achieved seven-times greater **5-year total shareholder return** than organisations whose employees were less engaged.[40] Further analysis of data from 158 organisations with WorkTrends data indicated that employee engagement, combined with a narrative of performance excellence, accounted for approximately 4% of **3-year total shareholder return**.[41]

Evidence from academic journals, consultancy reports and individual organisational cases submitted to the Task Force deliver compelling evidence of links between employee engagement and profit. These connections doubtlessly work through different channels in different organisations. For example, The Institute for Employment Studies demonstrated in a study of 100 retail outlets, 25,000 customers and 65,000 employees that increased employee engagement improved companies' potential to increase sales through three routes: directly on sales; mediated through customer satisfaction; and through reduction in staff absence. They concluded that a 1% increase in their measure of engagement could lead to a monthly increase of 9% in sales.[42] A Towers Watson study in 2004 across over 2,000 UK retail bank branches found that a 10% improvement in engagement could be expected to drive a 4% **increase in sales v. target**, which translated into an additional £100m pounds in personal account revenue for an average size UK retail bank. The Dorothy Perkins case submitted to the Task Force demonstrated a similar relationship, finding that stores with high engagement demonstrated 12% higher **growth in sales**, delivered 10% improvements in **operating savings**, and experienced 35% lower **stock loss**.

Dorothy Perkins

Dorothy Perkins completed research which found that those environments characterised by high engagement (what they term "high performing climates") demonstrated better financial performance. Specifically environments with high engagement demonstrated 12% higher growth in sales, delivered 10% improvements in operating savings, and experienced 35% lower stock loss. For a store with an average monthly turnover of £2.3m the 12% higher growth could yield an annual financial gain of £445,000.

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[38] Harter, James K., Schmidt, F. L., Killham, E. A. and Agrawal, S. (2012). "Q12® Meta-Analysis: The Relationship Between Engagement at Work and Organizational Outcomes." Gallup Organization.
[39] "Trends in Employee Engagement". Aon Hewitt (2011).
[40] Craig Hurty, Debra Osborn, Anne Herman, Jeffrey M. Saltzman (2009). "Solid Investments in Engagement Yield Shareholder Return: The Aetna Story" Kenexa.
[41] Wiley, J. (2008). *Engaging the Employee*. Kenexa Research Institute.
[42] Barber, L., Hayday, S., and Bevan, S. (1999). *From People to Profits*. Report 355, Institute for Employment Studies.

2) Customer

We begin by recalling the old business adage that "the customer is always right." If this statement is true then establishing a link between employee engagement and measures like customer satisfaction, customer service and customer advocacy is all that is required to demonstrate the importance of employee engagement for strategic management.

A 2010 Gallup study stated that employees with positive attitudes towards their workplaces carried those attitudes over to customers and engaged in discretionary efforts necessary to deliver high levels of customer service. Customer facing employees exercised this discretion through their customer interactions while non-customer facing employees did this through the quality and consistency of the products they produced.[43] An earlier Gallup report that examined over 23,000 business units showed that companies with engagement scores in the top quartile averaged 12% higher **customer advocacy** than those in the bottom quartile.[44] Engagement has been linked to effective team working,[45] and appears to be driven by a clear 'strategic narrative' for the team, as well as the assignment of challenging, meaningful, achievable tasks.[46] Towers Watson client-specific research within a high-performance global bank observed that effective team work in branches enhanced customer perceptions of courtesy and competence, which in turn **improved customer loyalty** (share of wallet).

Employees themselves share the view that engagement and customer satisfaction go hand in hand. In particular, 78% of highly engaged employees in the UK public sector in 2007 said they could make an impact on **public services delivery** or **customer service** while just 29% of the disengaged felt the same way.[47] Evidence supplied to the Task Force from the NHS reveals important relationships between engagement, patient satisfaction and patient mortality,[48] and Professor Mike West of the Centre for Performance-led HR at Lancaster University concludes, "Employee engagement emerges as the best predictor of NHS trust outcomes. No combination of key

[43] Harter, J., Schmidt, F., Asplund, J., Killham, E. and Agrawal, S. (2010). "Causal Impact of Employee Work Perceptions on the Bottom Line of Organisations," *Perspectives on Psychological Science* 5(4): 378-389.
[44] Gallup (2006). 'Engagement predicts earnings per share'.
[45] Podsakoff, N. P., S. W. Whiting, et al. (2009). "Individual- and Organizational-Level Consequences of Organizational Citizenship Behaviors: A Meta-Analysis." *Journal of Applied Psychology* 94(1): 122-141.
[46] Richardson, Joanne and West, Michael (2012), 'Engaged work teams,' in *Handbook of Employee Engagement: Perspectives, Issues, Research and Practice*, ed. S. L. Albrecht, Cheltenham: Edward Elgar Publishing Limited.
[47] Towers Perrin – *Executive Briefing: Engagement in the Public Sector, 2007,* as cited in MacLeod and Clarke (2009).
[48] Topakas, A., Admasachew, L. & Dawson, J. (2011) *Outcomes of staff engagement in the NHS: a trust level analysis.* Aston Business School, Aston University; and West, M. and Dawson, J. (2011) *NHS Staff Management and Health Service Quality*. Aston Business School, Aston University.

NHS

The customer in the NHS is the patient, and NHS sector research completed by Aston University showed that patient satisfaction is significantly higher in trusts with higher levels of employee engagement, as well as revealing some of the key drivers of this relationship. The percentage of staff receiving job-relevant or health and safety training, the prevalence of well-structured appraisal meetings and reports of good support from immediate line managers were all linked to improvements in levels of patient satisfaction.

