Introduction — The Value of Employee Engagement

"Peanut" was an improbable nickname for the veteran union member who worked on the loading dock. Under the Big Dogs baseball hat and blue sweatshirt was an imposing man who bore a passing resemblance to onetime NBA power forward Karl Malone.

His manager, Lou, asked if he would agree to be interviewed for a study of what makes a good work life. Forget it, he said. He didn't really like the larger company, and he wasn't going to be part of any effort to sugarcoat things.

"They're not going to ask you about the company," said his manager. "They're going to ask about things right here. They're going to ask about me, about our team. Would you do it as a personal favor to me?"

"That's different," Peanut relented. He had plenty of good things to say about his manager, his team, and work on the dock itself. And, he told his manager, "For you, I'll do it."

After a few minutes of questions from the interviewer, Peanut loosened up and began talking effusively about Lou and the improvements he'd brought to the facility. Once Peanut started talking about his supervisor, he just kept going.

"Lou cares about everybody's situation," he said. "He has an understanding. He can take control of a situation. We've never seen the changes happen in our environment like they're happening now. You've got a guy who will look out for you. You call him with a problem; he'll help you work through it."

Each time the interviewer asked a question, Peanut ran with it, telling stories about Lou listening to the ideas of the men on the dock, praising good work, marshaling or fine-tuning the right equipment, picking up someone whose broken car left him stranded, or giving advice about personal matters.

"A good supervisor," the dockworker said, "is not only a person who comes to work to hand out orders from the top but also somebody who will work with people. Not every situation is about authority and writing people up, punishment for things that you might have messed up. It's also about somebody who looks out for you, cares about what's going on, will show the concern to pull you up if you've got a problem, and will ask you, 'Is there anything I can help you with?' You want those kinds of people in your corner. We've seen quite a few people come and go. Lou is the best we've seen. He has made a difference — a big difference."

As it turned out, Peanut had some sage insights into what makes a great manager, insights that match discoveries emerging from the world's largest database of employee opinion and business performance. Those results show that in rallying the troops, front-line managers matter more than senior leaders. Hardworking supervisors who care can motivate even the most cynical employees. Great managers like Lou drive better bottom-line results not only while improving the lives of their employees, but precisely because they improve those lives.

Identifying the mechanisms through which employee engagement is increased and translated into profits required a tremendous amount of research. More than a decade ago, The Gallup Organization took a broad view of how companies were managing their people and determined that most organizations were shooting in the dark. The typical business commissioned an excruciatingly long survey of employee opinion, hoping that somewhere among 100 or 200 questions, it would stumble upon the concepts that mattered. When the results returned, they were too cumbersome to feed back to the troops, where no one would have known what to do with them anyway. Executives assumed there was a general level of “satisfaction” that pretty much applied throughout the company, and that they — the senior team — were the main drivers of their employees’ feelings about the company. All these assumptions were wrong.

Gallup assembled a select group of its social scientists to examine the 1 million employee interviews then in its database, the hundreds of questions that had been asked over the preceding decades, and every variable on business-unit performance that organizations had supplied with their employee rosters. These data were analyzed to find which survey questions — and therefore which aspects of work — were most powerful in explaining workers’ productive motivations on the job. Ultimately, 12 elements of work life emerged as the core of the unwritten social contract between employee and employer. Through their answers to the dozen most important questions and their daily actions that affected performance, the million workers were saying, “If you do these things for us, we will do what the company needs of us.”

The 12 Elements of Great Managing that emerged from the research are as follows.

