Becoming irresistible: a new model for employee engagement

By Josh Bersin, principal with Deloitte Consulting LLP and founder of Bersin & Associates, now known as Bersin by Deloitte.

After decades of corporate discourse about the war for talent, it appears that the battle is over, and talent has won. Employees today have increased bargaining power, the job market is highly transparent, and attracting top-skilled workers is a highly competitive activity. Companies are now investing in analytics tools to figure out why people leave, and the topics of purpose, engagement, and culture weigh on the minds of business leaders everywhere.

Our research suggests that the issues of "retention and engagement" have risen to No. 2 in the minds of business leaders, second only to the challenge of building global leadership.

These concerns are grounded in disconcerting data:

- Gallup's 2014 research shows that only 13 percent of all employees are "highly engaged," and 26 percent are "actively disengaged."
- Glassdoor, a company that allows employees to rate their employers, reports that only 54 percent of employees recommend their company as a place to work.
- In the high-technology industry, two-thirds of all workers believe they could find a better job in less than 60 days if they only took the time to look.

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- Eighty percent of organizations believe their employees are overwhelmed with information and activity at work (21 percent cite the issue as urgent), yet fewer than 8 percent have programs to deal with the issue.

- More than 70 percent of Millennials expect their employers to focus on societal or mission-driven problems; 70 percent want to be creative at work; and more than two-thirds believe it is management's job to provide them with accelerated development opportunities in order for them to stay.

The employee-work contract has changed: People are operating more like free agents than in the past. In short, the balance of power has shifted from employer to employee, forcing business leaders to learn how to build an organization that engages employees as sensitive, passionate, creative contributors. We call this a shift from *improving employee engagement* to a focus on *building an irresistible organization.*

Time for a change

One of the issues we must address is the aging idea of an employee engagement survey. While such measures of engagement have been used for years, organizations tell us they aren't providing modern, actionable solutions.

Consider the typical process: Companies deploy annual surveys to benchmark a company's level of employee satisfaction from year to year. Most use vendor-provided surveys that claim to be statistically validated ways of measuring engagement.

The marketplace of survey providers, which is around $1 billion in size, is largely staffed by industrial psychologists who have built statistical models that correlate turnover with various employment variables. The pioneer in this market, Gallup, promotes a survey of 12 simple factors that statistically predict retention.

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Other vendors have their own models, many focused on the characteristics of leadership, management, career opportunities, and other elements of the work environment.

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While none of these models are "wrong," companies tell us the surveys don't prescribe actionable results. In a recent survey among 80 of the most advanced users of engagement surveys, only half believe their executives know how to build a culture of engagement.

Among the broader population, the percentage is far lower. Consider the radical changes that have taken place at work: Employees operate in a transparent job market where in-demand staff find new positions in their inboxes. Organizations are flattened, giving people less time with their direct managers.

Younger employees have increased the demand for rapid job rotation, accelerated leadership, and continuous feedback. Finally, the work environment is highly complex—where we once worked with a team in an office, we now work 24/7 with email, instant messages, conference calls, and mobile devices that have eliminated the barriers between our work and personal lives.

These changes to the workplace have altered the engagement equation, forcing us to rethink it. For example, a well-known pharmaceutical company found that its executives and scientists in China were leaving the company at an alarming rate. The annual engagement survey provided no information to help diagnose this problem. By running a statistical analysis on all the variables among these departing high-potential workers, the

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company realized that in China, unlike other parts of the world, people were expecting very high rates of compensation increase every year. The job market there was highly competitive, so people were being poached based on salary progression alone.

Today more and more companies are deploying analytics solutions to predict retention, correlating factors such as compensation, travel schedule, manager, and demographics to understand why certain people are less engaged than others. But the answers are hard to find: High-technology companies, for example, throw benefits at employees to see which ones stick—unlimited vacation, free food, health clubs, parties, stock options, and fun offices are common. Do these all result in high engagement? Most companies can't really tell you.