The research also showed that NHS trusts with high engagement had lower standardised patient mortality rates, even when controlling for prior patient mortality, and these effects were of meaningful size. Patient mortality rates were approximately 2.5% lower in those trusts with high engagement levels than in those with medium engagement levels.[*]

[*] West, M., J. Dawson, L. Admasachew and A. Topakas (2011), *NHS Staff Management and Health Service Quality: Results from the NHS Staff Survey and Related Data*, Department of Health.

scores or single scale is as effective in predicting trust performance on a range of outcomes measures as is the scale measure of employee engagement."[49]

The Hay Group's 2010 study into the employee engagement strategies of the World's Most Admired Companies also supports the impact of engagement on customer outcomes. It found that 84% of the admired companies stated that they believed their efforts to engage employees had strengthened **customer relationships**, as compared with 72% of their peer group.[50] Kenexa compared the employee engagement scores of 16 US retail organisations with the associated **American Customer Satisfaction Index** (ACSI) scores. The top five organisations in this group ranked by their engagement scores were the same as the top five ranked by their ACSI.[51] Engagement is also linked to customer service in The Royal Bank of Scotland, with a 7 percentage point difference in **customer service scores** between the top 10% of business units and the bottom 10%, ranked by employee engagement in 2011. An analysis of 1979 business units in ten companies showed that those units that scored above the median on both employee and customer engagement were on average 3.4 times **more effective financially** than units in the bottom half of both measures, judged on total sales and revenue performance and annual gain in sales and revenue.[52]

Understanding customer needs enables employees to exercise discretion in ways that strengthen customer relationships. PwC has shown that there is a strong correlation between highly engaged staff and client satisfaction that is driven by an improved understanding of customer needs and greater advocacy of their own organisations. In particular, PwC found that 70% of engaged employees indicated they have a good **understanding of customer needs** compared to only 17% for non-engaged employees. Similarly, 67% of engaged employees were happy to **advocate their organisations** compared to only 3% of the disengaged.[53] This finding is echoed in a CBI-AXA report from 2007 which found that 70% of engaged employees indicated a good understanding of how to meet customer needs; while only 17% of non-engaged employees said the same.[54]

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[49] Submission to the Task Force (2012).
[50] Royal, M. and Stark, M. (2010). Hitting the ground running, what the world's most admired companies do to (re)engage their employees. The Hay Group.
[51] The World of Retail: A 2011 WorkTrends report. How employee engagement can help the registers ring, Kenexa, High Performance Institute, 2012.
[52] Fleming, J., Coffman, C. and Harter, J. (2005), "Manage Your Human Sigma." *Harvard Business Review* 83(7): 106-114.
[53] Corporate Leadership Council (2004). "Driving Performance and Retention through Employee Engagement: a quantitative analysis of effective engagement strategies". Corporate Executive Board.
[54] CBI-AXA (2007), *Annual Absence and Labour Turnover Survey,* as cited in MacLeod and Clarke (2009).

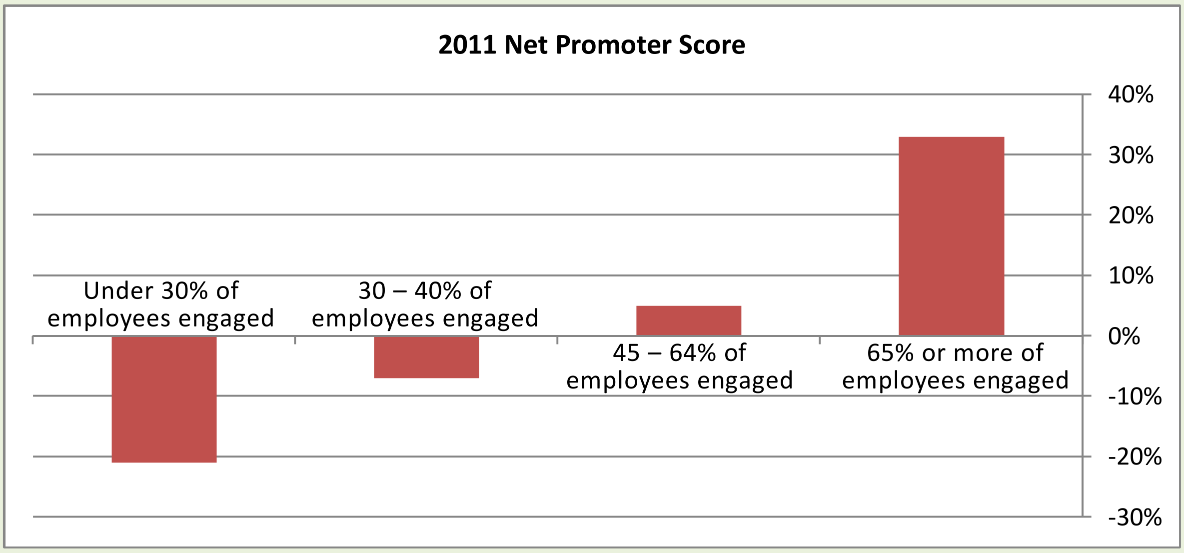
The evidence reveals stark differences between engaged and non-engaged employees with clear implications for an organisation's customer experience. Given that customer perceptions can significantly impact financial performance through repeat business and word-of-mouth, there is a clear incentive for companies to consider engagement strategies as a means of improving their customer interactions.[55]

SERCO

Serco is a FTSE 100 international service company with more than 100,000 employees delivering services to government and private clients in over 30 countries. Serco provided Aon with a Net Promoter Score (NPS) for 264 separate contracts in the UK and Europe in 2011. The net promoter score is a measure of customer loyalty where customers are asked to assess the likelihood that they would recommend the company to others. Those who score the question highly are classed as 'promoters', those who score the question poorly are classed as 'detractors', and those in between classed as 'passives'. The NPS is constructed as a ratio of the difference between promoters and detractors divided by the total number of responses. Values above zero indicate more promoters than detractors.

