



The Relationship Between Staff Engagement and Organisation Performance

A Comparative Analysis of Six Staff Engagement Meta-Studies

Abstract

Introduction

The impact of staff engagement on a range of business performance factors and outcomes has been researched, documented and discussed by a number of academics, practitioners and governments over the last 20 years. These factors include productivity, absenteeism, staff turnover, revenue, profitability, and total shareholder returns.

These academic studies have been conducted by researchers from a number of disciplines and published in journals of Human Resource Management, Psychology, Workplace Health, Sociology, and Business Performance. However, minimal (if any) research has been undertaken and published in the accounting or economic domains.

Practitioner research has been mainly conducted by business consulting firms, including Aon Hewitt, Towers Watson, IBM Kenexa; the most notable and frequently cited being Gallup's periodic reviews of The State of the Global Workforce, whose 142 country study in 2017 surprisingly states that only 13% of employees are engaged at work.

The impact of staff engagement on national productivity has also garnered the attention of the British government. In 2009 MacLeod and Clarke were appointed to review engagement levels and quantify the potential £80 billion productivity and economic gains

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that could be derived at a country level by increasing productivity across all sectors of the economy. The results and conclusions of this significant research initiative were set out in the influential MacLeod Report (2009).

In addition to a long list of individual published research papers, there has been six seminal meta-analysis studies; the content of which has been compared and discussed in the remainder of this second order comparative analysis research paper. These papers are:

1. Meta-analysis conducted by the American Psychological Association (Harter, Schmidt, and Hayes, 2002)
2. Engaging for Success ('The MacLeod Report', 2009)
3. Nailing the Evidence (Employee Engagement Task Force, Bath University, Rayston, Dodge and D'Analeze, 2012)
4. Engaging Employees (Queen's School of Business and AON Hewitt, 2014)
5. State of the Global Workforce Report (Gallup, Inc., 2017)
6. The Employee Experience Index (IBM Smarter Workforce Institute and WorkHuman Research Institute, 2017a, 2017b)

Increasingly over recent years, engagement statistics have been extracted by academics and Human Resource practitioners from these studies and used frequently to emphasis the impact of staff engagement. Data from the periodic Gallup meta-analyses are frequently used in HR presentations at conferences and by executive coaches and Organisation Development consultants. For example, "organisations with higher levels of engagement achieve 17% higher productivity than the ones with lower levels of engagement", and profitability increases by 21% (Gallup, Inc., 2017).

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Whilst the quantum of these percentage gains effectively demonstrate the potential impact of leadership in terms of engaging staff, they fall short in providing chief executives and their chief financial officers with reliable and useable information to quantify the real financial impact on their enterprise budgets (in the government sector) and Total Shareholder Returns (in the business sector).

Academics and practitioners have frequently postulated that leveraging human talent through effective leadership is the one remaining sustainable form of competitive advantage in the disruptive Digital Age. They further posit that leadership is the key driver of staff engagement, accounting for 70% of the variation between low and high scores (Gallup, 2017). While conceptually appealing when viewed through a generic human resource lens, these arguments have questionable rigour in the absence of robust impact studies based on financial modelling. The absence of second level meta-analyses or comparative analyses to determine the validity and provide reliable performance driver coefficients is also problematic. Given that the majority of the peer reviewed research publications arise from the social science fields, it is not altogether surprising that there is a paucity in utility of reliable data sources.

It is against this background that this paper seeks to:

1. Provide a comparison of data across each meta-analysis to contrast variability
2. Determine the most reliable factor coefficients, based on the outcomes of the analyses of variability
3. Demonstrate the links between each factor and how they drive overall performance outcomes

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In doing so, this paper progresses the engagement impact domain from an interesting conceptual framework based on disparate and intermittent research streams, to the synthesis of an integrated organisation performance methodology for quantifying the factors and drivers of value creation.