So what matters today? How can we create an organization in today's work environment that is magnetic and attractive, creates a high level of performance and passion, and continuously monitors problems that need to be fixed?

Make work irresistible

Our research suggests that we need to rethink the problem. There are three issues to address:

1. Companies need to expand their thinking about what "engagement" means today, giving managers and leaders specific practices they can adopt, and holding line leaders accountable. Here we suggest 5 elements and 20 specific practices.

2. Companies need tools and methods that measure and capture employee feedback and sentiment on a real-time, local basis so they can continuously adjust management practices and the work environment at a local level. These tools include employee feedback systems as well as data analytics systems that help identify and predict factors that create low engagement and retention problems.

3. Leaders in business and HR need to raise employee engagement from an HR program to a core business strategy.

A refreshed model for engagement

After two years of research and discussions with hundreds of clients, we uncovered five major elements (and 20 underlying strategies) that work together to make organizations "irresistible." These 20 factors fit together into a whole system of engagement in an organization, one that is held together through culture.

1. **Make work meaningful**

   The first and perhaps most important part of employee engagement is jobperson fit. We need to make sure jobs are meaningful, people have the tools and autonomy to succeed, and that we select the right people for the right job. This is anything but a simple undertaking.

   Nearly every job has been changed and often transformed by technology, and we constantly look for ways to do more with less. Well-run companies constantly look at the work they do, trying to find ways to outsource more to technology and produce more output with less expensive human input. Despite these pressures to improve productivity, research shows that when we enrich jobs, giving people more autonomy, decision-making power, time, and support, the company makes more money.

Psychologist Daniel Pink writes that people are driven by "autonomy, mastery, and purpose." Individuals crave work that lets them leave a unique fingerprint on a finished product. Zeynep Ton, a Massachusetts Institute of Technology professor, in her book The Good Jobs Strategy shows that retailers like Whole Foods, Costco,UPS, and Mercadona deliver higher profitability per employee by giving their employees above-average wages and greater control over their jobs. The idea of "lowering the cost of labor" to save money backfires because people simply become less productive as their workload goes up.

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At Mercadona and Costco, for example, stores are staffed by people cross-trained to handle many positions: They manage cash registers, stock shelves, rearrange the store, develop promotions, and manage others. The result is both a set of highly empowered teams that have the training and freedom to be both autonomous and productive as well as above-average retention and engagement rates.

As we design jobs to be meaningful, we must also carefully select the right person for each job. Fewer than 40 percent of all hiring teams use any form of formal prehire assessment: Most managers look for relevant experience, college credentials, or GPA.

While these seem to be sound criteria for success, when organizations study the characteristics of high performers, they find that other "fit factors" actually drive success and happiness on the job.16 A movie theater company found, for example, that theater employees who drive the highest levels of customer satisfaction and concession sales are not those with good grades or strong academic experience but rather people who "like to have fun" and "love to serve others." An insurance company found that the best salespeople were not those from top schools but rather those who had experience in the auto industry and no typos on their resumes.

When we hire people who fit, they perform well, and they love their work. The concept of culture has also become an important part of job fit. Zappos, a company that prides itself on culture as strategy, uses its 10 core values to assess people for cultural fit in the early stages of the application process. By getting to know candidates well (through online and phone meetings) before people even apply for jobs, Zappos can assess fit and help people decide if they should even apply for a job. This type of assessment has helped Zappos maintain a high level of engagement, low turnover, and its place among one of the best customer-service providers in online retail.

Research also shows that meaningful work takes place in small teams. Jeff Bezos, the CEO of Amazon.com, is reported to have said that "if there are more than two pizzas in the room for lunch, then the team is too big." Small teams feel empowered, they make decisions faster, and the people get to know each other and can lend a hand when one of the teammates needs help.

