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Impact of Employee Engagement on Performance

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Dr. C. SWARNALATHA	T. S. PRASANNA
Professor & Head, Department of Management Studies, ANNA UNIVERSITY, Regional Centre Alagarkoil Road, Madurai – 625002., Tamil Nadu.	Full Time Scholar, ANNA UNIVERSITY, Regional Centre Alagarkoil Road, Madurai – 625002.

ABSTRACT *Employee engagement is integral to driving successful organisations. Engaged employees are satisfied and feel a sense of attachment to their job and employer. They promote the very best in the organisation to their friends and family and work towards its success. In one of the first published works in this burgeoning field, Kahn (1990 p. 694) defined employee engagement as "the harnessing of organisation members' selves to their work roles; in engagement, people employ and express themselves physically, cognitively, and emotionally during role performances". This definition is aligned with the Insync Surveys framework, which encompasses the three components of engagement: the Head (cognitive), the Heart (emotional) and the Hand (physical).*

INTRODUCTION

The concept of employee engagement is relatively new to the business and academic world. However, research is continuing to link employee engagement to various organisational outcomes, including customer loyalty and performance errors (Gonring, 2008), profitability, customer-focused behaviour, safety and turnover (Harter, Schmidt & Hayes, 2002). In a review of high performing organisations literature, De Waal (2007) identified that leaders of high performance organisations are "committed to the organisation for the long haul by balancing common purpose with self-interest, and teaching organisational members to put the organisation first."

Kahn (1990) was the first to suggest that employee engagement would positively impact on organisational level outcomes. The reasoning behind his contention was that because employees want to work for reasons other than "they get paid to do it", they will work to pursue success for their organisation.

Literature reviews and meta-analyses have consistently found that most employees are not engaged. In Australia, the level of employee engagement has been shown to be 18%, which is comparatively better than other countries in our region, including; China, Japan, New Zealand and Singapore (Kular et al. 2008; Harter et al. 2009). However, such a low level of engagement indicates that Australian workplaces have a long way to go. This white paper outlines the way in which employee engagement impacts upon key business and performance metrics, and in the process makes the case for measuring, understanding and improving employee engagement.

EMPLOYEE ENGAGEMENT AND PERFORMANCE

As discussed briefly in the previous section, employee engagement has been shown to impact on business performance. Research by Gallup has found low to moderate correlations between employee engagement and a range of outcome measures, including customer satisfaction, profit, productivity, turnover and safety (Harter et al, 2002). Since then, there has been a growing body of research on the links between employee engagement and key business metrics. This relationship is most noticeable when comparing units within one organisation; however it can be reliably generalised across companies and industries (Harter et al., 2009). Indeed, business units and organisations are almost twice as likely to be successful if they are above average in employee engagement (Harter et al., 2009). The following sections provide an explanation of how engagement impacts on key business metrics, and provides a description of relevant research into each relationship.

A. EMPLOYEE ENGAGEMENT AND PRODUCTIVITY

Employees who are engaged with their job and employer are more productive because they are motivated beyond personal factors. They are more focused and more motivated than their disengaged counterparts. This means they work more efficiently and with the success of the organisation in mind. Research consistently shows that low levels of employee engagement are detrimental to performance. In fact, it has been found that employees that are highly engaged are twice as likely to be top performers (Taleo Research, 2009).

In 2009, Harter et al. conducted a meta-analysis encompassing 199 research studies across 152 organisations in 44 industries and 26 countries. They statistically calculated the available data on business/work unit level relationship between employee engagement and performance outcomes within in each study. The studies covered 32,394 business/work units and 955,905 employees (Harter et al. 2009). Their findings quantified significant differences between business units ranking in the top and bottom 25% on engagement. They found an 18% drop in productivity between the top and bottom performers. Additionally, there was a 60% drop in quality (measured by defects in products). In a similar study into Fortune 100 companies, it was found that there was a dramatic 1,000 percent increase in errors among disengaged versus engaged employee populations (Gonring, 2008).

I. ABSENTEEISM

Not only does high employee engagement increase focus and efficiency, it decreases rates of absenteeism. Because engaged employees care about what they do, they recognise the importance of their effort in contributing to the success of their employer. This means that employees consistently turn up to work and work well while they are there (Nahrgang, Morgeson & Hofman, 2011; Harter, et al. 2009; Gonring, 2008).

