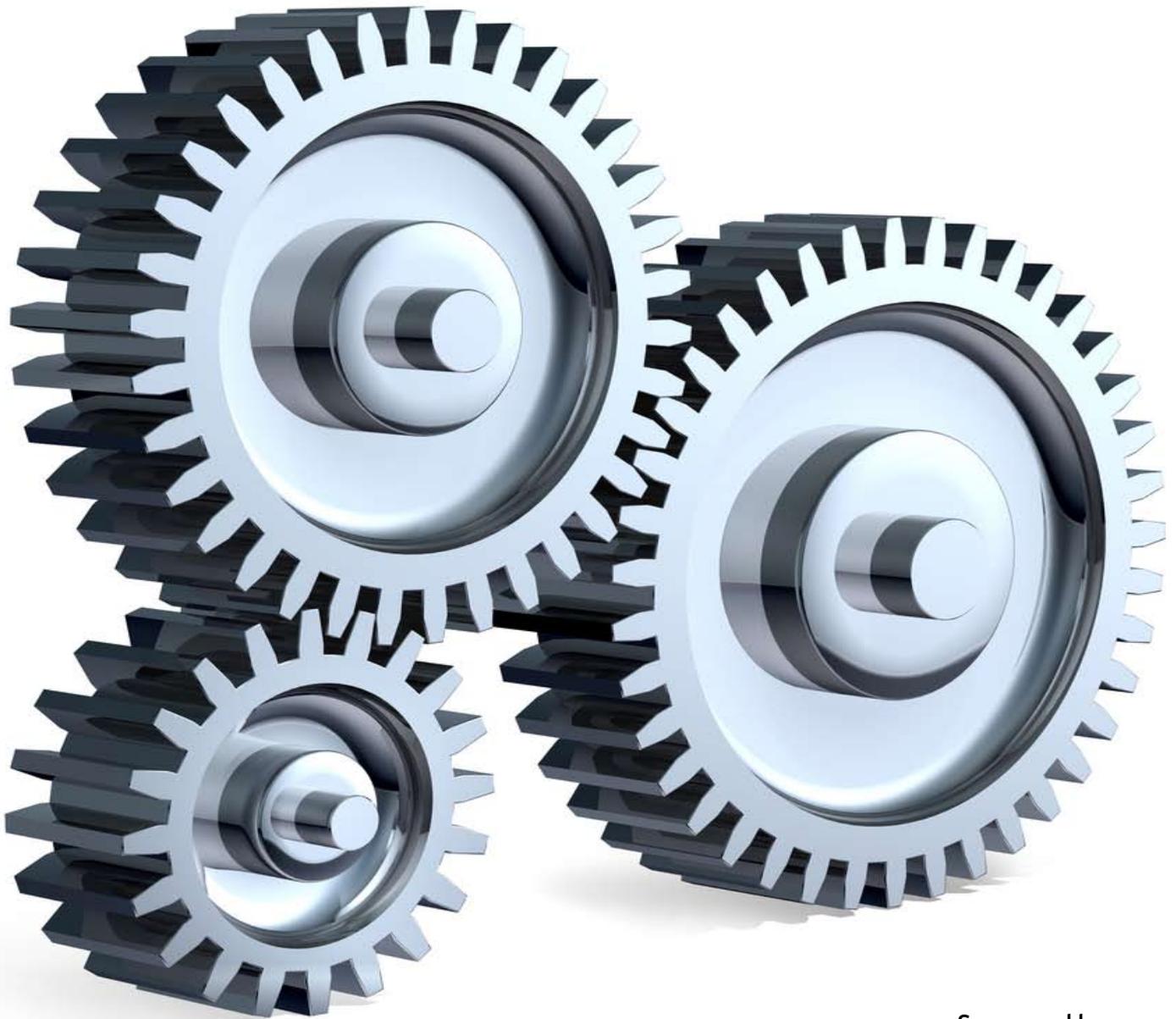


Re-engaging with engagement

Views from the boardroom on employee engagement



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About this report

Re-engaging with engagement is an Economist Intelligence Unit (EIU) report sponsored by Hay Group. In researching this report, we conducted a survey in July-September 2010 of 331 senior level executives in Europe and the Middle East. Almost half (162) of executives surveyed were board level or C-suite; the rest were senior directors. We also surveyed 80 managers and other executives for additional comparative analysis. Respondents came from a wide range of functions, covering 19 industries. Over half (54%) worked in companies with annual global revenues below \$1bn and 22% in companies above \$10bn.

