

Employee Engagement

'A key human capital reporting measure'

By Nicholas J Higgins & Graeme Cohen

Conducting surveys of employees has been a time honoured method of providing organisations and increasingly HR departments a mandate for action, or in some cases inaction.

Increasingly reporting employee satisfaction has become a common metric and benchmark for organisations to measure (against).

This evolution of HR is becoming apparent in changing approaches towards employee surveys. The practice of assessing 'employee satisfaction' and employee 'loyalty' remains common whilst some organisations have moved towards exploring the linkages between employee motivation, expectancy, reward and commitment¹.

But is measuring this sufficient? Do satisfied employees always deliver the most value to the organisation? Are highly remunerated star players always loyal?

We believe that organisations should be measuring employee engagement. Building on existing applied and theoretical models, the VB-HR™ engagement framework encompasses elements of traditional satisfaction and morale, but introduces the concept of alignment to the organisation's goals and the linkages between the employee and the organisation's human capital management architecture.

The market environment

Companies have apparently never been keener to understand what their employees are really thinking, particularly in times of high turnover, changing market conditions, and incessant scrutiny from customers, investment analysts and stakeholders. As

firms start to understand the implications of people being "their greatest assets", they are seeking to develop human capital reporting metrics.

Employee surveys are frequently cited as being a means to provide relevant measures, but we do not believe that organisations are currently well served. Surveys in the market today can suffer from flawed design, irrelevant questions, limited analytical insight/interpretation and unbalanced constructs, typically focusing on work environment, at the expense of other components of engagement.

Organisations risk paying large sums of money to administer surveys and only then to obtain a set of data points that do not provide a conclusive or sufficient business case for change, and/or its associated costs. Such surveys - which are already questionable - are also retrospective by nature, often run infrequently, or with several months between conduct and feedback, informing employers where their employees may have been, rather than where they are now.

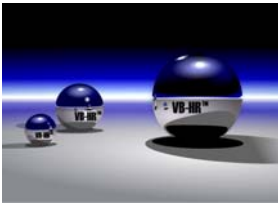
This whitepaper sets out our views on leading-edge survey design, before exploring the VB-HR™ engagement framework, its implications for human capital management and its linkage to the broader VB-HR™ Rating.

A word on measuring

Given the potential insights that surveys can yield, it is not surprising that organisations should invest large amounts of effort in survey design. Yet, in the context of employee engagement, a survey has to be more than a series of interesting questions, no matter how perceptive each question may be in isolation. However, survey tools used by leading organisations may contain one of a number of flaws.

Most commonly, these will include question-statements that lead the

¹ Based on the Porter-Lawler model of work motivation, cited in Steers, Porter and Bigley, "Motivation and Leadership at work", McGraw-Hill, 1996



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respondent, such as “The way forward is to outsource administrative HR and develop a purely strategic function”.

Another common flaw is question-statements phrased in such a way that it is impossible to draw conclusions from the findings, for example “Do you have a best friend at work?” often then compounded by unbalanced or inappropriate response scales that skew mean responses or result in non-comparable data.

A survey may avoid all these flaws but still present an imbalanced view – potentially very costly, given that organisations frequently implement changes based on survey findings. Review of one client's survey showed that virtually no questions related to pay and benefits, whilst more than 75% of the questions related to employees' work environment. Whilst this undoubtedly revealed deep insights into employee views, we were able to caution the client against using such an unbalanced survey construct as a sufficient mandate to implement specific decisions.

We therefore believe that a well-designed engagement survey possesses certain key characteristics:

- Underlying balanced construct that evenly assesses the respondent across the five engagement components
- Balanced response scale (e.g. 5 point Likert scale)
- Neutrally worded questions
- Questions that each focus on one logical theme
- A relatively small number of focused questions (20-30) to avoid respondent fatigue
- Opportunity for respondents to add further comment.

VB-HR™ Engagement Framework - a balanced measurement construct

Over time we have researched the core components of employee engagement and distilled them within one framework. The

framework measures five core domains of successful human capital management:

- Line of sight
- Work environment
- Reward
- Development
- Organisational architecture.