Finally, engaged people need time to think, create, and rest. At Google, the policy is called "20 percent time:" a day a week set aside to work on something new or outside your normal job function. A well-known retailer, for example, sends workers home when the store is slow. They're free to run errands, have lunch with their families, or just relax. Then, when things get busy, they return to the store. This company is one of the most profitable in its industry, in part, because slack time gives its workforce the freedom to take care of their home lives and put more effort into their work.

It may seem counterproductive to let people take time off during the week, but in fact the opposite is true. Overworked people tend to burn out, produce lower quality output, provide lower levels of customer service, become depressed, and sometimes just flail around in their exhaustion. Giving people time lets them relax, engage, and perform better.

2. Foster great management

The second element of an irresistible organization is the one business and HR leaders think about the most: management. And I use the word "management" here, not leadership, to refer to the daily, weekly, and monthly activity managers use to guide, support, and align their people.

In many ways, management is the most important capability we have. CEOs can create strategies, investors can optimize capital, and marketers can create demand, but when it comes to building products and offerings, serving clients, and developing internal processes, middle managers make things happen. We each thrive on our ability to contribute to a greater good, and management's job is to set goals, support people, coach for high performance, and provide feedback to continuously improve. Investment in fundamental management practices has a tremendous impact on engagement, performance, and retention.

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In our review of engagement issues, the first area we found is the importance of simple, clear goals. When people have clearly defined goals that are written down and shared freely, everyone feels more comfortable, and more work gets done. Goals create alignment, clarity, and job satisfaction—and they have to be revisited and discussed regularly.

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Goal setting is a challenge. Only 51 percent of companies even attempt to develop aligned goals, and, among these, only 6 percent regularly revisit them. Too many companies write down annual goals and only look at them at the end of the year. We found that companies that revisit goals quarterly have threefold greater improvement in performance and retention than those that revisit goals yearly.

High-performing managers create simple goals, make sure they are clear and transparent, and revisit them regularly. Google, for example, uses an agile goalsetting process called OKR (objectives and key results), which was originally developed at Intel. The process is simple and effective: Each individual (from CEO down) sets ambitious and measurable objectives (like "launch Gmail version X by year end") and are asked to define "key results" that monitor their progress. Everyone's OKRs are public, so it's easy to see what the CEO or your peer is holding himself or herself accountable for. At Google, this creates alignment because employees can see who is dependent on their work. People feel comfortable that they know what to do, they see what others are working on, and the measurement of their performance is clear.

The second management practice that drives engagement is coaching. A coaching culture is the practice that's most highly correlated with business performance, employee engagement, and overall retention. When new managers are promoted to supervisory positions, they often think their job is to direct or evaluate people. While directed management is important, it plays a smaller role than one might think. It is the coaching and development role of management that is the most valuable.

What makes a great coach? As Marcus Buckingham describes the role, great coaches understand people's strengths, move them into positions and rearrange work to leverage these strengths, and coach them to build on these strengths. Nothing makes a person feel better about work than being able to be highly successful.

The third factor in "irresistible" management is leadership development: Organizations with high levels of employee engagement focus on developing great leaders. They invest heavily in management development and ensure that new leaders are given ample support.

High-impact leadership organizations spend 1.5–3 times more on management development than their peers. This continuous focus on building leaders, connecting leaders to each other, and giving leaders the coaching they need is critical to building a highly engaged workforce.

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The fourth issue is the need to simplify or reengineer the annual performance appraisal. This process, which has been institutionalized in more than 75 percent of all the companies we visit, is among the most damaging and disheartening process employees face each year. Only 8 percent of surveyed companies think the process is worth the time they put into it, and the focus on rating and ranking takes the focus away from the coaching and development that people often desperately need.

In many companies, the process does not involve enough continuous feedback, places too much weight on the actual rating, and often does not encourage hyperperformers to perform at an even higher level. The concept of "forced ranking," popularized in the 1960s, is now falling away because it strips the autonomy and judgment of leaders, often discourages very high performers, and rewards those in the middle.