In addition, we conducted in depth interviews with 5 company executives, academics and consultants with expertise in the field. The report was written by David Bolchover and edited by Paul Lewis. We would like to thank all those who participated in the survey and the interviews for their time and insights. The Economist Intelligence Unit bears sole responsibility for the content of this report.



Executive summary

It is a commonplace and uncontroversial view that, other things being equal, a company with a highly engaged workforce will outperform a rival with disengaged employees. But opinion varies greatly about just how much modern-day knowledge workers are engaged in their jobs, about what makes them engaged and about what practical measures serve to enhance engagement. The Economist Intelligence Unit research survey reflects these differences of opinion, with an individual's geographical location and, particularly, their seniority in the corporate hierarchy appearing to have a significant impact on their personal views.

Furthermore, strong opinions might not translate into visible action. A sizeable discrepancy exists between what companies say about the perils of disengagement and how far they will actually go to confront the problem.

Key findings of this report include the following:

The C-suite displays a consistently “rose-tinted” view of engagement that is not shared lower down the ranks. One important revelation from our survey is the huge disparity between the views of many in the C-suite and those of less senior directors, including just a single rung below board level. For example, 47% of C-suite executives believe that they themselves have determined levels of employee engagement, a view shared by only 16% of senior directors outside the C-suite. More than one in five in the C-suite believe that employees are “much more engaged” than those in rival firms, compared with only 7% of respondents outside the C-suite.

A significant mismatch exists between words and deeds on engagement. There are clear inconsistencies in our survey findings, which suggest that words come more easily than concrete actions. For example, 84% of survey respondents say that “disengaged employees” are one of the three biggest threats facing their business. Yet it appears that little is done to identify, support or even “weed out” unengaged staff. For example, only 12% of respondents report that their companies “regularly and often” tackle staff with “continually low engagement”. Even according to C-suite executives alone, engagement is discussed “occasionally”, “rarely” or “never” at board level in 43% of companies.

Middle managers are not deemed responsible for employee engagement. The low proportion (13%) of C-suite executives who believe that line managers and middle managers are “chiefly responsible”



for staff engagement is unlikely to boost the people-management skills of such managers. If they are not considered responsible no matter how good or bad they are, why should they try? The potential negative repercussions could be significant, since around two in five of those not in the C-suite believe the “motivational ability of one’s line manager” (the most selected survey option) to be a considerable contributor to employee motivation.

In the wake of recession, Brits and Germans seem most upbeat; French and Spaniards seem most downcast. Overall engagement levels are believed to have increased, with 42% believing that workers are more engaged than they were two years ago, with only 23% believing that they are less engaged. This improvement comes in the face of widespread reported salary freezes and lay-offs, and despite greatly increasing levels of stress and pressure. But around half (51%) of managers in the UK and the Middle East (46%) are much more likely to report such improvement than their counterparts in France (30%). In addition, almost two-thirds in both the UK and Germany say that they have more engaged staff than their competitors, whereas in Spain just over one in three agree.

Long-serving staff pose the greatest engagement challenge. Respondents believe overwhelmingly that it is hardest to raise the engagement levels of “experienced and long-serving staff”. Again, however, C-suite executives reach a different conclusion from those below them. Only 27% of CEOs believe that this group presents the greatest challenge in raising engagement levels, as opposed to 57% of senior vice-presidents, heads of departments or business units. The C-suite is more likely than others to say that the under-25s represent the most problematic group of employees, in line with the current management orthodoxy surrounding Generation Y.

Learning from engaged executives

- *Devote more attention to engagement in board meetings:* Of those who believe that employees in their company are “much more engaged” compared with rival organisations, 26% said that engagement was a “consistent agenda item” at board meetings, compared with just 5% of the other respondents.
- *Confront disengagement head-on:* Respondents in organisations said to be highly engaged are much more likely than others to say that the issue of disengaged employees is at least “sometimes” actively confronted by the organisation (84% versus 68% elsewhere). Disengagement can be infectious.
- *Focus on autonomy, not salary:* Just one-quarter (26%) in companies said to be highly engaged believe that salary level is among the most important determinants of engagement, compared with 38% overall. But nearly one-half (47%) in highly engaged organisations believe in “greater staff autonomy”, as opposed to 36% elsewhere.
- *Ensure line managers are engaged:* Only 4% of respondents in highly engaged companies say that line managers present an engagement problem, compared with 18% in other companies.