Aon segmented Serco's contracts into groups based on the percentage of engaged employees identified in their 2011 employee survey. Aon matched the survey data with the NPS scores and revealed a strong relationship between engagement and NPS. Contracts delivered by engaged employees showed much better customer loyalty than those with less engaged employees.

Figure 3: *Engagement and NPS in Serco (2011)*



Of the 133 contracts in Figure 3, 90 had employee engagement scores in 2010 and 2011, with 71 showing changes in excess of 4% either direction. The 32 contracts that improved engagement by more than 4% had a 2011 NPS of 16%, compared to -8% for those contracts with a decline in engagement of more than 4%.

[55] Harter, J., Schmidt, F., Asplund, J., Killham, E. and Agrawal, S. (2010). "Causal Impact of Employee Work Perceptions on the Bottom Line of Organisations," *Perspectives on Psychological Science* 5(4): 378-389.

3) *Productivity*

Figures from the Office for National Statistics revealed that output per hour in the UK was 15 percentage points below the average for the rest of the G7 industrialised nations in 2011. Considered on an output per worker basis, UK productivity was 20 percentage points lower than the rest of the G7 in 2011. This represents the widest productivity gap since 1995.[56]

Improvements in performance can also arise through increased productivity, and there is a strong evidence base for links from employee engagement to this business outcome. Indeed, quality management philosophies like Total Quality Management (TQM), Lean, Quality Circles, etc., have at their cores important roles for strategic leadership as well as systems and processes that encourage and exploit employee involvement in the generation and delivery of ideas that improve productivity. These ideas resonate strongly with the four enablers of employee engagement. Research sponsored by the CIPD demonstrated that the impact of employee engagement on productivity arose, at least in part, because engaged employees were more involved and socially connected with their work, allowing them to develop better solutions.[57] Further analysis of data from that CIPD project identified a 0.41 correlation between employee engagement and task performance amongst UK employees. A focus on engagement is also likely to be associated with the positive exercise of discretion in the workplace[58] and a reduction in counterproductive behaviour.[59]

For example, Gallup data from 23,910 business units demonstrated that those units with engagement scores in the top quartile averaged 18% higher productivity than those units in the bottom quartile.[60] The Corporate Leadership Council (CLC) analysed the engagement of 50,000 employees in 59 organisations from 27 countries and found that 71% of companies with above average employee engagement achieved company performance above their sector average while only 40% of companies with below average employee engagement

> **RSA**
>
> RSA is a multinational insurance group employing 23,000 people. Research in their MORE TH>N call centres has shown that engaged people have 35% lower average wrap times (time between calls) than disengaged people. Engaged staff are able to talk to, on average, an additional 800 customers per year (based on an average call handling time of 365 seconds). Put another way, for every eight engaged people they employ they get the equivalent of an additional member of staff without any increase in the wage bill.

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[56] Office for National Statistics (2012). *International Comparisons of Productivity, First estimates for 2011*. Statistical Bulletin. London: Office for National Statistics. Crown Copyright.

[57] Kerstin Alfes, Catherine Truss, Emma Soane, Chris Rees and Mark Gatenby (2010). *Creating an engaged workforce: findings from the Kingston employee engagement consortium project*. London: CIPD.

[58] Rich, B. L., Lepine, J. A., and Crawford, E. R. (2010), 'Job Engagement: Antecedents and Effects on Job Performance,' *Academy of Management Journal*, 53 (3), 617-617; Emma Soane, Catherine Truss, Kerstin Alfes, Amanda Shantz, Chris Rees and Mark Gatenby (2012). “Development and application of a new measure of employee engagement: the ISA Engagement Scale”, *Human Resource Development International* 15(5): 529-547; and Alfes, K., Shantz, A., Truss, C. and Soane, E. (2012 – in press) ‘The Link between Perceived HRM Practices, Engagement and Employee Behaviour: A Moderated Mediation Model’ *International Journal of Human Resource Management*.

[59] Coralia Sulea, Delia Virga, Laurentiu P. Maricutoiu, Wilmar Schaufeli, Catalina Zaborila Dumitru, Florin A. Sava, (2012),"Work engagement as mediator between job characteristics and positive and negative extra-role behaviors", *Career Development International*, Vol. 17 Iss: 3 pp. 188 - 207

[60] Harter, James K., Schmidt, F. L., Killham, E. A. and Agrawal, S. (2012). "Q12® Meta-Analysis: The Relationship Between Engagement at Work and Organizational Outcomes." Gallup Organization.

achieved above average company performance. The CLC concludes that "by increasing employees' engagement levels, organizations can expect an increase in performance of up to 20 percentile points and an 87% reduction in employees' probability of departure."[61]

One mechanism for increasing the overall productivity of an organisation is the enhancement of the workforce's desire to exceed performance expectations. Instilling a sustained culture of high performance within a workforce is the key aspiration of many leadership teams, and employee engagement can play a central role in achieving this goal. Research from the Hay Group linking employee survey data to performance ratings showed that highly engaged employees were 10% more likely to exceed performance expectations.[62] Similarly, Towers Watson reported that the highly engaged were more than twice as likely to be top performers, with almost 60% of them exceeding or far-exceeding performance expectations.[63]

Productivity is not just about the amount of output: it is also about quality. Development Dimension International (DDI) reported that in a Fortune 100 manufacturing company, quality errors were significantly higher for poorly engaged teams.[64] Sila (2006) analyses data from 2,000 manufacturing and service companies randomly selected from the American Society for Quality mailing list and identifies strong links between TQM and productivity/defect rates.[65] Meta-analytic research has also verified the broad importance of employee engagement for productivity, product quality and associated complaints.[66]

Despite the obvious benefits of increasing productivity through enhanced engagement, employee perceptions indicate that many companies are lagging behind. According to research completed by Aon Hewitt in 2011, the largest drop in employee views that year was in employees' perceptions of how companies manage performance. Employees worldwide believed their employers had not provided the appropriate focus or level of management that would lead to increased productivity, nor had they connected individual performance to organisational goals.[67] This indicated a pressing need