1. I know what is expected of me at work.
2. I have the materials and equipment I need to do my work right.
3. At work, I have the opportunity to do what I do best every day.
4. In the last seven days, I have received recognition or praise for doing good work.
5. My supervisor, or someone at work, seems to care about me as a person.
6. There is someone at work who encourages my development.
7. At work, my opinions seem to count.
8. The mission or purpose of my company makes me feel my job is important.
9. My associates or fellow employees are committed to doing quality work.
10. I have a best friend at work.
11. In the last six months, someone at work has talked to me about my progress.
12. This last year, I have had opportunities at work to learn and grow.*

Behind each of these is a fundamental truth about human nature on the job. The correlations between each element and better performance not only draw a roadmap to superior managing; they also reveal fascinating insights into how the human mind — molded by thousands of years of foraging, hunting, and cooperating within a close-knit and stable tribe — reacts in a relatively new, artificial world of cubicles, project timelines, corporate ambiguity, and constantly changing workgroup membership. People neither were created to fit corporate strategies nor have evolved to do so. Rather than contest these facts, the most successful managers harness the drive, virtuosity, and spirit that come with employing humans, even as they understand the inevitable chinks in their armor.

The 12 crucial statements were disseminated widely in the bestselling *First, Break All the Rules*, published in 1999. Much of its success stemmed from challenging the prevailing ideas in ways that helped executives better understand what Peanut already knew, such as why he would do things for Lou that he wouldn't do even for the company's chief executive. "Leaders on snorting steeds . . . are important. But great managers are the bedrock of great organizations," Tom Peters wrote in touting the discoveries. "Great managers are an organization's glue.

They create and hold together the scores of folks who power high-performing companies."

Many executives struggle to formulate a strategy for increasing profits through their employees. Often they resort to the simple arithmetic of fewer employees = lower costs, without considering the wide range in productivity that depends on each person's engagement. "I don't think enough investors have asked the more important question: Can companies be even more successful by focusing on optimizing each employee's contribution, rather than simply looking for ways to reduce the cost of employing them?" wrote a columnist for *The Wall Street Journal.* "Perhaps we, as investors, need to be more conscious of how those people who clean our hotel rooms, cook our meals, and deal our cards are treated and paid, rather than simply looking to see whether the expense can be cut further. Staff motivation, although difficult to quantify, should be part of the investment analysis."

Staff motivation is quantified and its effect on profitability is perpetually being analyzed from Gallup's files. Lou's and Peanut's answers to the 12 statements above are just two of the now 10 million sets of responses in the digital vault. The 12 Elements today are measured in 41 languages and 114 countries, in industries as varied as electrical utilities, retail stores, restaurants, hotels, hospitals, paper mills, government agencies, banks, newspapers, and dozens of others. Each time Gallup conducts a census of employee opinion within a business, it also requests every available datum of performance: customer surveys, resignations, accidents, productivity, sick days, creativity, sales, and profitability. When analyzed together, the 12 Elements and the business metrics show how much of a company's health is affected by the engagement of its people.

Company performance starts with the most basic act: showing up for work. Engaged employees average 27 percent less absenteeism than those who are actively disengaged. In a typical 10,000-person company, absenteeism from disengagement costs the business about 5,000 lost days per year, worth $600,000 in salary paid where no work was performed. [3] Managers who maintain higher levels of engagement in their teams spare their companies the cost of what are sometimes euphemistically called "mental health days."

People resign for many reasons. Some of them, such as a return to college or a spouse being recruited out of town, don't reflect on the quality of work life. Even perfectly managed employees don't always plan to stay with the same company forever. But quitting often has everything to do with the job. In a free market economy, walking out for good is the employee's trump card against disengaging conditions, and an expensive consequence for the company. It is not unusual, for example, for some retailers to endure 100 percent annual turnover. Executives in such industries often chalk up the comings, goings, and perpetual new-recruit training as an unavoidable cost of hiring low-wage, college-aged people whose lives have not stabilized. Yet within the churn lies a hidden cost of poor managing: business units with a surplus of disengaged employees suffer 31 percent more turnover than those with a critical mass of engaged associates. [4]

Seeing the revolving door in other industries, leaders of low-turnover companies often breathe a sigh of relief, not realizing that while the movement of people in and out of jobs is slower, the effect of engagement on resignations in their fields is even greater. Within these more settled organizations, business units with many actively disengaged workers experience 51 percent more turnover than do those with many engaged employees. [5] Moreover, the cost of losing one person is often higher in low-turnover businesses. While it will cost 25 to 80 percent of an entry-level or front-line employee's annual wage to replace him, replacing an engineer, a salesperson, a nurse, or other specialist ranges from 75 to 400 percent of her yearly pay. [6] Disengagement-driven turnover costs most sizable businesses millions every year.