The C-suite anomaly

According to our survey, C-suite executives—comprising CEOs, chief financial officers, chief operations officers and others on the top tier of the corporate structure—tend to have markedly different views on engagement from their colleagues even just a single rung lower in the corporate hierarchy.

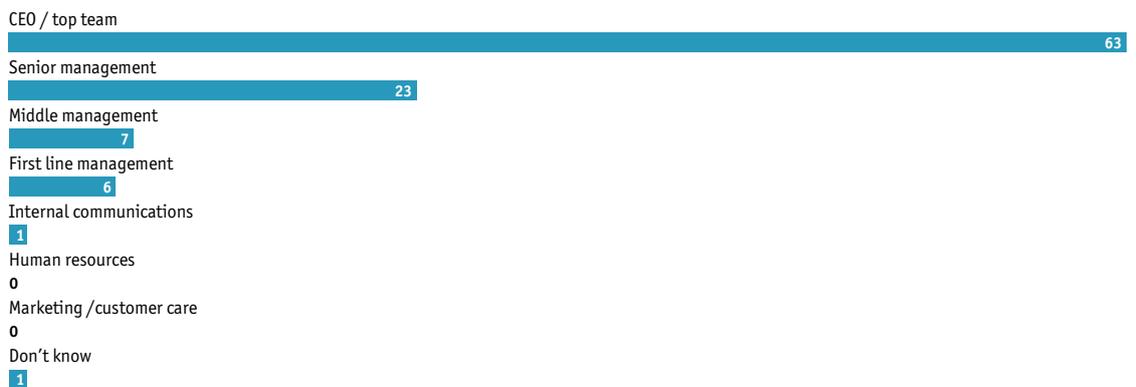
This is most evident when it comes to the C-suite’s perception of its own influence on company-wide engagement. Some 63% of CEOs and other members of the top team reckon that they themselves are “chiefly responsible for staff engagement”, but only 38% of the remainder agree that the top tier is responsible (see fig. 1). Not a single C-suite respondent selected “Human Resources” as being chiefly responsible, suggesting that this function is held in low regard by many in the top echelons in respect of this vital human resources issue.

One could of course argue that saying that a team of people is ultimately responsible is different from saying that they have substantial direct influence. In this instance, C-suite executives may just believe themselves to be responsible for identifying, selecting and deploying those that can wield such influence. But other answers in our survey suggest that such a view is misplaced.

Almost one-half of the C-suite respondents believe that they have “largely determined” levels of

1. Who do you believe is chiefly responsible for staff engagement throughout your organisation?

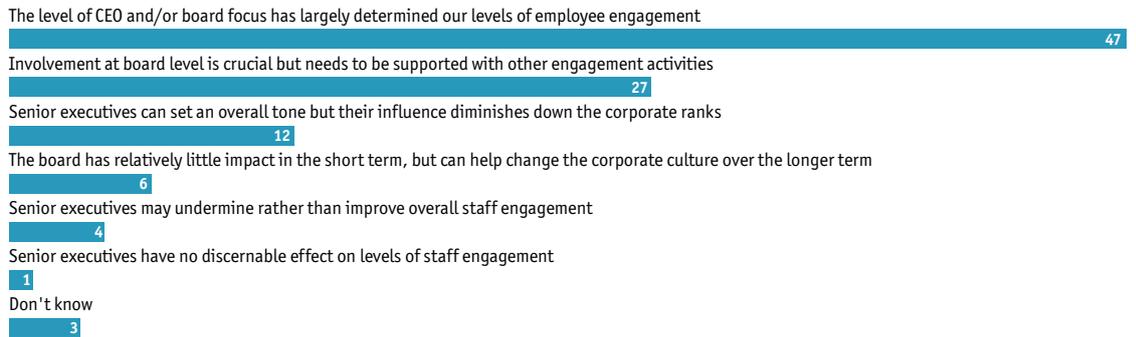
(% respondents; C-suite only)





2. Which, if any, of the following statements best describes the impact that senior management has had on overall staff engagement in your company over the past 12 months? Select one that most applies.

(% respondents; C-suite only)



engagement (see fig. 2). Only 18% lower down the hierarchy agree. When asked to rate the impact of senior managers on overall staff engagement over the past 12 months on a scale of one to ten, 69% of the C-suite gave a mark of seven or more, compared with only 38% of the rest.