[61] Corporate Leadership Council (2004). "Driving Performance and Retention Through Employee Engagement" Corporate Executive Board.
[62] Royal, M. and Yoon, J. (2009). Eng*agement and Enablement: the key to higher levels of individual and organisational performance*. *Journal of Compensation and Benefits* 25 (Sept./Oct.): 13-19.
[63] Watson Wyatt, *Continuous Engagement: The Key to Unlocking the Value of Your People During Tough Times, Work Europe Survey – 2008-2009*.
[64] Wellins, R. S., Bernthal, P. and Phelps, M (2005). "Employee engagement: the key to realising competitive advantage," Development Dimensions International.
[65] Sila, Ismail (2006), "Examining the effects of contextual factors on TQM and performance through the lens of organizational theories: An empirical study", *Journal of Operations Management* 25: 83–109.
[66] Thawatchai Jitpaiboon, S. Subba Rao, (2007), "A meta-analysis of quality measures in manufacturing system", *International Journal of Quality & Reliability Management*, Vol. 24 Iss: 1 pp. 78 - 102
[67] Aon Hewitt (2011). *Trends in Global Employee Engagement*.

for organisations to provide a 'strategic narrative' that addressed employee concerns around performance management before they could expect to increase workforce engagement and improve productivity.

4) Innovation

Innovation is high on the agenda of many organisations as they strive to differentiate themselves from their peers in an increasingly competitive environment, and the link between employee engagement and organisational innovation is compelling. An abundance of research has shown that happier and more content employees are more likely to foster an innovative environment.

For example, Hakanen et al. (2008) demonstrated using longitudinal data that job resources led to engagement, and that this engagement generated subsequent effects on personal initiative and work-unit innovativeness.[68] Similarly, Alfes et al. (2013) examined data from over 2,000 employees of a recycling and waste management company and found results indicating that line manager behaviour and perceived organisational practices drove employee engagement, which in turn was strongly linked to innovative work behaviour.[69] Analysis of Gallup data indicated that higher levels of engagement were strongly related to higher levels of innovation: 59% of engaged employees said that their job brings out their most creative ideas against only 3% of disengaged employees.[70]

CIPD research has also suggested that higher levels of engagement lead to more innovative work behaviour, with engaged employees much more likely to search out new methods, techniques or instruments, and transform innovative ideas into useful applications. The same report also found that 38% of employees said that they developed innovative ideas only a few times a year, while a mere 15% showed innovative work behaviour on a weekly or daily basis.[71] There would appear to be a substantial block of employees (47%) who are almost completely divorced from the generation of innovative ideas.

The CLC has found that while organisations value innovation and initiative at every level, creating an environment where both thrive is a challenge. The UKTV case supplied to the Task Force illustrates the

BAE Systems

BAE Systems plc is as a global provider of defence and security products. Previous attempts to modernise production processes had stalled within the Military Aircraft and Information (MA&I) division, and relations between the recognised trade union and the company were difficult and unproductive. The Company introduced a new scheme in November 2009 as part of what both the union and company teams described as a "conversation" rather than a "negotiation." This conversation involved small groups of union negotiators and managers. The union also ensured far more detailed and on-going communication with members.

By September 2011 the scheme was having a major effect on production levels and producing substantial cost savings. More than £26 million of improvement opportunities were identified by the shop floor in the first year, and during the second year the required reduction in build hours for aircraft had been exceeded. In the case of Typhoon, build hours fell by more than 25%.

[68] Hakanen, J. J., R. Perhoniemi, et al. (2008). "Positive gain spirals at work: From job resources to work engagement, personal initiative and work-unit innovativeness." *Journal of Vocational Behavior* 73(1): 78-91.
[69] Alfes, K., Truss, C., Soane, E., Rees, C. and Gatenby, M. (2013 – in press) 'Linking Perceived Supervisor Support, Perceived HRM Practices and Individual Performance: The Mediating Role of Employee Engagement'. *Human Resource Management*.
[70] Krueger, J. and Killham, E (2007) 'The Innovation Equation'. *Gallup Management Journal*, as cited in MacLeod and Clarke (2009).
[71] Kerstin Alfes, Catherine Truss, Emma Soane, Chris Rees and Mark Gatenby (2010). *Creating an engaged workforce: findings from the Kingston employee engagement consortium project*. London: CIPD.

specific managerial challenges of building an innovative culture, and highlights the importance of managing innovation through different processes than other business activities. The UKTV case and the Defence Science and Technology Laboratory case both highlight the importance of appropriately recognising and rewarding innovations and behaviours that promote innovations. Anything less will, at best, run the risk of undermining any 'strategic narrative' surrounding innovation and may lead to perceptions of unfairness that undermine perceptions of 'organisational integrity'.

Organisations are likely to increase engagement levels and workforce commitment when they actively encourage employees to innovate, improve methods, research solutions, and participate in the decision-making process.[72] The Chartered Management Institute found a significant association and influence between employee engagement and innovation in 2012 based on survey returns from the Institute's membership. They concluded that, "The prevailing management styles in growing businesses are far more likely to be open, empowering, innovative, entrepreneurial and high trust environments."[73] Professor Veronica Hope-Hailey of the University of Bath School of Management, commenting on the findings from her report to the CIPD, adds that "In the absence of trust employees are unlikely to take the sorts of risks that are likely to lead to true innovation."[74]

UKTV

Formed in 1997 as an independent commercial joint venture between BBC Worldwide and Scripps Networks International, UKTV's 10 distinct channel brands include: Watch, Gold, Dave, Alibi, Yesterday, Blighty, Eden, Home, Really and Good Food.