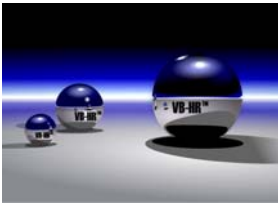
Line of sight provides the link between the actions of the individual employee and their fit with overall corporate objectives. Research² has shown that when individuals are able to understand how their actions directly link into a broader divisional or corporate strategy, their engagement levels and performance increase.

The components that define this quadrant are:

- The individual's awareness of wider, business objectives and their ability to understand how their role fits within this context
- The ability of the performance management system to encourage the behaviours that contribute to organisational success
- The effectiveness of scorecard metrics to track and incentivise the components of performance
- The existence of individual capabilities (potential).



² An example of which includes Rucci, Kirn and Quinn: “The Employee-Customer-Profit chain at Sears”, *Harvard Business Review* 76 no.1, 1998



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Work environment reflects the day-to-day surroundings that set the backdrop against which employees carry out their job, and is influential in engagement through the way in which it allows the bonding of the individual with the organisation.

The key components are:

- The environmental aspects that link to culture (e.g. nature of colleague interactions, office layout, implicit ways of doing things)
- Style of leadership and how it relates to employees
- Style of communication (within the team and on a broader corporate scale)
- Expectations of employees towards management and vice versa
- Local management and its ability to motivate and manage employees on a daily basis.

Reward reflects the financial and non-financial benefits that an employee can expect to receive as compensation for effort expended in a value-adding way. The structure of a financial package can significantly influence individual motivation, behaviour and engagement.

The key components are:

- Base salary, which should act as a threshold payment for an individual's competencies
- Bonus/incentives which reward achievement of targets;
- Benefits package (often where a company can pass on purchasing economies of scale to employees)
- Shares, providing a sense of ownership in the organisation to some degree
- Recognition and acknowledgement (a non-financial component) of employee success through awards

- Sense of equity of reward compared to others.

Development indicates to an employee the degree to which an organisation will be supportive of future needs as well as current ones.

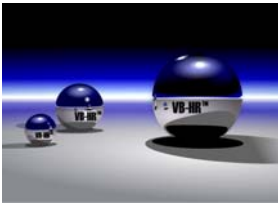
Key components include:

- Career progression, giving employees a sense of growth within one organisation
- Competencies, which provide structured guidance on focused incremental development
- Succession planning, which allows proactive management of individual development plans to equip them with the skills necessary to progress in their career
- Job/role architecture, which provides more or fewer opportunities for development and its application
- Training/learning, demonstrating the organisation's investment in the employee's development and the provision of opportunity to apply new skills
- Coaching/mentoring, which act as on-going development to strengthen confidence by the provision of directional guidance and constructive feedback.

Organisational architecture provides the structural support required to successfully develop engagement.

The components of this are:

- Organisation design, key to the creation or stifling of employee's opportunities
- Performance management system, which provides the linkages between other human capital management processes
- Rewards system, providing a context for each employee's personal reward



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- Decision rights, which lead to greater or lesser senses of empowerment at the team and individual level
- Work values, an implicit embodiment of the corporate brand for staff acquisition and retention.

Survey 'balance balance of construct'

We have been able to compare a number of client staff surveys against our framework by mapping both selected question-statements and report findings. This provides context in terms of the balance or imbalance of human capital management practice, when viewed from an integrated perspective. Quite often we find the mapping process very revealing.

In one company scenario, we were able to show that past expansion through both acquisition and organic growth had led to an overwhelming focus on the reward quadrant, with little attention being paid to the other domains. This growth path has led to reliance on local operating cultures and management, whilst the dominance of the Reward quadrant had turned the nature of the relationship between the company and its employees into an increasingly 'transactional' relationship.

Because of reduced focus on other domains in the engagement framework, staff were increasingly focused on salary/bonus awards as reward. The continual focus on this quadrant by management locked both parties into a vicious circle that increased costs but had not necessarily improved productivity.

Furthermore, the company was experiencing grade/band inflation, promotional awards out of cycle and the 'manufacturing' of certain job roles.

In another case, we identified that a survey conducted globally with around 20,000 employees had significant bias on two of

the five domains, i.e. over 60% of questions related to these two domains.

The survey was used as a particular HR intervention instrument initiating a number of global/local activities and projects designed to fix the issues. This finding called into the question the appropriate focus and potential impact of HR activity.