Not only do C-suite executives believe that they have a strong influence on employee engagement, they also believe that this influence has had a positive effect. Over one-fifth (21%) reckon that levels of engagement are “much” higher in their company than within rival companies, three times the proportion of those outside the C-suite who agree (see figs. 3 and 4). Of C-suite executives, 16% believe that engagement levels are “much” higher than two years ago. Only 6% outside the C-suite agree. How can we explain the C-suite anomaly?

Semi-detachment

A number of high-profile workplace surveys play down the influence of senior managers on engagement, with grass-roots workers asserting that their relationship with their immediate supervisor is the key to how engaged they feel (see Box: The Forgotten Function). The tendency of so many surveyed C-suite executives to sideline the role played by other functions in engagement may reflect a trend in management literature that trumpets the power of “leadership” over everyday

3. How engaged do you believe your employees are, overall?

Rate on a scale of 1 to 5, where 1=Much more engaged and 5=Much less engaged.

(% respondents; C-suite only)



4. How engaged do you believe your employees are, overall?

Rate on a scale of 1 to 5, Where 1=Much more engaged and 5=Much less engaged.

(% respondents; non C-suite only)





“The only people that can help employees reach positive answers to those questions that directly influence engagement, such as ‘do I feel valued?’ or ‘is my career progressing?’, are their immediate managers”

Chris Bones, professor of creativity and leadership at Manchester Business School.

people-management. “We have seen a reduction in management training and a growth in leadership training”, says Chris Bones, professor of creativity and leadership at Manchester Business School. “If you were being cynical, you could say that this is because training providers can charge twice as much by using the word ‘leadership’.”

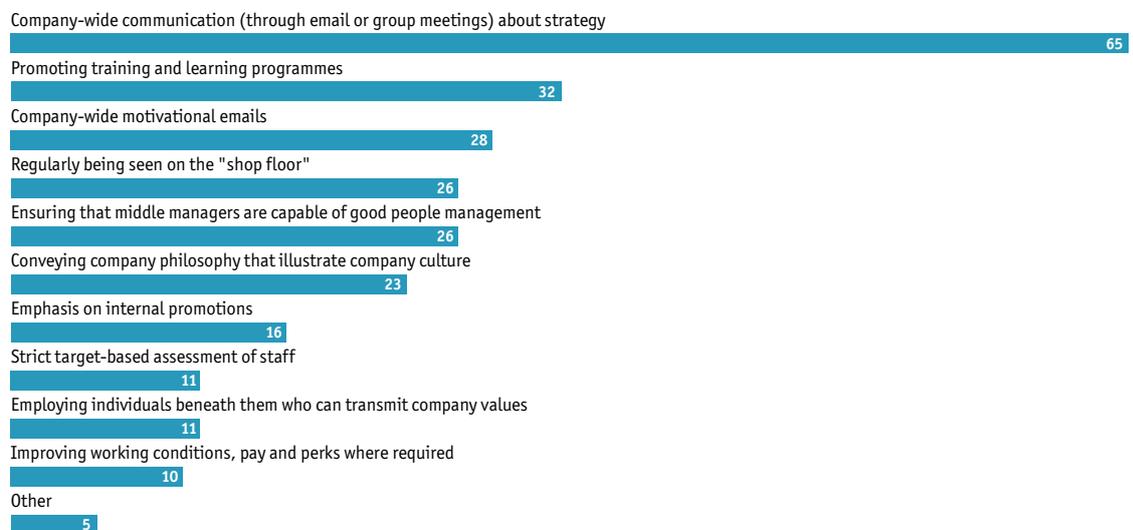
But even if “leadership” coaching and consulting costs more, it is always going to be less expensive and time-consuming to focus attention on getting a few people to act better, than to identify and invest in training an entire tier of middle managers. Well intended or otherwise, the research indicates that too many in the C-suite may be drawn to the “leadership” explanation for employee engagement. Its appeal is bolstered because such an approach involves lower expenditure and less hassle, while helping to maintain central control (see Box).

By way of example, senior managers appear to pay far more attention to inexpensive communications about strategy than to the people-management skills of middle management. When asked to name the main methods that senior management currently use to improve staff engagement, 65% of the non-C-suite respondents answered “company-wide communication (through email or group meetings) about strategy”, whereas only 26% replied with “ensuring that middle managers are capable of good people management” (see fig. 5).