When Darren Childs arrived at UKTV as the new CEO in September 2010, he found a culture that was the opposite of engaged, and an employee survey backed up his initial impressions. Eighteen months since Darren took over, UKTV is 6% up in revenues against the same quarter in 2011, while the overall market is 10% down, and UKTV has also seen a marked decrease in absenteeism and turnover.

UKTV attempts to manage innovation differently than other organisational processes. Hierarchies for idea approval are much flatter, and individuals who suggest programming ideas that are green lighted for production are financially well rewarded. Darren and his Senior Team stress the importance of giving high recognition to the individual and the idea by communicating it across UKTV.

Welsh Government

In January 2010 the Welsh Government launched the 'Managing with Less' initiative in response to a substantial reduction in the budgets available to run the organisation. Since it began, it has secured the active engagement of most of their 5,500 employees. Ninety-eight per cent of employees were aware of the 'Managing with Less' initiative, 83% of employees participated in discussion sessions to generate cost-saving and efficiency-enhancing ideas, and 86% of employees felt that their colleagues were committed to the 'Managing with Less' approach.

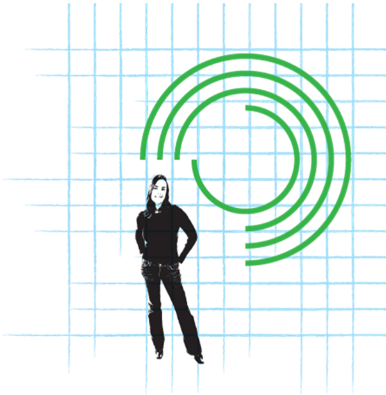
A key part of the initiative involved briefing and training divisional leaders to talk their teams through the financial scenarios and the potential impacts of the reduction in budgets. This led to some very direct conversations about the benefits of cutting 'discretionary' areas of spend in order to save jobs. Team members were typically prepared to be much more radical in their approach to cost-saving than senior leaders.

The Welsh Government believes this style and level of engagement has allowed them to achieve the required spending reductions without the need for compulsory redundancies.

During 2010-11, 'Managing with Less' resulted in reductions in spend of more than £20m.

[72] CLC (2004). "The business case for employee engagement." Chapter 3 in *Upgrading the organisations employee engagement strategy*. Corporate Leadership Council.
[73] Worrall, L. & Cooper, C. L. (2012). *The Quality of Working Life: Managers' health, motivation and productivity*. London: Chartered Management Institute.
[74] Veronica Hope-Hailey, Ros Searle and Graham Dietz (2012). *Where has all the trust gone?* Research Report. London: Chartered Institute of Personnel and Development.

B. PEOPLE INDICATORS



1) Turnover/Retention

The cost of employee turnover has historically been one of the driving forces behind the push to raise employee engagement, and the importance of employee turnover to the performance of Rentokil Initial and PwC was demonstrated earlier in this document. There are a variety of recognised approaches to calculating the costs of replacing an employee, and organisations typically use measurement approaches tailored to their circumstances. These company-specific formulae tend to address the distinctive agency, recruitment and training costs associated with their organisations. However calculated, these costs are substantial. The CLC estimates that these costs are equal to the employee's last salary[75] while Hay Group suggests it could cost anywhere from 50 – 150% of their salary.[76]

Organisations such as the CIPD report that engaged employees are significantly more likely to want to stay with their organisation compared with those who are less engaged.[77] Highly engaged organisations have the potential to reduce staff turnover by 87%,[78] at least in part because disengaged employees are four times more likely to leave the organisation than the average employee.[79] Other work has shown that those who are highly engaged are half as likely to leave the organisation as the average employee.[80] Towers Watson, in a client-specific study with a large financial services company reported to the Task Force, found a strong negative correlation (-0.49) between employee engagement and voluntary turnover.

Gallup has also shown a strong link between lower engagement scores and higher employee turnover: both for organisations with historically high turnover and those with much lower turnover. In looking at those firms with 60% or higher annualised employee turnover, those in the bottom quartile ranked by employee engagement had 31% higher employee turnover than those in the top quartile of engagement scores. For firms with annualised turnover of 40% or lower the results indicated that those in the bottom quartile had 51% higher annualised

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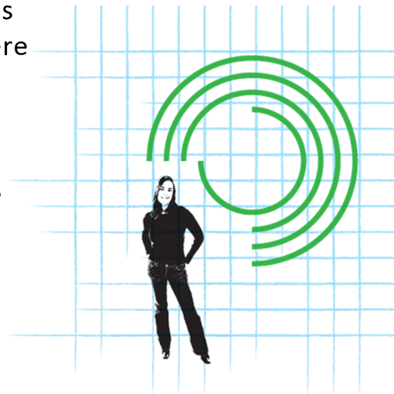
[75] Corporate Leadership Council (2004). "Driving Performance and Retention through Employee Engagement: a quantitative analysis of effective engagement strategies". Corporate Executive Board.
[76] Royal, M. and Yoon, J. (2009). Eng*agement and Enablement: the key to higher levels of individual and organisational performance*. *Journal of Compensation and Benefits* 25 (Sept./Oct.): 13-19.
[77] Kerstin Alfes, Catherine Truss, Emma Soane, Chris Rees and Mark Gatenby (2010). Creating an engaged workforce: findings from the Kingston employee engagement consortium project. London: CIPD.
[78] Corporate Leadership Council (2008). "Improving Employee Performance in the Economic Downturn." Corporate Executive Board.
[79] Corporate Leadership Council (2004). "Driving Performance and Retention through Employee Engagement: a quantitative analysis of effective engagement strategies". Corporate Executive Board.
[80] CLC (2004). "The business case for employee engagement." Chapter 3 in Upgrading the organisations employee engagement strategy. Corporate Leadership Council.

turnover than top quartile firms.[81] Wellins et al. (2005) reinforces this view with evidence from a Fortune 100 manufacturing company where turnover in low engagement teams averaged 14.5%, compared with only 4.8% in high engagement teams.[82]



The Hay Group estimate that an organisation with 20,000 employees and an annual voluntary turnover rate of 8% the cost of turnover is approximately $56 million, assuming an average salary of $35,000. They also estimate that companies with high levels of engagement show turnover rates 40% lower than companies with low levels of engagement.[83] Application of this estimate to the projected costs of employee turnover it suggests that effecting change from a low engagement to a high engagement environment could yield annual savings of $22.4 million. In the Royal Bank of Scotland, business units in the bottom 10% ranked by employee engagement had almost twice the voluntary turnover rate in 2011 of those business units in the top 10%, at a cost of circa £650,000.