One of the unfortunate facts of life is that some employees steal. Retailers call it "shrink," an overly cute term for outright theft. It has a pernicious effect on profitability, because the company must sell five, ten or more identical items just to cover the cost of the one item stolen. It would be nice if all parents impressed upon their children a sense of right and wrong that would prevent them from stealing. As it turns out, some employees are susceptible to temptation, and that temptation is magnified by a feeling of detachment from the team. Workgroups with an inordinately high number of disengaged workers lose 51 percent more of their inventory to "shrink" than do those on the other end of the spectrum.

Life on the job can be risky. Utility workers risk electrocution. Loading dock workers risk having their toes smashed under a forklift. Nurses risk getting stuck with a needle contaminated by blood-borne disease. In practice, all the safety glasses, steel-toed boots, latex gloves, and hard hats cannot substitute for constant vigilance and good teamwork, both of which collapse when employees care little about their jobs. The chance of a disengaged worker having an accident on a given day are substantially higher than those of his engaged colleague. The workgroups whose engagement puts them in the bottom quartile of the Gallup database average 62 percent more accidents than the workgroups in the top quartile.

To the outsider, the most obvious connection between employee engagement and the way a business operates is its customer service. Anyone who's been the victim of a surly flight attendant, a disgruntled waiter, or a slovenly cable installer knows how a customer's experience cannot be separated from the work experience of those who serve him. Anyone who's had the good fortune to encounter an enthusiastic employee knows how she can make even the boisterous claims in the company's advertising come to life. Although much of a customer's experience is outside the control of associates, being in the higher reaches of team engagement equates to 12 percent higher customer scores than those in the bottom tier. No amount of legislating, demanding, or incentives can command the force of a deep emotional commitment to one's team.

These various effects combine to create an appreciable competitive advantage for a charged-up team. When the database of nearly 1 million teams is sorted from most- to least-engaged and split down the middle, teams in the more engaged half are more than twice as likely to succeed as their counterparts on the other side of the divide. When the teams are split into four equally sized groups, teams in the top quartile are three times as likely to succeed as those in the bottom quartile, averaging 18 percent higher productivity and 12 percent higher profitability.

The same pattern that occurs at the individual and workgroup level emerges when an entire company achieves high engagement. Among the publicly traded companies in the database, the more engaged organizations outperformed the earnings-per-share of their competitors by 18 percent, and, over time, progressed at a faster rate than their industry peers. In the companies that are better places to work, millions of small actions — statistically insignificant in isolation — created higher customer scores, reduced absenteeism, led to fewer accidents, boosted productivity, and increased creativity, accumulating to make a more profitable enterprise. In a contrast group of less engaged companies, managerial neglect diminished team spirit, and took a sizable chunk of profitability with it.

Worker commitment is by no means the sole cause of success. Depending on the company's circumstances, it may not even be the most important. Introducing an incredible new product, finding new production methods, managing currency or commodity risks, perfecting an efficient operating model, and many other variables quite separate from personnel strategy can have dramatic effects on the business's fortunes. But the evidence is clear that the creation and maintenance of high employee engagement, as one of the few determinants of profitability largely within a company's control, is one of the most crucial imperatives of any successful organization. It introduces a powerful edge impossible to replicate through any other channel. Because of the financial consequences of worker commitment, no executive can fully discharge his fiduciary responsibility to the shareholders while ignoring it. Regardless of her technical abilities in the function she supervises, no manager wholly fulfills her responsibilities unless she diligently attends to the engagement of her team.