Finally, it is important for companies to remember that management's job is not to manage work but rather to develop, coach, and help people. Rewarding managers only for making their numbers incentivizes what we call "talent hoarding:" attracting the best people and holding onto them for years. To help people get the coaching and support they need to grow, forward-thinking companies reward managers for what we call "talent production:" developing people who leave their teams. This culture of continuous development is a management culture widely used

3. **Establish a flexible, humane, inclusive workplace**

The third major element of an irresistible organization is the need to build a flexible, humane, and inclusive workplace. Most employees today have complicated lives. Studies show that 68 percent of women would rather have more free time than make more money, and while 40 percent of professional men work more than 50 hours per week, 80 percent would like to work fewer hours.

Given the nature of work today, if leaders want people to engage with their organizations, they have to give them a flexible and supportive work environment. SAS, the No. 2 place to work for the last 15 years, has an in-house daycare center, gym, and pool, and the company's turnover rate is below 2 percent. Similarly, Google has a bowling alley and yoga rooms. Free food, yoga classes, happy hours, commute buses with Internet access, and even free laundry service have now become commonplace in high-pressure companies across a wide range of industries. These are no longer just "perks"; they are essential elements of making work fit into our lives.

In addition to such benefits and employee wellness programs, research also shows that open, flexible workplaces have a major impact on engagement. They bring executives out into the open (Mayor Bloomberg created an open work space in New York City, which was credited with bringing teams together to rapidly respond to city crises); they enable people to meet more easily (The new circular Apple campus is designed to encourage groups to meet others); and they give people highly flexible places to work, depending on the way they feel on a given day (Zappos lets employees work from local restaurants, where the company pays for WiFi). Research shows that introverts still want a quiet office, but modern workspaces give people the flexibility to be together or alone, depending on the task at hand.

A second key engagement driver is the need for continuous and ongoing recognition. As soft as it seems, saying "thank you" is an extraordinary tool to building an engaged team. We studied this topic and found that "high-recognition companies" have 31 percent lower voluntary turnover than companies with poor recognition cultures. These companies build a culture of recognition through social reward systems (tools that give people points or kudos to reward to others), weekly or monthly thank-you activities, and a general culture of appreciating everyone from top to bottom. The key to success here is to create a social environment where recognition can flow from peer to peer, freeing managers from being the judge and jury of employee recognition.

Companies that build this culture see tremendous impact. When JetBlue implemented a peer-to-peer recognition system focused on company values, employee satisfaction surged by 88 percent. And there are physiological effects as well: Researchers have proven that when you thank someone, it releases oxytocin, a hormone that makes people more relaxed, collaborative, and happy.

Finally, highly engaged workplaces are also inclusive and diverse: People feel comfortable being themselves. While 71 percent of organizations try to foster diversity and inclusion, only 11 percent have such an environment today. Even worse, only 23 percent hold their CEOs accountable for building a diverse and inclusive environment; instead, leadership often delegates this work to a director within HR. Press about the lack of diversity in Silicon Valley has highlighted how this issue plagues some of the fastest-growing companies in the world.

Diversity and inclusion is not an HR strategy; it is a business strategy. Not only do diverse workplaces attract people from a wider sample, research also shows that teams that operate in an inclusive culture outperform their peers by a staggering 80 percent. In a recent study of high-turnover companies conducted by Quantum Workplace, the second-highest-rated issue in employee engagement was the organization's willingness to "listen to an employee's perspectives." While this is a fairly broad statement, it speaks to the issue of inclusion at an organizational level.

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How do organizations become more inclusive? Inclusion usually comes from the top: Leaders must overcome their unconscious biases and make every effort to listen, create open forums for discussion, and promote people with varied backgrounds (gender, nationality, race, age) who embrace listening and inclusive values. Our research shows that inclusion, unlike diversity, is a cultural issue—one that requires support from top-level leaders as well as all levels of management.