Objectives

This paper seeks to achieve the following objectives:

1. To compare and contrast existent engagement impact meta-analyses
2. To determine most reliable measures of engagement impact derived from the analysis
3. To determine a method for quantifying the financial impact of engagement on organisations

Purpose

1. Understanding concepts and terminology
2. Develop conceptual model/framework
3. Decide which coefficients to use
4. Does sector or hierarchy matter?
5. Provide a summary in the form of an article
6. Peer-review for credibility
7. Use this information for engagement value algorithm
8. Credibility to our understanding of coefficients and for the ISL CEO John Wadsworth when presenting to other CEOs

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Literature Review

For the meta-analysis, studies were selected based on statistical evidence for the impact of staff engagement on various parameters of business performance. Apart from the statistical evidence at least one of the following criteria were also considered for the selection:

1. Peer-reviewed or self-published by reputed organisation or sources
2. Cited in subsequent papers on similar topics
3. Used by Governments or large organisations for insights
4. Wide range of sources covering multiple regions of the global workforce

Based on the above parameters, the following studies were selected over a 15-year timeline to identify particular trends in the impact of staff engagement on business performance:

1. Meta-analysis conducted by the American Psychological Association (Harter, Schmidt, and Hayes, 2002)
2. Engaging for Success ('The MacLeod Report', 2009)
3. Nailing the Evidence (Employee Engagement Task Force, Bath University, Rayston, Dodge and D'Analeze, 2012)
4. Engaging Employees (Queen's School of Business and AON Hewitt, 2014)
5. State of the Global Workforce Report (Gallup, Inc., 2017)
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Employee engagement is defined in several ways across a vast array of fields, in each area there are different interpretations about certain aspects of engagement but there are a few commonalities (Robertson-Smith and Markwick, 2009). Analysing definitions of employee engagement in academia, private and public sector organisations, and consultancy and research (Appendix 2), the following points were seen as common ground:

1. It is given by the employee and it is desired by an organisation to serve a purpose
2. It involves both conscious and subconscious physical and emotional aspects of employees' interaction in the organisation
3. Its symptoms are defined by its outcomes

Previous research on the topic of engagement has indicated the value of engagement in business outcomes and the numerical impact of engagement on these metrics has been documented across the meta-analyses. For example, engagement of employees plays a role in customer loyalty (Levinson, 2007). Customer 'engagement', where a mental and emotional connection between the customer and the company is also achieved as a result of improved employee engagement (Bates, 2004). Kahn (1990) suggests a positive impact on productivity through improved engagement reflected by Sonnentag's (2003) public sector survey. Levinson (2007) also argued that engaged employees are more likely to stay in the organisation and not develop an intention to quit as indicated in the Blessing White (2008) study. Employees are also found to be healthier and more likely to support and be positive towards the organisation as a result of enhanced engagement metrics (Rothbard, 2001).