There are numerous other explanations of the C-suite anomaly, although none is conclusive. It is possible that the greater engagement levels in the C-suite (83% of the C-suite claim to be “highly engaged”, compared with only 57% outside the C-suite) generate a positive bias when when company leaders come to assess overall company engagement levels. But this misperception could equally derive from the tendency of their direct reports to present a positive face when interacting with senior managers, thereby creating a false impression.

However, data in our survey point to an exaggerated sense in the C-suite of its own impact. For example, one-half of the C-suite believe that “regularly being seen on the shop floor” is one of the

5. What are the main methods senior management currently use to improve staff engagement? Select all that apply. (% respondents; non C-suite only)





main methods that senior management use to improve staff engagement, compared with only 26% of the non-C-suite who believe this to be the case (see fig. 5). Making an effort to be seen on the shop floor in the belief that their appearance will increase the engagement of individual employees may be part of the management orthodoxy, but it would seem that relatively few others seem to notice that they took the trouble to do so.

Words and action

Further data from our survey, however, raise less benign questions about the fundamental, core beliefs on the engagement issue of many—though certainly not all—senior corporate executives. A very large proportion of the C-suite (87%) believes that “disengaged employees are one of the three biggest threats facing our business”. Such a massive potential danger to the functioning and progress of an entire company might understandably preoccupy the minds of company leaders, and lead to considerable discussion and concrete action. Identifying, supporting, or even weeding out, disengaged staff might seem an obvious action point. However, only 9% of “Managers”, the group closest to the grass-roots of the company, agree that their companies regularly and often tackle staff with “continually low engagement.” One could argue that the organisation is simply not carrying out the instructions of senior leaders, except that only 14% of the C-suite themselves agree with this statement (see fig. 6).

It is also striking that only 6% of the largest companies, with annual revenue in excess of US\$5bn, ever take the harshest approach in tackling disengagement and “regularly and often weed out” disengaged staff, despite presumably tending to have the highest number of employees, and who can more easily get lost in the cracks of the largest organisations.

Such ambivalence is consistent with the fact that almost one-half of the C-suite respondents (43%) say that employee engagement is discussed “occasionally”, “rarely” or “never” at board level. Outside the boardroom, 69% doubt that regular discussions on engagement take place at board level (see fig. 7), and only 3% agree that it is “a consistent agenda point for all major meetings.” Thus, a substantial proportion of company boards do not discuss engagement regularly, and of those that do, many do not take decisions sufficiently meaningful at their meetings to attract the attention even of those immediately below them in the hierarchy.

Are company chiefs merely paying lip service to engagement? Jonathan Berry, founder and managing director of Camrose Employee Engagement, suggests that many top executives are not convinced by the available evidence on the commercial impact of engagement: “You need to measure

“You need to measure engagement properly—otherwise [CEOs] will believe in it only in a vague sense, but won’t commit properly to it. Hard financial figures are what sway the cynical business leader.”

Jonathan Berry, founder and managing director of Camrose Employee Engagement

6. How often does your company “weed out” staff with continually low engagement?

(% respondents; C-suite only)





engagement properly—otherwise they will believe in it only in a vague sense, but won't commit properly to it. Hard financial figures are what sway the cynical business leader.”

Alternatively, given their rosy view of the current levels of engagement, they may feel that such action is unnecessary; or their apparent belief in their own power to shape engagement, perhaps makes them feel that their regular communication about strategy and visits to the shop floor will do the trick.

National discrepancies

As well as position in the hierarchy, geographical location has a significant bearing on survey responses. Over one-half (51%) of UK respondents and 46% from the Middle East believe that employees are more engaged than two years ago, compared with only 30% in France. Moreover, 63% in the UK and 65% in Germany claim to have more engaged staff than their competitors, whereas in Spain only 37% think that this is the case.

These results seem to correlate with respondents' estimation of their own company's financial performance, with 71% from the Middle East and 65% from Germany reporting improvement over the past 12 months, compared with only 40% in Spain.

Faith in the power of corporate engagement policy to override economic concerns also varies across regions. When asked whether their company's engagement policies over the past year had exerted a positive impact on employee morale, only one in five respondents from France and Spain believe this to be the case, whereas more than two in five in the UK say so.