These examples illustrate the scale of the positive effect that increased employee engagement can have on workforce turnover. This link between turnover and engagement illustrates why many see engagement strategies as an essential method for managing their workforce and the significant costs and risks associated with turnover. Furthermore, these approaches appear to be working, with 94% of the World's Most Admired Companies stating that they believed their efforts to engage employees had both created a competitive advantage and reduced staff turnover.[84]

2) Well-Being/Absence

Work often occupies more than one third of total awake time.[85] As such, the work environment has a potentially large role to play in determining levels of well-being, and it is not surprising to see the strong connections between employee engagement, well-being and absence illustrated in this section.

Research using data collected from 9,930 employees across 12 UK public and private sector organisations including police forces, utilities, manufacturing, higher education, a local council and the financial services found a correlation between engagement and psychological well-being of 0.35, and that these two variables

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[81] Harter, James K., Schmidt, F. L., Killham, E. A. and Agrawal, S. (2012). "Q12® Meta-Analysis: The Relationship Between Engagement at Work and Organizational Outcomes." Gallup Organization.
[82] Wellins, R. S., Bernthal, P. and Phelps, M (2005). "Employee engagement: the key to realising competitive advantage," Development Dimensions International.
[83] Royal, M. and Yoon, J. (2009). Eng*agement and Enablement: the key to higher levels of individual and organisational performance*. *Journal of Compensation and Benefits* 25 (Sept./Oct.): 13-19.
[84] Royal, M. and Stark, M. (2010). Hitting the ground running, what the world's most admired companies do to (re)engage their employees. The Hay Group.
[85] Office of National Statistics, Hours worked in the labour market. 2011.

collectively explained a meaningful proportion of the variance in performance.[86] Over half of disengaged employees (54%) say that work has a negative effect on their physical health as opposed to only 12% of engaged employees.[87] Analysis carried out within PwC and reported in their case study submitted to the Task Force demonstrates a similar correlation between engagement and well-being in their business: the less engaged PwC's people, the lower their well-being levels.

Engaged employees show higher levels of well-being all round, meaning that they are more likely to enjoy their work activities, are able to cope with work-related problems and are less likely to lose sleep over work-related issues.[88] The CIPD found that those who were absorbed in their work were almost three times as likely to have six key positive emotions at work (enthusiasm, cheerfulness, optimism, contentment, to feel calm and relaxed) as negative ones (feeling miserable, worried, depressed, gloomy, tense or uneasy). Aon Hewitt research reported that 28% of employees experienced a high level of job related stress in 'high engagement' companies (65% engagement and over) versus 39% of employees in low engagement companies.[89] Towers Watson's 2012 Global Workforce Study indicated that senior management interest in the well-being of employees may improve engagement levels: three-quarters of highly-engaged employees thought that their leaders were interested in their well-being while among the disengaged that proportion was only one-in-five.

Nampak

Following the introduction of a new employee engagement programme, Nampak recorded a 5% increase in the number of strongly engaged employees. During the same period they recorded a 26% reduction in absence levels which they attributed to their employee engagement. In recognition, Nampak was named the People Management / CIPD Employee Engagement category & Overall winner in 2010.

The level of absenteeism within the workforce is recognised as one of the main indicators of well-being for organisations today. The impact of sickness absence is a serious burden on public and private sector organisations across the UK, with CBI estimates placing the direct costs of absence at more than £17bn in 2010.[90] The same organisation found that engaged employees took an average of 2.69 days sick a year in 2007 while the disengaged took 6.19 days on average. CIPD estimates reinforced this view, placing the costs of absence between £10bn and £20bn per year in 2009. The same CIPD publication reported a median cost of absence per-employee per-year of £600, and listed minor illnesses, stress and mental health among the five leading causes of absence.[91]

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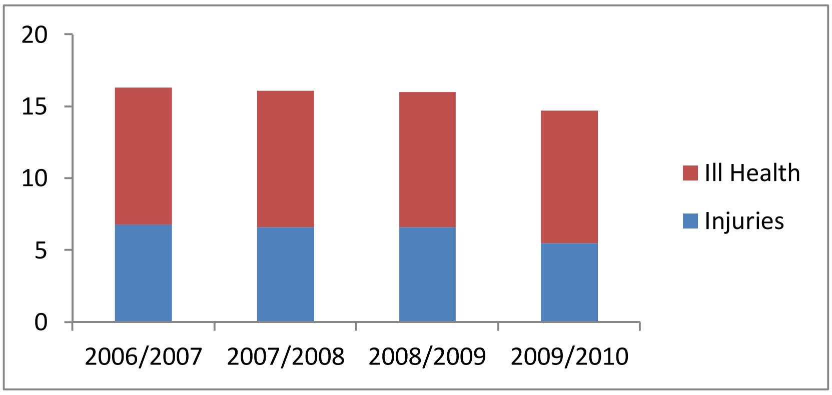
[86] Ivan T. Robertson, Alex Jansen Birch, Cary L. Cooper, (2012),"Job and work attitudes, engagement and employee performance: Where does psychological well-being fit in?" *Leadership & Organization Development Journal*, Vol. 33 Iss: 3 pp. 224 – 232.
[87] Crabtree S. (2005), 'Engagement Keeps the Doctor Away', *Gallup Business Journal*.
[88] Kerstin Alfes, Catherine Truss, Emma Soane, Chris Rees and Mark Gatenby (2010). *Creating an engaged workforce: findings from the Kingston employee engagement consortium project*. London: CIPD.
[89] Aon Hewitt Global Employee Engagement Database 2012.
[90] CBI (2011). "Healthy returns? Absence and workplace health survey 2011".
[91] Absence Management: Annual survey report (2010). London: CIPD.