Methodology

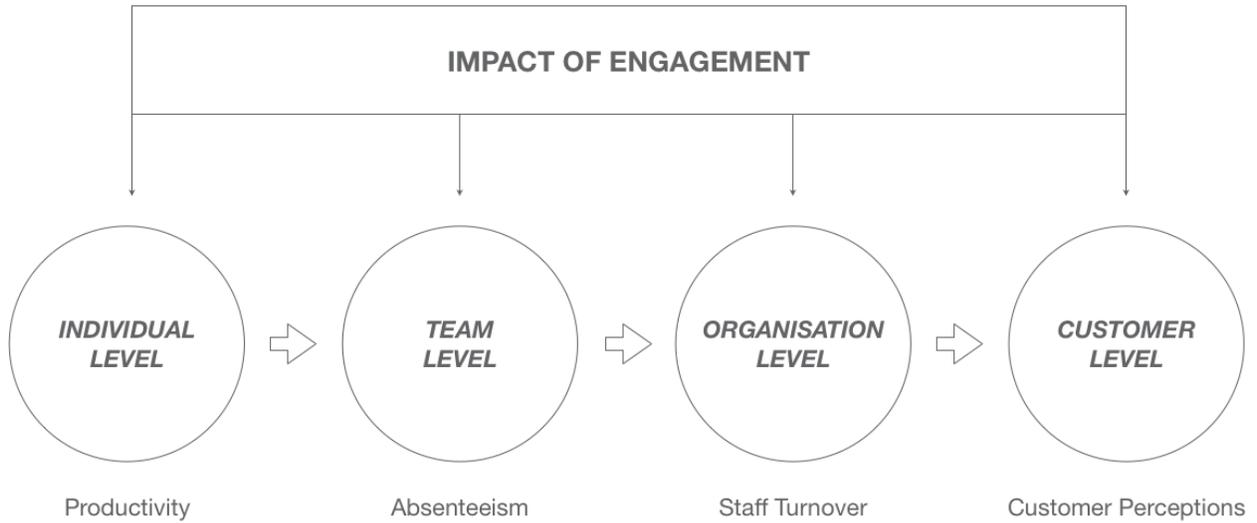
The analysis is conducted at each level of the organisation: individual, team and organisation, and the overall impact of these factors on customers is also discussed, by taking a Customer Experience (CX) approach. These levels are considered given Smart Leader Diagnostic's capability to provide solutions at each level. Every level will be observed from the lens of one metric given that nature of statistical evidence required to quantify the impact and the ease of measurement of such parameters from a human resource perspective.

For the purpose of this study, employee engagement is considered as an independent variable while metrics across the various levels of study are considered the dependant variables:

1. Productivity at the Individual level
2. Absenteeism at the Team level
3. Staff Turnover at the Organisational level
4. Customer metrics at the Customer level

The definition of the variables across different domains and studies have both differences and similarities. For the purpose of this study, the similarities across definitions provide the basis for consistency in usability of the metrics. The difference in each metric is measured against engagement and as a direct outcome of its improvement. However, in reality, each metric is a result of the other metrics defining the earlier levels which is discussed in the conceptual model.

Figure 1: Impact of across different levels





Findings & Discussion

The Smart Leader Causality Loops are conceptual models that indicate the relationships between employee engagement and business outcomes. Smart Leader is in the business of organisational leadership, viewing leadership performance as one of the key contributors driving organisational success. The model aims to create a compelling conceptual foundation for leadership to focus on enabling higher levels of employee engagement.

Previous studies show that organisational leadership accounts for 70% of the variance in employee engagement (Gallup, 2017). An effective leadership team increases the probability of employee engagement giving rise to the Performance Zoom Loop. An ineffective leadership on the contrary would give rise to the Performance Doom Loop. The impact of employee engagement will be viewed at every organisational level: productivity at the individual level, absenteeism at the team level, staff turnover at the organisation level and customer metrics at the customer level. Measures of productivity consist of revenue-per-person figures or managerial evaluations based on all available productivity measures. Absenteeism measures include the average number of days missed per person divided by the total days available for work. Absenteeism also includes sick days and hours missed. Staff turnover measure is the annualised percentage of employee turnover. In most cases, voluntary turnover is reported and used in the analyses. Customer metrics include measures of loyalty, satisfaction, service excellence, customer evaluation of quality of claims, net promoter scores and customer engagement.

The relationship between each component of the model has its basis in the organisational psychological perspective:



1. Leadership impacts employee engagement through aspects such as communication, transparency, training and decision-making.
2. Multiple studies show that engagement reduces the number of unhealthy days experienced by employees as well as the healthcare costs incurred by an organisation.
3. The impact of employee engagement on workplace attitude performance has also been documented through increased productivity & lesser intentions of quitting.
4. Engaged employees record lower absenteeism and through their productivity, look out for the needs of their co-workers and enhance team performance as well.
5. Functional teams improve the probability of retaining talent within the organisation thereby contributing to overall organisational performance factors such as service.
6. Organisational factors such as employee retention and high-quality service boost the perceptions of customers and enhance their loyalty as well as advocacy which in turn contributes to growth in revenue and profits.

