The high cost of not actively engaging employees

The new name of the game for the vast majority of companies is to unleash their locked potential. They could afford not to pay too much attention to this issue until now as they could successfully fuel their growth engine through other means. But, as companies have grown, the bottom-line impact that they could generate by going after their locked potential has not only also grown, but done so exponentially. To the point that most companies are slowly finding out that they operate at a fraction of their true potential. Although this could be viewed negatively, it is rather a very good news. Those companies that find the way to unleash their locked potential will be able to fuel their growth engine for the years to come, to the great benefit of all their stakeholders!

By Serge Roux-Levrat and Hans C. Steckling

One of the main goals of HR has always been to create a strongly motivated workforce, regardless of whether the company is mostly process-oriented, service-oriented or research-based. Fifty years ago, motivated and engaged meant for most companies nothing more than being willing to do as "told" as fast as possible; productivity gains rather than innovation was the name of the game.

And to motivate employees, companies used the threats of action plans or disciplinary measures as well as variable bonuses to ensure that staff members were under constant pressure to achieve productivity targets. In this world, people were mostly seen as expenses rather than investments, and were assimilated to machines that could be replaced if they were not performing well.

As companies expanded geographically and product/service wise, a new dimension was then added to the creation of a motivated workforce. This time employees had to be teamplayers and joyfully share lessons learned and best practices. In order to secure this added level of motivation, companies added a few new management tools in their "motivational" basket: empowerment, job enrichment and rotation, as well as ownership in the form of share grants and stock options.

However, before companies had successfully planted new flags in every part of the world that made sense, increased competition from the developing countries, shortened product lifecycles and more demanding customers hit them.

To respond to these new market forces, companies rapidly devised new strategies based on strengthening their brands, innovating, achieving scalability, and focusing on core competencies and outsourcing everything else among others. And in order to achieve these goals, management quickly realised that the workforce now had to be motivated to be also creative.

As a result of these additional motivational characteristics, **HR quickly found out, they could no longer create a motivated and engaged workforce by themselves**. They needed to rely more heavily on managers and leaders to do so than they had in the past.

However, HR encountered a serious challenge: the vast majority of successful managers and leaders master only one dimension of how top performance is achieved: the ability to execute strategies effectively. They are usually average, if not weak, at the second dimension of how top performance is achieved: mastery of the art of science of engaging employees.

And, because managers and leaders continued to deliver the "numbers", and still do to a large extent, HR found out over the last 15 years that senior management were not prepared to invest time and resources to help managers and leaders become experts at engaging their people for top performance.

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The problem was not so much that senior management did not believe that a more engaged workforce could help boost the bottom-line, but that **the link between employee engagement and the company's bottom line (and balance sheet) remained intuitive and not quantifiable**.

Thus, it required a significant leap of faith on the part of senior management to believe that improved employee engagement could impact positively and significantly the bottom-line. Hence, by not taking active steps to quantify the value of engaging a workforce, HR did not do itself a favour. Quite the opposite. Slowly, HR lost touch and credibility with top management, and fewer and fewer HR executives got invited to the Executive Board.

Now the good news is that this no longer has to be the case. Several new practice human capital management tools such as FLAIR® or RACE® have been developed and make an explicit link between the level of engagement of the workforce and the company's bottom-line.

And not surprisingly, those companies that are using these tools are finding out that although they do make their "numbers", they nevertheless operate at a fraction of their true human capital potential.

A recent study by Towers Perrin covering 5'000 employees in the UK has demonstrated that companies with engagement levels above their industry sector's average outperform their peer group by 17 percent in terms of operating margins.

While this study did not assert direct causality between the level of engagement of a workforce and the bottom-line, the evidence of a significant relationship between level of employee engagement and financial performance is now clear. Our own research and work suggests an out-performance by 15 to 30 percent depending on the quality of the leadership capital of the companies in question and the percentage of employees who are actively engaged.

Strange as it may seems, the level of active engagement is pretty low among staff members in most countries (see table 1 below). Although the figures vary considerably within industries and among companies within an industry, the sad fact is that few companies are able to achieve active engagement scores of 20 percent and higher. However, without a core base of actively engaged staff members, a company has little hope of being able to operate at a high level of its true potential.

Worse still. The percentages of disengaged staff members keep increasing, usually varying between 10 percent and 25 percent and over.

Not surprisingly, engagement scores across job levels show an even more worrying trend: that only the very senior executives are likely to be highly engaged. As table 2 shows, over 50 percent of senior executive are normally highly engaged versus only 25 percent for senior managers and less than 20 percent for all other middle managers and staff members.

Table 1: Level of active engagement across countries

	Percentage of active engagement
France	~18%
Germany	~14%
Italy	~22%
Netherlands	~17%
Spain	~27%
Switzerland	~23%
UK	~21%
USA	~17%

Sources: 2003/2004 research reports by Towers Perrin, getTalented analyses

These statistics are reasonably aligned with our own experience of the level of active engagement across job levels within Swiss-based companies. If anything, these statistics show that many leaders are indeed failing to actively engage their staff members. And consistent with our own findings, this inevitably translates in most leaders operating their units at a fraction of their true potential.

This calls for a radical new approach to leadership development, coaching and recruitment.

To start with, companies must evaluate their leaders along the two previously-mentioned performance dimensions. In order to do so, they need to go beyond the current best practice leadership assessment tools and adopt next practice tools such as FLAIR®.

that enable leaders to take immediate actions that impact the bottom-line.

At the end of the day, most companies have to demonstrate convincingly to analysts and shareholders that they are still growth companies. And whether you are a big multinational company generating over US 10bn in profit a year

Table 2: Level of active engagement across job levels

	Percentage of active engagement
Senior executive	~53%
Director/manager	~25%
Supervisor/foreman	~18%
Specialist/professional	~16%
Non-management salaried	~14%
Non-management hourly rate staff members	~12%

Source: 2003 report by Towers Perrin (US market)

This is not surprising given the fact that when employees operate at a high level of engagement, there is normally a release of additional "power" in the form of extra time and a willingness to go the extra miles to get things done, genuine teamwork and boosted creativity, enhanced transformation of knowledge capital into process, system, product and service innovations, as well as an increased execution speed.

However, for a higher level of engagement to impact the bottom-line, leaders must not only master the art and science of engaging people for top performance, but also the discipline of strategy execution.

Why? Because these next practice tools have as their ultimate objective to help leaders identify the best options and drivers that they can leverage to unleash locked potential. In order to deliver on their promises, the final output of these next practice tools are not "personal development plan binders".

Personal development plans are useful and necessary, but they are long-term range tools that rarely produce short-term bottom-line benefits. To overcome this significant shortcoming, these next practice tools provide a company with a series of sharp-focused value-enhancing roadmaps

or a mid-sized company positioned in a growth segment, the key to sustainable success is increasingly determined by your ability to both execute your strategy effectively and engage your staff members.

The recent shift of GE regarding the management of its leadership capital attest to this: unleashing locked potential is the new name of the game. And as with innovation, you cannot expect changes over night. So, the more you delay adopting the next practice leadership capital management tools, the more you put the future success of your company at risk. Can you really afford to bear this risk? The answer is yours.

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