

## White Paper

# Employee engagement: A practical guide

## Introduction

A harsh recession compounded by ongoing economic uncertainty has left many organisations with shell-shocked workforces. Few businesses have escaped the need to reduce headcount while, for staff that remain, working environments have been tainted by fear of further cuts. Even where employees feel reasonably secure in their own jobs, many must now work twice as hard to justify their salaries, or they are forced to absorb the workloads of colleagues who have been made redundant.

Job insecurity, increased workloads, frozen salaries and a sombre working environment are difficult challenges to overcome for the employer, who needs 'all hands on deck'. While it might be expected that insecure staff would work harder, the opposite is often true. Increased stress and decreased job satisfaction depress motivation, often leading to a loss of productivity and increased staff absenteeism.

At the same time as staff are feeling demotivated, organisations need to push forwards and gear up for new growth. Key to being able to achieve this, particularly with modest personnel resources, is having a positive 'employee engagement' strategy which strives to include and reassure valued staff members, boosting their morale and productivity – particularly now when it is needed most.

Encouragingly, many organisations have recognised this and claim to be taking positive steps to address employee engagement and motivation, identifying this as a core tenet of their strategies for business growth.

## What is employee engagement?

Particularly in a tough climate, organisations need to derive the most from their employees without this (a) requiring unaffordable salary promises, and (b) running those employees into the ground so that they become ill, or leave the company.

'Employee engagement' is seen as the pragmatic middle ground, with sound benefits for both parties. While a key driver is staff motivation, it is about much more than that. Rather than focusing on rewarding good performance with perks such as high salaries and productivity-related bonuses, employee engagement strategies address the whole – the extent to which staff feel valued as an integral part of the company.

The idea is that an employee who feels fully 'engaged' and part of an organisation will want to work harder, because they feel a personal responsibility towards and pride in their company. Their sense of loyalty has been developed organically; it has not been 'bought'.

As well as being driven to do their best for the business, 'engaged' employees have been shown to be more 'community-spirited', willing to help colleagues. This is something that can't be written into an employment contract; it must be infused into the organisation's culture.

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## Why is employee engagement important?

The benefits of successful employee engagement have been the subject of much research recently.

Anecdotally, organisations report that, for the employee, it means a stronger sense of being valued, and therefore greater job satisfaction. This, in turn, creates loyal, happy staff who work harder and stay with the organisation longer. Meanwhile, as word of mouth spreads and the company becomes known for being a great place to work, it is better able to attract high-quality staff without necessarily having to pay them a premium.

A Department for Business report into employee engagement, the MacLeod Review (2009), went further, attempting to determine the potential impact on an organisation's performance and success.

Between October 2008 and May 2009, the authors, former Government advisors David MacLeod and Nita Clarke, met with leaders, practitioners, experts, representative bodies and thought leaders, holding 30 consultation events across the country, including all sectors of the economy. Their input was then supplemented by over 300 responses submitted online.

While the finding uncovered over 50 different definitions of employee engagement, the strongest theme to emerge was that "engagement matters because people matter – they are your only competitive edge. It is people, not machines that will make the difference and drive the business," as one respondent eloquently put it.

In this sense, employee engagement matters fundamentally to an organisation.

Specifically, the MacLeod Review found that employee engagement levels correlate with:

- Better financial performance
- Better outcomes in the public sector
- Higher levels of innovation
- More employees advocating their organisation
- Lower rates of absenteeism
- Employee wellbeing
- Increased staff retention
- Fewer accidents

Other studies have quantified the impact, finding that:

- Engaged employees generate 43% more revenue (source: Hay Group)
- Engaged employees average 2.7 sick days per year, compared with disengaged employees who take 6.2 (Gallup)
- Engaged employees are 87% less likely to leave (Corporate Leadership Council)

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- 67% of engaged advocate their organisations; only 3% of the disengaged do (Gallup)
- 9 out of 10 of key barriers to successful change are people related (PWC)
- 59% of engaged employees say 'work brings out their most creative ideas'; only 3% of disengaged staff agree (Gallup).

On a broader scale, it has been calculated that disengaged workers cost the UK £44 billion a year in lost productivity (source: Civil Service).

The MacLeod report asserts that, if employee engagement and the principles that lie behind it were more widely understood, and good practice more widely shared, organisations would see a step change in workplace performance, and in employee wellbeing – benefiting the UK economy as well as individual employers.

The report concludes however that, while there are some excellent examples of good employee engagement, there are barriers to uptake - particularly among smaller businesses.

Such barriers include a lack of dedicated HR capabilities, a lack of clarity about where to start and what to expect as well as a fear of the imagined costs involved in implementing formal employee engagement strategies and associated tools.

## How to achieve engagement by getting the basics right

Employee engagement initiatives needn't be complex or expensive to roll out or manage.

Indeed, while the temptation to be radical and embrace a whole new culture may be strong, particularly as organisations try to think of new ways to beat the lingering recession and its aftermath, they will need to get the basics right first in any case – and this is far from onerous.