This finding highlights a real concern we have in general where HR (or the business) utilises survey responses as mandates for action. If surveys have not been 'stress-tested' for balance, there is propensity for inappropriate 'fixes' as well as potential misallocation of resource.

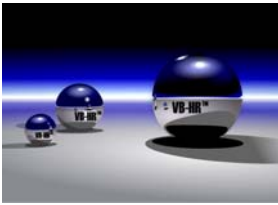
In a further client situation, we were able to derive non-survey related organisational insights through analysis of a third-party survey report and its response rates. Actions were being initiated when we highlighted to the client that a response of greater than 40% was, in our view, an insufficient sample. Our concerns further increased on discovery of an unbalanced rating scale that skewed towards positivity.

Internal benchmarks yield insight

In feeding back surveys to clients, we have observed that organisations are not always clear on how to interpret internal and external benchmark information.

External benchmarks, even when taken from a specific sector (as are provided with the VB-HR™ Engagement framework) are subject to differential interpretation.

On the one hand, executives receiving feedback may be tempted to rationalise a low score to a particular question-statement if this is at external 'norm' levels (thus implicitly accepting any low score received and not seeking to identify its potential causation or impact on their organisation).



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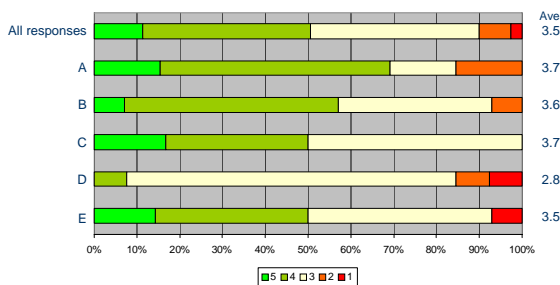
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On the other hand, where external or sector norms place the organisation's overall score in an unfavourable position, the same executives will identify multiple reasons why the benchmark group is not directly comparable.

We therefore advocate to our clients that, whilst, external norms or benchmarks may or may not say something of relevance to the organisation, the comparison of internal populations (i.e. particular groups or clustering of staff who have been surveyed) does allow for particular insight. This allows clients to understand where particular variance exists within their own organisation – often front-line staff or revenue generators will have considerably different viewpoints from central or support staff.

For this reason, our survey feedback provides detailed analysis of the distribution of responses by each population, allowing comparison against the mean score within the organisation (thus allowing effective internal benchmarking).

An example is shown below, illustrating how Population D yields responses that are markedly different from other areas within the organisation.



Individual questions vs. broader context

Even where an underlying framework exists (such as the VB-HR™ Engagement framework), it is important for those receiving feedback to differentiate between the response to an individual question-statement, and review of the messages and

insights arising from the overall Engagement Index.

For example, it is not unusual to see low scores relating to questions around the extent to which senior executives are perceived to be 'in touch'. Perhaps naturally, an executive team can be tempted to interpret this response as something of a personal indictment, whereas in reality the reasons for low scores in this area will be more complicated, often lying with organisational structures and communication approaches.

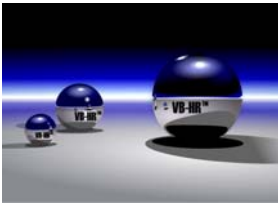
Whilst this question-statement undoubtedly sheds light on particular work values within an organisation, it is important that the executive team can place this response within the context of the survey findings. If overall engagement levels appear high, an executive team might take a 'light touch' approach towards seeking to address this finding. If the overall engagement index is consistently low, a team will have to determine the priority placed on addressing this response.

Linkage between engagement and HCM practice

Whilst the engagement domains are presented within the framework as discrete, covering multiple facets of the employee experience³, in reality they are connected through the operation of human capital management practice within the organisation.

As an example, an organisation utilising a performance management or appraisal system that is imperfectly designed, not fully integrated with reward decisions or inconsistently applied by managers, is likely to suffer from degraded results in all five engagement domains.

³ see the VaLUENTIS white paper on Employer Brand for further comment on this theme



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This will result from the potential for unclear or unsupported objectives (Line of Sight), diffuse linkages between performance and reward (Reward), potential issues around local tolerance of under-performance (Work Environment), uncertain linkage between development and role (Development) and a weakened work value around individual accountability (Organisational Architecture).