Looking at the numbers, it is clear that engagement plays a significant role in determining rates of absenteeism. Harter et al. (2009) found that absenteeism was 37% higher in organisations scoring in the bottom 25% on engagement. This has wide reaching practical implications for businesses' bottom lines and productivity overall.

B. SAFETY

Employees who are engaged are more likely to be highly involved and absorbed in their work. If an employee is not engaged, they are less focused on their work and more likely to make mistakes. This has significant implications for industries in which safety is an important factor.

There has been extensive research into the link between employee engagement and safety outcomes. A meta-analysis undertaken by Harter et al. (2009) found that the top 25% of business units (in terms of engagement) have 49% less safety incidents than the bottom 25%. Similarly, the same study found that in health settings, the most engaged organisations have 41% less patient safety incidents (i.e. falls, medical errors, infection rates, and risk-adjusted mortality rates).

Furthermore, engaged employees are more likely to use their initiative to suggest and implement improvements to safety systems. Their engagement gives them a greater sense of ownership in their role, and increases the chance of them taking on the responsibility to act on potential problems. Attitudes drive performance and behaviours, and it has been estimated that unsafe behaviours cause up to 70% of workplace accidents (Ronald, 1999; Health and Safety Executive, 1995).

Research has shown that "engaged employees are motivated to work safely" and non-engaged employees are more susceptible to "burnout" (Nahrgang, Morgeson & Hofman, 2011; Gonzalez-Roma et al. 2006). This decreases employees focus and motivation to do the right thing. It has been shown that employees who say they almost always enjoy their tasks were two and a half times less likely to report a back injury than those who said they hardly ever enjoyed their tasks (Ronald, 1999).

There are both human and financial costs when safety incidents occur. While the human costs are more difficult to measure, it is possible to put a price on safety. For example, research by the SHRM Foundation found in one manufacturing company engaged employees were five times less likely to have a safety incident and seven times less likely to have a safety incident involving lost-time. This had a significant impact on cost. The average cost of a safety incident for a non-engaged employee was $392, compared with an average of $63 for an engaged employee (Lockwood, 2007). It is clear that in terms of safety, engagement matters.

C. RETENTION
Simply stated, engaged employees are less likely to leave their job. If an employee has no emotional commitment to their job, there is a greater chance that they will leave to pursue a job that offers, for example, higher remuneration or more flexible work conditions (Haid & Sims, 2009; Schaufeli & Bakker, 2004).

Research confirms that engagement lowers employees' intention to leave. The Corporate Leadership Council (2004) found that the most engaged employees are 87% less likely to leave their organisation. The same study found that the 100 best places to work (according to their research) had an average voluntary turnover rate of 13% as compared with the average of 28.5% of other businesses in the same industries. What's more, other large scale research has found that 12% of disengaged employees have no intention to leave, while that proportion rises to 66% in engaged employees. Similarly, over half of disengaged employees would consider leaving their current job for another opportunity, while only 25% of highly engaged employees would consider leaving. (Towers Perrin, 2003).

Considering that replacing an employee can cost one and a half times their salary, retention has a significant impact on an organisation's bottom line. Not only can the costs of replacing employees be a drain on resources, but once new employees are in place they can take several years to generate the same revenue.

D. CUSTOMER LOYALTY
A link between having engaged employees and increased customer loyalty and satisfaction has been established (Haid & Sims, 2009; Harter et al., 2009; Gonring, 2008). Giving employees the drive to enhance the customers experience is as integral as the reputations and bottom lines of businesses that rely on the ability to inspire customer loyalty. Customers are more likely to recommend a business to others if they have had a positive experience and that positive experience is most often formed by interactions with frontline staff. The attitudes of frontline staff are a product of their engagement, and to a lesser extent, the engagement of those around them. Employees are more customer focused when engaged (Harter, 2009) as they are motivated to increase their discretionary effort to achieve the success of the business, rather than simply for personal gain.

Research provides credence to this idea. In their 2009 meta-analysis, Harter et al. found that business units that scored in the top 25% on engagement had customer ratings 12% higher than business units scoring in the bottom 25% of engagement. This improvement is due to the fact that engaged employees care more about meeting customer needs. They believe their organisation has a strong customer focus, whereas less engaged employees "have far more misgivings about their organisation in terms of these measures and are likely to have little personal investment in a strong customer focus" (Towers Perrin, 2003).