Fortunately, the research suggests that employee engagement can also have a significant impact on absence.[92] High engagement companies report employees taking 7 absence days per year on average, or approximately half of the 14 days per year reported in low engagement companies.[93] Similarly, Towers Watson reported that the highly engaged missed 43% fewer days of work due to illness,[94] and evidence from a Fortune 100 manufacturing company demonstrated that absenteeism in low engagement teams hovered around 8%, as compared with only 4.1% in high engagement teams.[95] The Royal Bank of Scotland reported in its case study submission to the Task Force that absence rates were 1.5% higher at a cost of circa £250,000 for business units in the bottom 10% relative to those in the top 10% ranked by employee engagement in 2011.

3) Health and Safety

The Health and Safety Executive placed the costs of workplace injuries and ill health at £14 billion in 2009/10,[96] and controlling these events holds the prospect of reducing both the financial and human costs of workplace accidents and injuries.

Figure 2: Total cost of workplace injuries (including fatalities) and ill health in Great Britain, 2006/07–2009/10 (in billions of 2009 pounds)



Average sampling variability +/- 8% on the total. Source: Health and Safety Executive (2010).

NHS

NHS employees were absent 10.7 million days in 2009.* This equates to a loss of 10.3 million days annually at a cost of circa £1.75 billion. This is equivalent to the loss of 45,000 FTE each year.

Research from Aston University has demonstrated that an increase of one standard deviation in engagement is associated with reductions in absence sufficient to generate savings equivalent to around £150,000 in salary costs alone for an average acute trust.** Given the 164 acute trusts in the UK this represents a potential saving of £24.6 million each year, not including non-salary costs or the prospect of similar savings in other NHS trusts.

* Boorman, Steven (2009). NHS health and well-being review: interim report. London: Department of Health. Crown Copyright.

** West, M., J. Dawson, L. Admasachew and A. Topakas (2011), "NHS Staff Management and Health Service Quality: Results from the NHS Staff Survey and Related Data", Department of Health.

[92] Soane, E., Shantz, A., Alfes, K., Truss, C., Rees, C. and Gatenby, M. (2012 – in press) 'The Association of Meaningfulness, Wellbeing and Engagement with Absenteeism: A Moderated Mediation Model'. *Human Resource Management*.

[93] Aon Hewitt Global Employee Engagement Database 2012.

[94] Watson Wyatt, Continuous Engagement: The Key to Unlocking the Value of Your People During Tough Times, Work Europe Survey – 2008-2009.

[95] Wellins, R. S., Bernthal, P. and Phelps, M (2005). "Employee engagement: the key to realising competitive advantage," Development Dimensions International.

[96] Costs to Britain of workplace injuries and work-related ill health: 2009/10 update. London: Health and Safety Executive. Crown Copyright.

Engagement has been shown to improve safety performance in organisations, with the impact of engagement being approximately half as important to safety performance as employee awareness of the occupational health and safety policies in the workplace.[97] Meta-analytic research based on 203 independent samples has demonstrated that increases in employee engagement are associated with reductions in unsafe behaviour in the workplace, adverse events, accidents and injuries: all of which are key contributors to important business outcomes.[98] Analysis of the Gallup Q12 engagement measure found that organisations with engagement in the bottom quartile averaged a staggering 62% **more accidents** than those in the top quartile.[99]

The recent experience of the Olympic Delivery Authority reinforces the role of employee engagement in improving health and safety. By June 2011, the Olympic Delivery Authority had recorded around 62 million man-hours worked with an **Accident Frequency Rate** of 0.17 per 100,000 hours worked.[100] This was less than half of the construction industry average of 0.4 accidents per 100,000 hours.[101] Tamkin and Lucy (2011) examine this in detail and attribute the success at the Olympic Park to items which can be mapped to the four enablers of engagement.

Olympic Park
Tamkin and Lucy (2011) reported that by June 2011 the Olympic Development Authority (ODA) had recorded around 62 million man-hours worked with an **Accident Frequency Rate** that was less than half of the construction industry average. They attributed this success to:

> **Strategic narrative**
The ODA and the Delivery Partner (DP) collectively established a strong and clear statement of vision and purpose placing safety at the "forefront of thinking and concern."

> **Engaging managers**
Project leaders were encouraged to engage with the supply chain and develop a collaborative, mutually responsible, challenging and learning culture.

> **Employee voice**
Effective communication both up and down the chain of command was achieved through the use of a variety of methods and constant reinforcement. The collection, review and analysis of data informed and enabled these discussions.

> **Organisational integrity**
There was an espoused willingness to shut work down if standards were not met. Shutting a job down was a powerful way of delivering the message that the ODA and DP were serious about health and safety.

V. CONCLUSION

The evidence in this document supports the existence of a strong longitudinal synergistic connection between employee engagement and performance. Engaged employees perform better: perhaps by working harder, longer and/or smarter. Engaged employees have been shown to work more vigorously, offer innovative suggestions, and to pursue their work objectives in the face of even quite substantial obstacles. The value of these behaviours undoubtedly varies across contexts, but every organization has employees whose engagement makes a meaningful difference to organizational success, and understanding how to manage engagement is therefore a crucial business issue.

