



Driving a Culture of Engagement through Leadership Behavior July 2005

Overview

Recent estimates peg the number of actively disengaged workers – those who are unhappy in their jobs and through their behavior undermine the work of their engaged colleagues – somewhere between 16% and 50% of the workforce. As if that statistic is not staggering enough, consider that employee disengagement costs U.S. businesses nearly \$350 billion in lost productivity annually.¹

There is a growing body of research which shows that leader behavior is a key factor in gaining employee engagement. Research on the service-profit chain, for example, has highlighted the key role of leaders in securing and maintaining employee commitment to service. viaPeople's work in the area of employee engagement has revealed that specific leadership competencies produce motivating organizational climates, which increases employee motivation to perform at a high level, and which predict desired organizational outcomes, including customer satisfaction and financial performance.

The bottom line is that companies that successfully engage their people achieve higher levels of performance and deliver greater return to their shareholders. Sears was one of the first companies to demonstrate this relationship -- they found that a 5 percent increase in employee satisfaction resulted in a 1.3 percent increase in customer satisfaction and a 0.5 percent increase in revenues.² Hewitt's research supports these results, reporting that companies with high employee engagement achieved an average total shareholder return of 24.2%, while companies with low engagement had negative total shareholder return.³

In May 2005, viaPeople partnered with an industry-leading retailer to determine the impact of leadership behavior on employee engagement. Our client wasn't satisfied with the *assumption* that leader behavior influenced employee engagement – they wanted empirical proof. In particular, our client was interested in identifying specific leadership behaviors that drive high levels of employee engagement. Armed with this knowledge, our client can better plan how to allocate resources aimed at motivating and retaining its talent.

The Business Challenge

The primary objective of the project was to identify the key behaviors leaders exhibit to drive a highly engaged workforce. With these behaviors identified, our client would be able to specifically target those behaviors, through HR initiatives, and impact the levels of employee engagement throughout the organization. The insight gained from this project would enable our client to enhance many of its human capital management

¹ Deloitte & Touche; Gallup

² Harvard Business Review, 1998

³ Hewitt Associates



programs, including employee selection, training, and performance management. More specifically, our client wanted to be able to:

- Develop selection tools which probe for specific leadership behaviors found to drive employee engagement,
- Create training curricula to complement the key drivers of employee engagement, and
- Support strategic initiatives by aligning leader performance/leader training and development to measures of employee engagement.

The viaPeople Solution

In conjunction with our client's leadership development program, viaPeople designed and conducted a web-based 360-degree feedback assessment for 84 leaders in the company. The 45-item feedback instrument measures competencies necessary for success in leadership positions across the organization. Example competencies measured by the 360 instrument include, Coaching and Development, Innovation, and Organizational Strategy.

The 360-degree feedback data were then correlated with leaders' department scores on the company's employee engagement survey to determine likely causal relationships. The engagement survey consists of 57 questions, measuring 5 dimensions of employee engagement. Using regression analysis, we were able to determine those leadership behaviors having the greatest impact on employee engagement. A sample of the results is described in the next section.

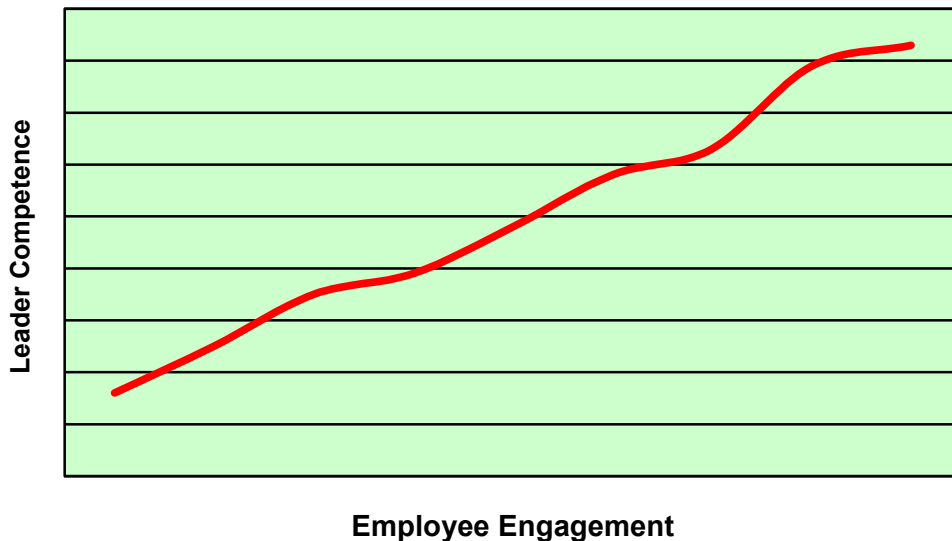
Results

Our analyses uncovered a number of relationships between leadership behavior and employee engagement. As Figure 1 shows, more competent leaders lead employees that demonstrate higher levels of engagement. According to the service-profit chain, this in turn leads to higher customer satisfaction and ultimately increased company profitability.



Figure 1

Relationship between Leader Competence and Employee Engagement



Our results uncovered a number of leaders' behaviors that are drivers of employee engagement, including the following:

- Leaders who set clear expectations and provide direction to team members lead employees who are more engaged and work harder to accomplish their goals,
- Leaders who focus time, resources, and energy on priorities that matter to the business manage staff that are more motivated and produce greater results,
- Leaders who provide regular communication to staff about things that affect them lead employees who are more engaged, and
- Leaders who follow through on their commitments lead more highly engaged employees.

These results clearly demonstrate that employee engagement is influenced by specific leadership behaviors. While it seems intuitive that leader behavior impacts employee engagement, our client now knows exactly which behaviors have the greatest impact on this relationship and can therefore focus on strengthening these behaviors through various HR initiatives.

The insights gleaned from this project are currently being used by our client to support their strategic initiative of focusing leaders' performance on behaviors that directly impact the company's ability to motivate and retain top performers. Going forward the organization will use the results to develop training curricula that complement key drivers of employee engagement, as well as generate selection tools which probe for the specific behaviors that drive a culture of engagement.