Looking ahead, other national divergences emerge. Only 34% of German respondents think that “relative level of remuneration” will be an important factor affecting engagement over the next two years, as opposed to 65% in France and around 50% in several other European countries. Some 43% in the Middle East believe that the “changing ambitions of younger recruits” will strongly influence engagement, compared with only 17% in France. Almost one in three Germans think that meeting the demand from older workers for more opportunities will have a strong bearing on engagement, but only around one in ten in the UK and Spain believe this to be the case.

The disillusioned generation

The German concern about older workers is reflected elsewhere in the survey, across all regions. The British and Spanish evidently think that this is a problem that can be compartmentalised, without affecting other age groups and the overall engagement levels within the company. “Long-serving and experienced staff” consistently and by some distance emerge as the group deemed most resistant to efforts to improve engagement. Again, however, the attitudes of the most senior executives display a significant contrast with those of managers closer to the action. Only 32% of CEOs select older workers for this question, whereas 57% of “Directors” do so.

C-suite executives are also more likely to believe that it is particularly difficult to increase the engagement of employees under the age of 25. The gap between those non-C-suite respondents selecting experienced staff and those selecting younger workers is a considerable 33 percentage



The Forgotten Function

Fewer than one in seven among the C-suite believe that middle managers or line managers are “chiefly responsible” for employee engagement in their organisation (see fig. 1). If these managers sense that they are not held accountable by their own bosses on this issue, it stands to reason that many of them will not break their necks trying to boost engagement. Moreover, as we have seen, only one in four outside the C-suite believes that senior managers strive to ensure that middle managers are “capable of good people-management”.

This is all despite the fact that non-C-suite respondents believe “the motivational ability of one’s line manager” to be the single most significant contributor to engagement (see fig. 8). A 2010 Hay Group survey that focused exclusively on more junior managers lends weight to this finding, with 45% saying that “middle managers” and “line managers” were responsible for their personal levels of engagement, and only 17% answering that “the CEO and top team” were responsible.

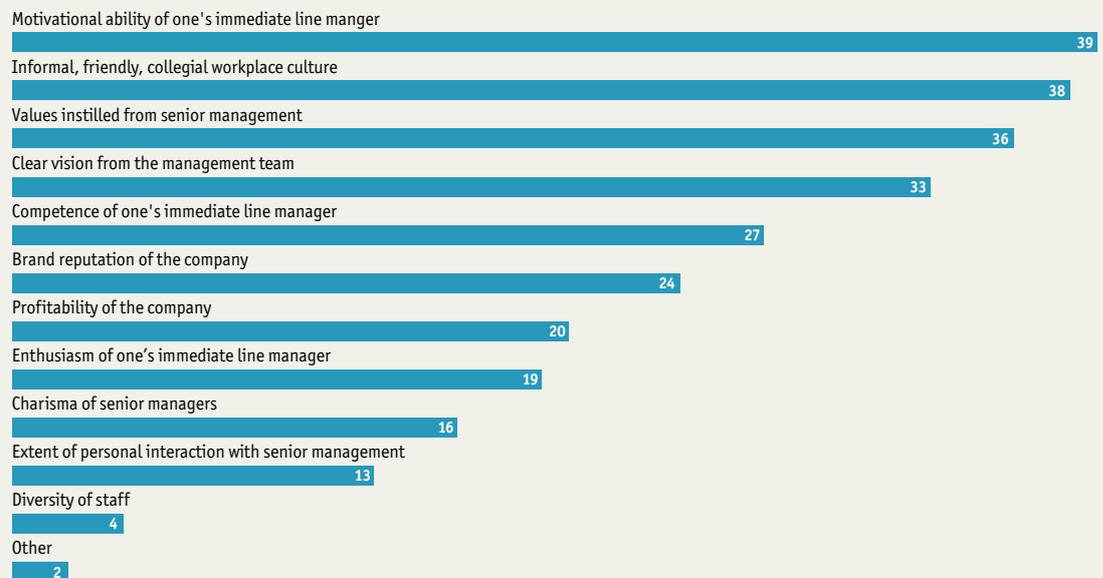
A number of commentators argue that middle management is being seriously undervalued by corporate decision-makers, and that this neglect is impairing engagement. “There is no real evidence to say that leadership makes a difference,” says Chris Bones of Manchester Business School. “The only people that can help employees reach positive answers to those questions that directly influence engagement, such as ‘do I feel valued?’ or ‘is my career progressing?’, are their immediate managers”, he says.