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Figure 2a: Performance Doom Loop

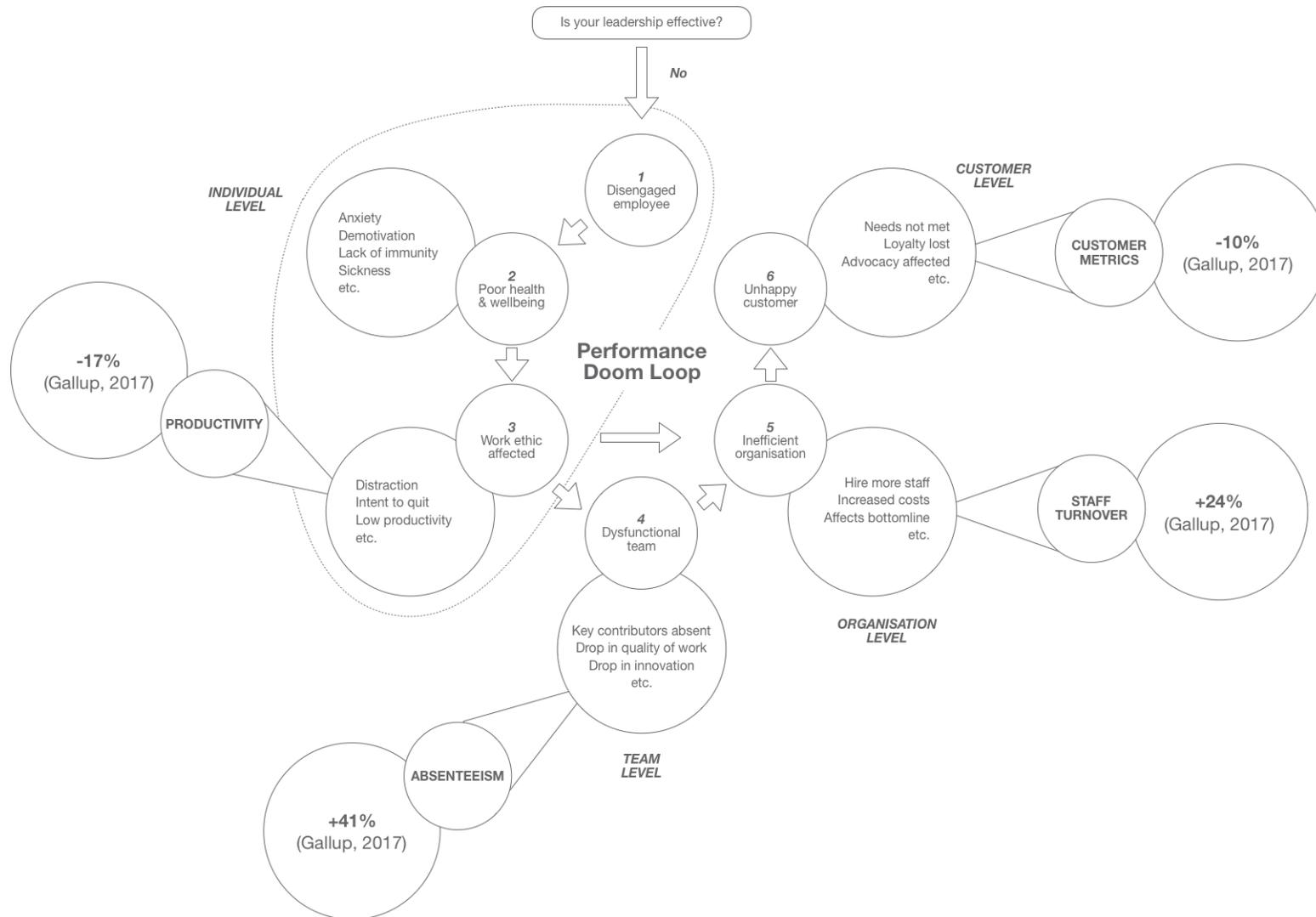
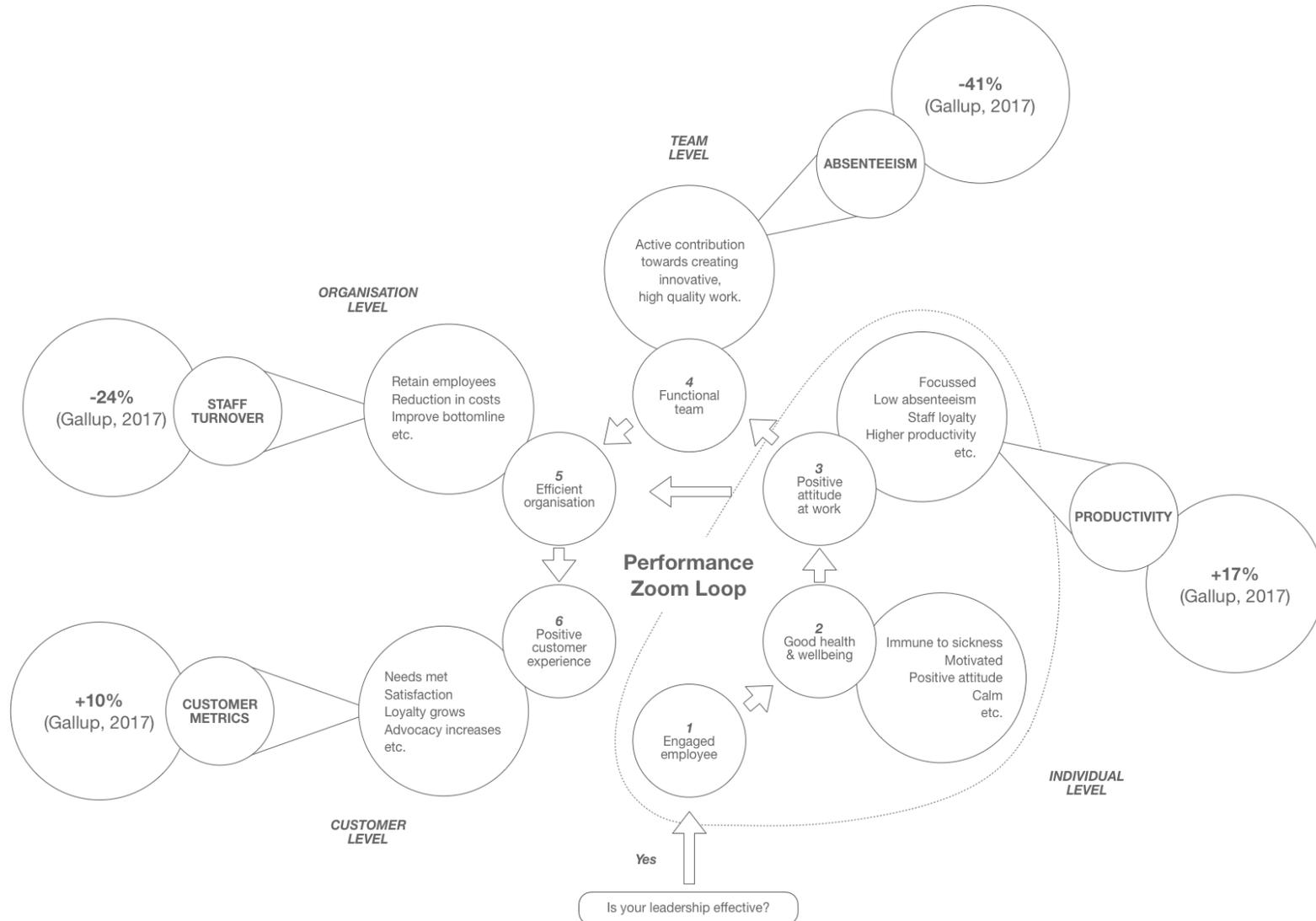