Whilst it is clearly beyond the scope of a 20-question employee survey to provide a robust and actionable assessment of the effectiveness of human capital management practice, VaLUENTiS have acknowledged the inextricable link between employee engagement and effective HCM practice in the design of the VB-HR™ Rating, an HR performance and global rating system that quantifies the effectiveness of people management practice in organisations⁴.

As a result, the core 20Q question set is embedded within the VB-HR™ Rating questionnaire. This provides clients with a 'top down' assessment of employee engagement through completion of the Rating, and also allows existing employee survey data to be incorporated within the Rating to provide high levels of organisational validity to any outcomes.

Typical outputs of client projects

Our Engagement database includes over 500 Question-statements to construct survey instruments. The framework allows for external comparison and benchmarking (where deemed relevant), as we have designed a standard 20Q template for this particular purpose (with 30Q, 40Q and 50Q variants for expanded insight).

We have outlined common activities with a typical client 'employee engagement' project. These include:

- The design of a survey instrument or licensed use of an existing template

- The use of multiple data collation techniques (manual and web-based)
- The administration of survey distribution and collation
- Data synthesis and multiple perspective 'cutting' by identified population
- Advanced statistical analysis, constructing indices on a number of dimensions
- Identifying important correlations between survey data and business performance
- The generation of executive management reports detailing observations and recommendations
- Executive feedback presentations and additional communication/follow-up investigation as required
- External benchmarking to VB-HR™ database
- The creation of an overall Engagement index for HC measurement/reporting purposes.

Results are reported in insightful format, very different from traditional survey reports which tend to comment only on response numbers/ratios. The real message is contained within the context of the domain question-statement particularly when compared with complementary question-statements that can be quite revealing.

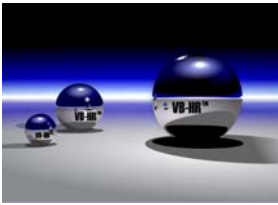
We believe this provides management with clear interpretations as well as recommendations for action. It also guards against misinterpretation or wrongful conclusions which is why we believe the executive feedback process is so important.

Human Capital Measurement and Reporting

One of the key benefits of measuring engagement is that it can provide a basis for providing a measuring yardstick for other HR interventions, as well as its own reporting index.

It is this crucial fact that organisations can miss when conducting surveys. We are

⁴ See www.vbhr.com for further information



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often asked questions regarding measurement on such things as management development, performance management effectiveness, training, various policy implementations and other organisational effectiveness initiatives.

Nearly all of these cases can utilise employee engagement data to provide meaningful measurement constructs and assess the impact of specific organisational interventions.

Some clients express initial concern, reflecting traditional practice, that employee surveys are only conducted annually (usually for reasons of cost and/or disruption), and that this timeframe is too long for some measurement purposes.

We would argue that the engagement framework also provides significant advantages in this respect. Through the use of domains, we advocate that representative samples can be done on a quarterly basis, fairly inexpensively.

What is more, we argue that even certain Question-statements can be changed without undermining the integrity of the engagement data. This allows the survey to be run with cross-sections of the organisation, with the option of refreshing the question-set whilst still maintaining a balance across the engagement domains.

Additionally, the focused nature of the engagement construct allows the typical survey to consist of 20-25 questions, requiring in the order of 10 minutes to complete: a very different approach from some survey instruments we have reviewed on behalf of clients.

We are currently working with a number of clients on two related areas, based on the core 20Q engagement question-set:

- Providing quarterly, on-line surveys to monitor the impact of HR and HCM interventions, tracking changes in engagement levels over time and

seeking to pro-actively influence them (as opposed to the more traditional reactive monitoring approach)

- Incorporate Engagement Indices within internal (HR scorecard) and external reporting approaches

This innovation suddenly equips HR functions with a much more powerful means of human capital reporting, and the means of presenting engagement levels in a comparable format in both internal and external documentation - a subject we cover in detail in a further VaLUENTiS white paper⁵.

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VaLUENTiS Ltd is a global professional services firm specialising in organisational and human capital measurement, organisation effectiveness and HR functional performance. It is headquartered in Berkeley Square, London.

⁵ See VaLUENTiS' HCR white paper and HCR model template, 31/01/06.