What may seem to be a small factor in the minds of the management may make a big difference to employees. This includes paying people on time, effectively managing time and attendance, and communicating with staff - whether to dispel rumours and allay fears, give advance warning of new developments, or generally keep in touch with employees on a regular basis so they feel included, informed and up to date.

All of these measures are simple to achieve with purpose-built automated software solutions.

### **Paying employees on time and accurately**

Ensuring employees get paid on time and accurately is vital. If staff are paid late and/or frequently receive the wrong payments, they are likely not only to become anxious and demotivated; they may feel that their company does not value them and has not given any thought to how they might be affected by such errors.

Assuming there aren't more sinister reasons at play (for example, deliberately delaying payments to address a temporary cash flow situation), late or inaccurate payment is an easy situation to avoid with an intelligent payroll that has the right level of functionality to support the given size and type of organisation.

Depending on the particular needs of your organisation, look for a system that can cope with multiple payrolls on the same system, and can handle back pay, BACS communications, employee costings and occupational sick pay.

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## **Effectively managing time and attendance**

Time is money, and no business can afford to carry passengers - especially in the current climate. Yet, while this is true, organisations need to be able to handle problematic situations – associated with sloppy time-keeping and excessive absence - fairly and diplomatically. This requires accurate, independent records, which again can be easily achieved using appropriate software.

Time and attendance (T&A) applications ensure the effective monitoring and management of staff time, by providing an accurate, permanent and real-time record of hours worked, staff movements, holidays, sickness and lateness (including extended lunches).

This provides transparency, ensuring that unacceptable practices are quickly nipped in the bud across the organisation, and that more diligent workers do not feel hard done by. Avoiding the build-up of resentment and hard feelings is important in any employee engagement strategy.

Where individuals are identified as taking more time off than usual, an early alert trigger can guide managers to talk to the member of staff to find out whether there is an underlying cause. As well as providing an opportunity to uncover and address any work-related issues that may have been the trigger, this process will make the employee feel valued and cared for, boosting their level of engagement.

By integrating the T&A system with the payroll system, the organisation will be able to automatically register actual hours worked in the payroll system, ensuring that staff are paid accurately.

## **Staff communication**

If employees don't feel listened to, involved in or informed about decisions that may affect their everyday working life, they will soon feel that they are not valued, becoming demotivated.

In more developed scenarios and larger organisations, staff communication may be achieved by regular employee newsletters, breakaway training or social events, or email or videoconference updates.

Simpler but very effective measures also include providing employees with instant access to their own records on the HR system (for example, via a self-service HR intranet) so that information such as annual leave requests, training details and sick leave can be accessed as and when required.

Another basic but impactful measure is to email electronic payslips directly to each member of staff the day before they are due to be paid. This ensures that any queries with the payroll are identified and resolved before the money reaches the bank, avoiding staff resentment.

Software can also be used to automatically email a range of reports to managers, ensuring that they have important information to hand to aid decision-making and better manage their teams. These reports could cover a range of areas such as budgets, financial forecasts, staff performance, sick leave and staff retention.

Using technology to help get the basic forms of communication right provides a solid foundation for all other forms of company communication.

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## Employee development

Once the basics have been addressed, organisations should consider how they can keep staff engaged and motivated throughout their period of employment. Ideally, an engaged employee will stick around for a long time, so the company will need to establish how it will continue to keep them fresh, enthusiastic and driven.

The Institute of Employment Studies (IES) maintains that the main driver of engagement is a sense of feeling valued and involved, which it believes can be achieved by giving staff:

- More involvement in decision-making
- Freedom to voice ideas, to which managers listen
- The sense that they are enabled to perform well
- Opportunities to develop their job
- A sense that the organisation is concerned for employees' health and wellbeing.

Regular reviews are important, allowing feedback to flow both ways, and giving the employee a chance to share concerns, sound off, ask questions and seek reassurance that they are doing well and are valued.

Typically these discussions will also review the employee's personal development within the company, taking note of new ambitions and training needs as they seek to expand their horizons, gain new skills and move up the pay scale, where possible.

Review histories, employee satisfaction measurement and performance indicators will all help here, enabling managers to chart individuals' productivity, well-being and engagement levels over time, and to adapt any development and training plans as well as incentive schemes accordingly.

Software tools can help here, too. Tailored business intelligence systems can be used to interrogate and quickly extract a range of valuable HR data, and to produce a range of key reports. These might cover employee development, team engagement, new starter satisfaction and leadership capability, enabling organisations to proactively find ways to improve engagement whilst creating a more effective workplace.

## Mapping your journey

Before organisations can make true progress with employee engagement, they need to have a clear picture of where they are starting from, so that they can map out an appropriate journey.

The Advisory, Conciliation and Arbitration Service (Acas), which specialises in preventing and resolving employment disputes, recommends organisations begin any employee engagement initiative by asking themselves some basic questions, to help determine their starting point.