Figure 2a: Performance Zoom Loop



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Table 1: Comparison of meta-analyses

<i>Multiple parameters across meta-analysis</i>	<i>Differences (in points) between upper & lower quartiles on engagement</i>					
<i>Increase in engagement leading to...</i>	<i>APA (2002)</i>	<i>UK Govt. Meta-Analysis 'MacLeod' Report (2009)</i>	<i>University of Bath Meta-Analysis (2012)</i>	<i>QCBV + AON (2014)</i>	<i>Gallup (2017)</i>	<i>IBM Analytics (2017)</i>
Customer perceptions	2.93% (satisfaction-loyalty)	-	12% (advocacy)	30% (engagement)	10% (metrics)	-
Productivity	-	43%	18%	15%	17%	-
Efficiency	-	-	35%	-	-	-
Effort	-	-	-	-	-	40%
Sales/revenue/performance	\$162,200	20%	2.5x	-	20%	23%
Profitability	2.5%	3.8%	12%	-	21%	-
Share price	-	-	-	65%	-	-
Unsolicited employee applications	-	-	-	100%	-	-
Innovation	-	-	59%	-	-	-
Absenteeism	-	-43%	-	-20%	-41%	-
Staff turnover (high-turnover firm)	-29%	-87%	-40%	-26%	-24%	-23%
Staff turnover (low-turnover firm)	-10%				-59%	
Shrinkage	-	-	-	-	-28%	-
Employee safety incidents	-	-	-62%	-	-70%	-
Patient safety incidents	-	-	-	-	-58%	-
Quality incidents	-	-	-	-	-40%	-

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Conclusions

Performance Metrics derived from Six Meta Studies

1. The meta studies report improvements in **productivity** ranging from 15% - 43%. Smart Leader have adopted Gallup's 17% as a conservative estimate.
2. The meta studies report low engagement can impact on negatively on **absenteeism**, ranging from 20% - 43%. Smart Leader have adopted Gallup's 41% as an estimate.
3. The meta studies report low engagement can impact on negatively on **staff turnover**, ranging from 10% - 87%. Smart Leader have adopted the University of Bath result of 40% as an estimate.
4. The meta studies report low engagement can impact on negatively on **financial performance**], ranging from 2.5% - 21%. Smart Leader have adopted the University of Bath result of 40% as an estimate.

Limitations

There are a number of limitations inherent in the raw data in the meta-analyses published to-date. These include the lack of definition or quantification of the basis upon which the potential impact is a consequence of a shift in the level of engagement. For example, what does low scoring engagement mean at an organisation level? Without measures of Lower and Upper Quartile, Mean, and Standard Deviation, no meaningful estimates can be made about the impact of staff engagement on organisation performance.



Similarly, the impact on revenue cited as \$162,000 (Harter, Schmidt, and Hayes, 2002) is meaningless in the absence of the base amount. Put simply, an increase of \$100,000 is a large amount (50%) if the original revenue was \$200,000, but minimal (10%) if the base figure was \$1,000,000. Last but not least, no attempt has been made by academics to integrate data and quantify the overall impact on economic value creation, apart from one or two commercial firms that apply simple heuristics to estimate value creation in their 'engagement calculators'.



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Appendices

Appendix 1: Metrics used for dependent and independent variables across all studies

S. No.	TERM	DEFINITION	SOURCE	YEAR
1	Customer Perceptions	Customer perceptions include customer metrics, patient metrics and student ratings of teachers. These metrics include measures of loyalty, satisfaction, service excellence, customer evaluation of quality of claims, net promoter scores and engagement.	APA, Gallup	2002
2	Productivity	Measures of business-unit productivity consisted of revenue figures, revenue-per-person figures or a managerial evaluation based on all available productivity measures.	APA, Gallup	2002
3	Absenteeism	Absenteeism measures include the average number of days missed per person for each work unit divided by the total days available for work. Includes either a measure of sick days or a measure of hours or total absenteeism.	APA, Gallup	2002
4	Job/Staff Turnover	Staff turnover measure is the annualised percentage of employee turnover for each business unit. In most cases, voluntary turnover is reported and used in the analyses.	APA, Gallup	2002