Each chapter that follows describes one of the 12 Elements in detail. Wrapped around an explanation of the element is the story of a manager who epitomizes that aspect. The explanations draw not only on the 10-fold increase in data since the publication of *First, Break All the Rules*, but also on a wealth of insights from brain-imaging studies, genetics, psychology, behavioral game theory, and other scientific disciplines. When combined, these discoveries shout that one of the dumbest things companies do is try to make their "human resources" more productive while fighting what makes them human. They also demonstrate that great managing is not some amorphous, "difficult to quantify" concept.

The data give a clear image of what is most important for inspiring people to do what the company needs of them.

The managers profiled here were chosen from among thousands whose employee engagement levels were reviewed by the authors and then subjected to a careful vetting process. Even so, while each exemplifies success on that element, none of them is a textbook example of how to approach the challenge. There are no cookie-cutter answers to such complex team issues. Each requires a manager's judgment, his unique talents and strengths, and his dedication to prevailing.

Readers should not assume the companies represented by these managers are universally engaged. Some are close. Some aren't. Almost any large company has at least a handful of great managers who ought to be singled out. The 12 supervisors whose stories are told in this book are representative of those who can properly be called great managers. Those we profile are not a pantheon of the dozen absolute best, freaks of managerial nature the likes of which you may never meet in your own company. Rather, they are the gentle but determined souls you will find half the time in a great company, and one out of ten times in a poor one. They are managers like Lou who improve the lives of employees like Peanut, and change the course of their companies in the process.

"It all begins with management," said Peanut. "People started opening-their eyes a little more. We opened our eyes, and now we see things we didn't see before."

Peters, T. (2001, March). Leadership is as confusing as hell [Electronic version]. *Fast Company,*124-41.

Kent, S. (2005, September 6). Manager's journal: Happy workers are the best workers. *The Wall Street Journal*, A20.

These figures are based on Gallup's meta-analysis of 12 Elements data and the corresponding absenteeism data from all client firms that supplied such records.

Gallup scientists compared top-quartile business units to bottom-quartile units. Harter, J. K., Schmidt, F. L., Killham, E. A., & Asplund, J. W. (2006). *Q12 meta-analysis.* Omaha, NE: The Gallup Organization.

In addition to our own research and observation of turnover costs for organizations we have worked with, we reviewed the literature on estimates of turnover costs, including studies published by American Management Association, the Department of Labor, Corporate Executive Board, Aetna, Nobscot Corporation, and The Jack Phillips Center for Research.

Harter, J. K., Schmidt, F. L., Killham, E. A., & Asplund, J. W. (2006). *Q12 meta-analysis.* Omaha, NE: The Gallup Organization.

Harter, J. K., Schmidt, F. L., Killham, E. A., & Asplund, J. W. (2006). *Q12 meta-analysis.* Omaha, NE: The Gallup Organization.

Gallup scientists conducted an extensive study of the earnings per share trends of organizations in its database. Scientists collected 12 Elements responses, earnings per share, and competitor data for 36 organizations. 565,185 employees were surveyed, and earnings per share data collected for 263 competitors (7.3 per organization). Researchers compared the engagement levels of publicly traded organizations for which census engagement surveys were conducted (average 83% response rate). Eighteen topquartile organizations averaged four engaged employees for every actively disengaged employee (the ratio doubled from 2001 to 2004). Their median EPS was 2.4% above the competition in 2001-2003 and improved to 18.0% above the competition in 2004-2005. Below-average organizations averaged one engaged employee for every actively disengaged employee. Their median EPS was 2.9% below the competition in 2001-2003 and improved to 3.1% above competition in 2004-2005 (the companies in the below-average engagement group also worked on improving engagement). The growth trend, relative to the competition, for top-quartile engagement organizations was 2.6 times that of the below-average organizations.