Engagement impacts on customer loyalty in more ways than simply interactions with frontline staff. The quality of products produced by engaged employees is better, as previously reported and more productive staff make less mistakes that could impact on customer.

Additionally, engaged staff have a positive impact on an organisation's reputation in the wider world by being brand ambassadors. Conversely, disengaged employees can become a public relations nightmare. In the new world of social media, employees and customers can interact outside the traditional boundaries. For instance, when it was widely reported that Walmart started treating its employees badly, customers and employees were able to discuss and spread this news. This dissemination resulted in a drop in reputation and financial performance for Walmart.

E. PROFITABILITY
Employee engagement has a number of implications for an organisation's profitability. This impact of is largely indirect. Through improving retention, customer loyalty, productivity, and safety; organisations are able to keep their bottom line healthy while engagement strengthens all of these factors. The diagram below illustrates this relationship.

It has been found that organisations enjoy 26 percent higher revenue per employee when employees are highly engaged (Taleo Research, 2009). Furthermore, it was found that organisations with highly engaged employees earned 13 percent greater total returns to shareholders (Taleo Research, 2009). Furthermore, a meta-analysis (Harter et al, 2002) showed that businesses in the top 25% for employee engagement (of those studied) produced up to four percentage points in profitability. Repeating the study in 2009, it was found that the top 25% increased their profitability by 16%.

Research by Towers Perrin (2003) indicates that the more engaged employees at an organisation are, the more likely it is to exceed the industry average in one-year revenue growth. Specifically, there is a trend showing that highly engaged employees work for organisations that had revenue growth at least one percentage point above the average for their industry, while the organisations of the most disengaged employees work for companies where revenue growth falls one or two percentage points below the average (Towers Perrin, 2003). However, it should be noted that there is probably

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another factor at work here, in that organisations that are performing better may be more likely to attract more engaged people.

The growing body of research into employee engagement also yields information on how engagement impacts specific aspects of organisations, as outlined below.

II. SHRINKAGE

The amount of profit lost to shrinkage (theft) is also lower when engagement is increased. Harter et al. (2009) showed that there is a 27% drop in shrinkage when comparing business units scoring in the top and bottom 25% on engagement. This represents a significant amount of money.

III. PRODUCTIVITY

SHRM Foundation's research found a significant difference between performance related costs in the sales team of one organisation in 2005. Low engagement teams fell behind high engagement teams so much that the difference in performance-related costs was in excess of $2,000,000 (Lockwood, 2007).

However it is not just in sales teams that the productivity of engaged employees can affect revenue growth. They can have a significant indirect affect by breaking new ground in terms of innovations to boost sales, or simply through supporting other employees (Towers Perrin, 2003). Furthermore, cost of production is lowered when engagement is increased due to more focused and efficient workers (Towers Perrin, 2003)

IV. SAFETY

As discussed, there are both human and financial costs of safety incidents in the workplace. The organisation at the centre of SHRM Foundation's research saved in excess of $1,700,000 in safety costs in one year by improving employee engagement (Lockwood, 2007).

V. RETENTION

Retention has a twofold impact on profitability. Firstly, replacing an employee can cost one and a half times their salary. Secondly, once an employee has been replaced, it takes the new employee a period of time to adjust to the role and start being productive. The impact of this on profitability is especially evident in sales, where it can take years for a new employee to generate the same amount of revenue as an established one.

VI. CUSTOMER LOYALTY

It is common sense that having loyal customers who promote a business helps grow and maintain revenue. Cultivating the employee-customer relationship will enable any organisation to be a low-cost provider and achieve superior results (Heskett, Sasser & Schlesinger, 2003). The key to this is having engaged employees.

CONCLUSION

Employee engagement drives performance by improving retention, customer loyalty, productivity, safety, and ultimately, profitability. Engaged employees care about their organisation and work to contribute towards its success. Such employees are less likely to leave for another job, or take unauthorised leave. They are more likely to work better, faster and more safely. Importantly, they are also more focused on the customer experience, ensuring that customers are happy and profits are maximised.

In today's world of economic uncertainty, engaging employees is critical to ensuring an organisations longevity and profitability.

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