Mr Bones argues that middle managers have suffered over the past couple of decades from “delayering”, a reduction in the number of rungs in the management hierarchy. “The recent emphasis on ‘talented’ leaders has diverted investment away from middle management,” he says. “Consequently, line managers are more stretched, and have less time to devote to people-management. Nor do they feel valued for what they achieve in motivating others.”

Autonomy not automaton

Others believe that there is a centralising tendency in large organisations that inevitably diminishes

8. Which of the following company-related issues do you believe contribute most to employee motivation? Select up to three.
(% respondents; non C-suite only)





Constantly seeking out the views of managers and other employees “produces a much more powerful catalyst for engagement. Employees feel they have a voice, feel valued.”

David MacLeod, UK government adviser on engagement

the influence of the middle manager in all respects, including engagement. “We need a philosophical shift away from the very mechanistic way in which organisations have been run for the last century or so,” says Jonathan Winter, founder of The Career Innovation Company (Ci). “The quest for efficiency pushes senior executives to make decisions at the centre, but this disengages managers and workers who feel they are being constrained from making those decisions themselves.”

David MacLeod, the co-author of a report on employee engagement sponsored by the UK government, agrees that the majority of companies shrink from devolving responsibility, and employ a top-down approach to employee engagement. He divides engagement strategies into two: the “transactional” and the “transformational”. The “transactional” approach, instigated by senior management and favoured by most companies, measures engagement through employee surveys, and then acts upon the results. Engagement is thus a set of transactional processes, standing separate from corporate strategy, rather than a core part of it.

With the “transformational” approach, on the other hand, the views of managers and other

employees are constantly sought on how products and services can be improved, with these ideas perpetually shaping strategy development. Not only does this method keep the strategy responsive to market conditions, argues Mr MacLeod, but “it produces a much more powerful catalyst for engagement. Employees feel they have a voice, feel valued.”

The task of making employees feel valued at work will inevitably fall in large part to the line manager. Indeed, Ci’s research has revealed that merely having regular conversations with their immediate manager about their own potential, development and future career dramatically increases the engagement of employees.

Employee surveys in 2010 at Sainsbury’s, a UK supermarket chain, have suggested that the line manager has become an even more significant focus of engagement during recent times. “In a recession, people naturally become more anxious, more concerned with their own lives and what is going to happen to them,” explains Jacki Connor, director of colleague engagement at Sainsbury’s. “They want to know: ‘Does my line manager care about me, do they understand the challenges I am facing?’ They look to their manager for support more than ever.”

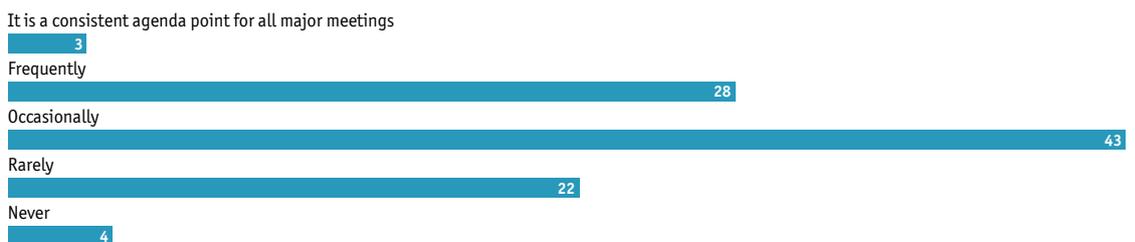
points. Among the C-suite, that gap is just 13 percentage points (see figs. 9 and 10).

It might be that the C-suite retains a particular insight into the needs of so-called Generation Y that evaded the attention of executives lower down the ranks. But a more plausible explanation is that without direct experience of a company’s youngest recruits, some in top management are defaulting to management orthodoxy that presents this newest generation as typically demanding and impatient.