Appendix 2: Definitions of Employee/Staff Engagement across various fields:

FIELD	DEFINITION	SOURCE	YEAR
Organisational consulting & research	the basic psychological needs that must be met in order to perform your work well. This includes things like knowing what's expected of you and having the materials you need. But it also includes emotional and social needs, like doing work that you are good at and connecting your work with a higher purpose.	Gallup	2017
	the measure of how much effort employees will give to achieving their organization's goals. Employee engagement is getting employees to put their "hearts and minds" into their daily work. Engaged employees want to feel that their efforts can make a difference.	IBM	2019
	the level of an employee's psychological investment in their organization.	AON Hewitt	2018
Private sector	an outcome measured or seen as a result of people being committed to something or someone in the business – a very best effort that is willingly given.	Suff (Vodafone)	2008
	the degree to which employees are satisfied with their jobs, feel valued, and experience collaboration and trust. Engaged employees will stay with the company longer and continually find smarter, more effective ways to add value to the organisation. The end result is a high performing company where people are flourishing and productivity is increased and sustained.	Catteeuw et al. (Johnson & Johnson)	2007
	a combination of attitudes, thoughts and behaviours that relate to satisfaction, advocacy, commitment, pride, loyalty and responsibility'. BT claims it is 'broader than the more traditional concept of employee satisfaction and relates to the extent to which employees are fully engaged with the company and their work.	BT	2008
	the extent to which an employee feels a sense of attachment to the organisation he or she works for, believes in its goals and supports its values.' Barclays also suggest that it is possible to 'gain a good sense of someone's engagement by asking a simple question, would you recommend Barclays as a good place to work?	Barclays	2008

	giving time and talent to team building activities.	Dell	2008
	an emotional attachment to the organisation, pride and a willingness to be an advocate of the organisation, a rational understanding of the organisation's strategic goals, values, and how employees fit and motivation and willingness to invest discretionary effort to go above and beyond.	Nokia Siemens Networks	2008
Public sector	a combination of commitment to the organisation and its values plus a willingness to help out colleagues Employee Engagement goes beyond job satisfaction and is not simply motivation.	University of York	2008
	more than just being satisfied or motivated. Engaged employees have a sense of personal attachment to their work and organisation that means they want to give of their best to help it succeed. Engaged employees tend to speak positively about their organisation and have an active desire to stay.	Civil Service, UK	2008
	using their talents to the full wherever possible.	Leeds Metropolitan University	2008
	a measure of how people connect in their work and feel committed to their organisation and its goals. They are: <ul style="list-style-type: none"> - excited and enthusiastic about their role - say time passes quickly at work - devote extra effort to the activity - identify with the task and describe themselves to others in the context of their task - think about the questions or challenges posed by the activity during their spare moments - resist distractions - find it easy to stay focused and invite others into the activity or organisation 	NHS	2007
Academia	the harnessing of organisation members' selves to their work roles; in engagement, people employ and express themselves physically, cognitively, and emotionally during role performances.	Kahn	1990
	persistent, positive affective-motivational state of fulfilment.	Maslach, Schaufeli and Leiter	2001
	being charged with energy and fully dedicated to one's work.	Hallberg and Schaufeli	2006

	An engaged employee extends themselves to meet the organisation's needs, takes initiative, is proactive, reinforces and supports the organisation's culture and values, is in the flow, shares the values of the organisation, stays focused and vigilant and believes he/she can make a difference.	Kaufman et al. (Macey)	2007
	discretionary effort or a form of in-role or extra-role effort or behaviour, involving innovative and adaptive performance and going 'beyond preserving the status quo, and instead focus on initiating or fostering change in the sense of doing something more and/or different.	Macey and Schneider	2008
	a beneficial two-way relationship where employees and employers "go the extra mile" for one another.	Tasker	2004