These might include:

- **What** is happening? Do you and your staff know where the business is going and how they fit in?
- **How** is it happening? Are you clear about the behaviour and performance you expect from employees and how they can expect to be treated?

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- **Why** is it happening? Do your employees get the chance to have their say - through effective channels for communication, consultation and representation?
- **Is it working?** Do employers and employees trust each other and work together to their best ability? How can you find out what people are really thinking?

The CIPD recommends that organisations begin by measuring existing employee attitudes, using employee attitude surveys. Example criteria to measure against, it suggests, could include:

- Pay and benefits
- Communications
- Learning and development
- Line management
- Work-life balance

Once potential shortcomings have been identified, the organisation then has an opportunity to put these right.

## Applying science to measurement

While employee engagement is all about the softer side of people management, there is a role for science in spotting trends and providing an early warning system of growing problems.

Specialist HR business intelligence systems can play a vital role in analysing and flagging up waning employee engagement, enabling organisations to take pre-emptive action to reverse the situation. The larger and/or more dispersed the organisation, the harder this will be to do manually, yet the more crucial employee engagement will be.

Being able to apply hard statistics to employee engagement has important implications at board level, too, enabling managers to demonstrate the potential impact in hard terms to key decision makers so they can sanction remedial measures. Historically, the HR function has had a hard time getting a seat at the top table, making it difficult for them to drive through new strategies without hard proof.

As organisations wake up to the value of their 'people' as their core assets, this is changing, but being able to back up new ideas and new approaches with hard evidence such as clear and accurate HR measurement, analysis and reporting, is always preferable and will carry more weight.

Once a discipline of scientific measurement becomes ingrained in the HR function, they will then be able to extend their scope to address more pressing questions from the board, such as:

- The net revenue per employee
- Whether the company is getting a return on staff training
- Whether it is recruiting the right type of people
- Absenteeism levels

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- Which departments are over or understaffed
- How staff performance compares with 12 months ago
- How staff performance could be improved

Being able to back up anecdotal findings with cold, hard figures will not only impress senior managers, it will make it easier for them to release budget for new initiatives.

## Calculating the benefits

Although the relationship between employee engagement and business success is by no means a revelation, many organisations have lost focus as they have sought to marry one to the other.

In people-centric service organisations, where people costs typically exceed over 50% of all costs, it is essential for management to understand and improve the drivers of employee performance.

The 'Employee-Customer-Profit Chain' model, developed by Sears in the late 1990s, highlights the relationship between how employee engagement leads to revenue gains, and is still held as the benchmark of organisational measurement. Yet it is often applied inappropriately, with disappointing results. This is because employee engagement is the result of a number of factors, both internal and external.

Yet, even though engagement is an intricate affair, it can and should be analysed and reported on if organisations want to deliver a more effective workplace and higher productivity. Once a company is into the rhythm of doing this properly, it is likely to be pleasantly surprised by the results.

A council in the north of England, for example, reports savings of £1.5 million through reduced sickness absenteeism - the second highest drop of any local authority in a single year nationwide - directly as a result of implementing HR analytics tools. In a tough economic climate, where cuts are rife, savings like these provide a lifeline to services under threat, enabling ongoing investment.

Add to such savings the ability to effectively measure and report on employee engagement, in relation to key company metrics, and the impact becomes stronger still, with a direct influence on areas such as employee development, team engagement, new starter satisfaction and leadership capability, enabling organisations to proactively and more effectively manage and retain their workforce.

## Conclusions/Next steps

Of course, employee engagement will not happen unless any strategy or initiative has been bought into by the most senior management in the organisation, who need to be prepared to think differently and open new lines of communication.

The drive for an engaged workforce needs to build on good people management and development policies, and the active support of line managers. People management strategies and policies then need to be aligned with those of the wider business.

Things are looking up though. Employee engagement is a hot topic currently, with organisations across most industry sectors vying to offer their employees a superior, differentiated work experience to ensure they attract and keep the best staff, even when salary budgets are lean.

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After every recession comes an eventual period of growth and this is now the focus of the majority of businesses. Being able to capitalise on that growth, and deliver a superior proposition while running a tight ship internally requires that organisations conduct themselves differently so that they can get more from their staff without having to over-extend themselves financially.

Ultimately, organisations have little choice about this if they want to succeed; the real winners though will be the ones where fostering employee engagement is a positive choice, and who draw on every tool available to them to facilitate real change in the way they cultivate their core assets – their people.

## Appendix

**Acas:**

[www.acas.org.uk](http://www.acas.org.uk)

**Chartered Institute of Personnel & Development (CIPD):**

<http://www.cipd.co.uk/subjects/empreltns/general/empengmt.htm>

**Department for Business Innovation & Skills (BIS):**

<http://www.berr.gov.uk/policies/employment-matters/strategies/employee-engagement>

**Institute of Employment Studies (IES):**

<http://www.employment-studies.co.uk/consult/index.php>

**MacLeod Review:**

<http://www.bis.gov.uk/files/file52215.pdf>

**The Work Foundation:**

<http://theworkfoundation.co.uk>

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