Those survey respondents with the most relevant recent experience, however, are less likely to accept that Generation Y presents such problems. Jonathan Berry agrees that the engagement

7. How often is employee engagement discussed at board level in your organisations?

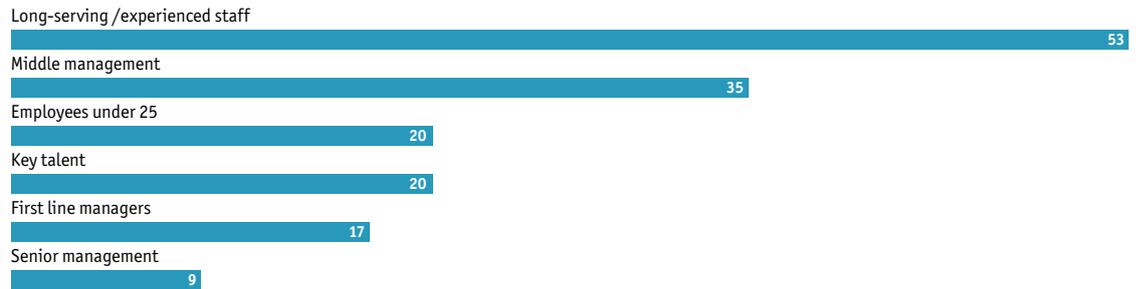
(% respondents; non C-suite only)



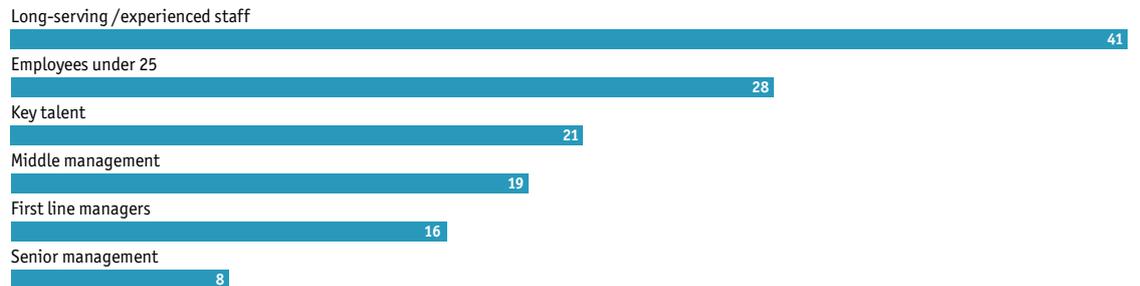


Re-engaging with engagement

9. For which of the following groups does your company currently find it hardest to raise engagement levels? Select up to two.
(% respondents; non C-suite only)



10. For which of the following groups does your company currently find it hardest to raise engagement levels? Select up to two.
(% respondents; C-suite only)



challenge posed by younger workers is “somewhat overblown”, and argues that older workers tend not only to be more disengaged, but that the impact of their disengagement can be very serious.

He argues: “When you are young, advancement is quite steep. Older workers can hit a ceiling, and start to reflect that their achievements haven’t matched their original ambitions. Consequently, a groundswell of disengagement can show itself among the 35-45 age group. But these workers represent the engine of the company—experienced enough to know exactly what they are doing themselves, and also to bring on younger people. If they aren’t engaged, the entire company suffers.”



Conclusion

If, as the overwhelming majority claim, “disengaged employees” represent one of the three biggest threats facing their business, it would appear that sufficient understanding or action by corporate leaders is lacking. Indeed, many leaders may well be grossly overestimating their own influence on engagement vis-à-vis that of middle managers.

It is one thing to identify disengagement as a serious commercial threat, but seemingly another to take the logical next step to tackle continually disengaged employees and their negative influence. Many, though certainly not all, top executives professing to worry about engagement don’t even see fit to discuss the issue in board meetings, a finding that prompts the question as to whether the C-suite genuinely believe the issue is as serious as they claim it to be.

Although not all C-suite can be tarred with the same brush, for many a far deeper contradiction may be operating. An employee’s local environment and relationship with his or her immediate supervisor may largely determine individual engagement, but the company leadership is often unwilling to relax control sufficiently to allow this engagement to grow. After all, how valued can staff feel if they are so far removed from the decision-making that affects them?

“Companies currently have an administrative relationship with their workers,” says Jean Gomes, chairman of The Energy Project Europe. “But they don’t give people what they want—autonomy and accountability. Senior managers pay for engagement surveys and make superficial adjustments, but they don’t really believe in people. If they did, they would fundamentally change the way they operate,” he claims.

The stark findings that in many companies the C-suite believes itself the principal driver of employee engagement, despite evidence to the contrary and inconsistencies in action, may merely serve to justify the board retaining central control, and as a result prove counterproductive in generating greater engagement throughout the organisation.

While every effort has been taken to verify the accuracy of this information, neither The Economist Intelligence Unit Ltd. nor the sponsor of this report can accept any responsibility or liability for reliance by any person on this white paper or any of the information, opinions or conclusions set out in this white paper.

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