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[97] Hadjimanolis, A., Boustras, G. (*in press*). 'Health and safety policies and work attitudes in Cypriot companies.' *Safety Science*, http://dx.doi.org/10.1016/j.ssci.2012.03.012
[98] Nahrgang, J. D., F. P. Morgeson, et al. (2011). "Safety at Work: A Meta-Analytic Investigation of the Link Between Job Demands, Job Resources, Burnout, Engagement, and Safety Outcomes." *Journal of Applied Psychology* 96(1): 71-94.
[99] Harter, James K., Schmidt, F. L., Killham, E. A. and Agrawal, S. (2012). "Q12® Meta-Analysis: The Relationship Between Engagement at Work and Organizational Outcomes." Gallup Organization.
[100] Tamkin, Penny and Lucy, Daniel (2011). "Lessons learned from the London 2012 Games construction project: Leadership and worker involvement on the Olympic Park." Olympic Delivery Authority.
[101] Townsend, A. (April 2010). 'Accident causation – Progress of elimination', Safety and Health Practitioner; the official magazine of IOSSH. Available from: www.shponline.co.uk/news-content/full/accident-causation-progress-of-elimination (accessed 21 October 2012).

The economic climate is challenging, but many organisations are now taking actions designed to release the benefits of an actively engaged workforce. According to the Head of the Civil Service, “It is vital to engage and empower staff.”[102] Securing high levels of employee engagement was the top workforce priority for UK businesses, ahead even of containing labour costs, according the CBI.[103] Active monitoring of employee engagement is rising year-on-year, with 66% of senior HR professionals saying that they measure engagement, up from 55% only two years previously. These people were using many tools to manage engagement that are resonant with the four enablers, including 82% using leadership (‘strategic narrative’), 75% attempting to improve staff relations with line managers (‘engaging line managers’), 68% using employee participation in decision making (‘employee voice’) and 38% developing greater fairness in organisational procedures (‘organisational integrity’). These attempts to improve engagement appear to be working: particularly those efforts that involve improvements in staff relations with line managers, greater employee autonomy and involvement in decision making, as well as improved fairness in procedures.[104]

These results support academic research demonstrating that while the actions of organizations towards individual employees are important drivers of engagement, the ways employers treat other stakeholders also influence employee engagement. For example, a meta-analysis of the academic literature on justice demonstrated that an employee’s engagement depended in part on perceptions of whether the organisation treats other employees fairly.[105] Other research supports this result and has demonstrated that employee perceptions of the socially responsible activities of their employers towards external stakeholders (e.g., customers, taxpayers, charities and the environment) are also important determinants of engagement.[106] These results reinforce the importance of ‘organisational integrity’ in delivering performance benefits from employee engagement.
The incredibly detailed and diverse case study evidence supplied to the Task Force brings the research evidence into sharp relief in the context of the current economic and business environment of the

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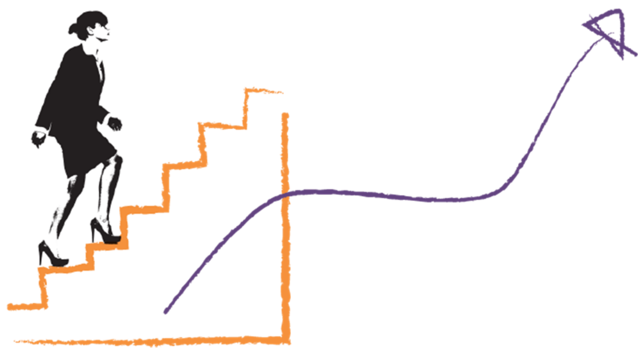
[102] HM Government (2012). *The Civil Service Reform Plan*. Crown Copyright.
[103] CBI (2012). *Facing the Future: CBI/Harvey Nash employment trends survey 2012*. London: Confederation of British Industry.
[104] Clinton, Michael and Woollard, Stuart (2011). “Austerity or prosperity? The state of HR in this challenging economic environment”. Department of Management King's College London.
[105] Colquitt, J. A. (2001). "On the dimensionality of organizational justice: A construct validation of a measure." *Journal of Applied Psychology* 86(3): 386-400.
[106] Brammer, S., Rayton, B. and Millington, A. I. (2006). Do CSR policies affect employees' commitment to their organisations? People Management, 12 (3); Brammer, S., A. Millington and B. Rayton (2007). "The contribution of corporate social responsibility to organizational commitment." *International Journal of Human Resource Management* 18(10): 1701-1719; Turker, D. (2009). "How Corporate Social Responsibility Influences Organizational Commitment." *Journal of Business Ethics* 89(2): 189-204; Kim, H. R., M. Lee, et al. (2010). "Corporate Social Responsibility and Employee-Company Identification." *Journal of Business Ethics* 95(4): 557-569; and Stites, J. P. and J. H. Michael (2011). "Organizational Commitment in Manufacturing Employees: Relationships With Corporate Social Performance." *Business & Society* 50(1): 50-70.

United Kingdom. It illustrates ways engaged employees aid their organisations' efforts to survive and thrive in difficult times. These cases illustrate strong links between employee engagement and performance across a wide range of sectors and situations. They reveal an important longitudinal dimension that supports a causal link between engagement and performance and suggests that these performance benefits endure over several years.

The cases illustrate ways in which some organisations have already captured benefits from employee engagement. They serve as examples of options for decision makers to consider and as illustrations of the risks associated with giving the competition a head start. Releasing the potential of an engaged workforce holds the prospect of reducing costs associated with sickness, absence, employee turnover, production errors, accidents and inefficient processes. It also holds the prospect of improving productivity, customer satisfaction, customer retention and innovation. Any one of these mechanisms is capable of delivering substantial benefits to the bottom line performance of organisations. The question of how to proceed remains unanswered, as this will depend on the specific circumstances of individual organisations, but the evidence in this report suggests that the best place to look for answers is with your employees.



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