4. **Create ample opportunities for growth**

When top performers leave a company, the most popular comment they make is, "I just didn't see the right opportunities here."

Let's face it: We often go to work with selfish interests. If we don't feel we are going to progress in our chosen role or career, we are likely to look elsewhere. Most engagement research shows that learning opportunities, professional development, and career progression are among the top drivers of employee satisfaction. Employees under the age of 25 rate professional development as their number one driver of engagement, and this is the number two priority for workers up to age 35. As employees get older, their focus on development shifts away from mobility and upward progression in favor of aligning a job with long-term career goals.

Building opportunities for growth is a complex and systemic challenge. First, there must be developmental opportunities, both formal and informal, that let people learn on the job, take developmental assignments, and find support when they need help. This means designing onboarding and transition management programs, developing a culture of support and learning, and giving people time to learn.

Second, a company must support and honor what we call facilitated talent mobility. Most people will not be promoted every year or two (although high-potential Millennials often expect it), but they want to feel that they are growing and can take on new assignments in their chosen area. Managers and the company as a whole need to support and facilitate internal mobility, giving people the freedom to try something new and move from a role where they are highly productive to one where they may be a trainee again.

Finally, organizations must look at their management and leadership behaviors to make sure that learning, development, and mobility are rewarded. Most leaders are rewarded for "making their numbers." While this is certainly important, leaders must also be rewarded for developing people, moving people into the best role, and keeping retention high.

Organizations with a strong learning culture are 92 percent more likely to develop novel products and processes, 52 percent more productive, 56 percent more likely to be the first to market with their products and services, and 17 percent more profitable than their peers. Their engagement and retention rates are also 30–50 percent higher.

One of the best examples of a learning culture is what happens in a retail environment. Most customers have been in stores where employees are trained and empowered. As soon as something is missing or perhaps hard to find, the employee figures out where it is, finds the right size, and helps customers complete a purchase. Unempowered employees who are not cross-trained, however, may just tell customers to ask someone else. A major home improvement retailer studied storeby-store performance and found that teams that cross-train their sales leaders regularly are generating 10–15 percent higher revenue and as much as 20 percent higher engagement scores.

Remember, an irresistible organization is one that employees would never want to leave. What better way to create such a place than to give people lots of opportunities to grow and advance?

5. Establish vision, purpose, and transparency in leadership

The final and perhaps most important element in the irresistible organization is leadership. Our research suggests that four leadership practices most directly impact employee engagement.

The first is to develop and communicate a strong sense of purpose. When organizations define their success through the eyes of their customers, stakeholders, or society, people come alive. Our research shows that "mission-driven" companies have 30 percent higher levels of innovation and 40 percent higher levels of retention, and they tend to be first or second in their market segment.

How do you create purpose, mission, and soul? As John Mackey suggests, define your company's value in terms of all its stakeholders: employees, investors, partners, and customers. When all stakeholders benefit, the business performs well. Pharmaceutical companies are redefining themselves as wellness companies; retailers are redefining themselves as places for healthy food; tech companies define themselves as businesses to help people obtain information; and the list goes on. When you offer people a mission and purpose greater than financial return, you attract passionate individuals who want to contribute. And that brings a level of commitment and engagement no compensation package can create.

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During the heat of the space race, a group of reporters visited NASA (a mission-driven organization) and saw a janitor working toward them with a broom in hand. As part of their story-telling, they took out their cameras and asked the janitor, "So what is your job at NASA?" The janitor looked into the camera and said straight on, "It's my job to help put a man on the moon." How many of your employees can answer a question like this?

The second important element in leadership today is transparency. Thanks to social networks and the Internet, we are all accustomed to rapid, open, transparent communications. If your company is having a bad quarter, has committed fraud, has caused an accident, or was sued or possibly penalized for a compliance violation, tell your people as promptly as possible. Likewise, when you have a good quarter, someone achieves a particularly notable success, or a customer tells you something wonderful, share this as well.

Whole Foods goes so far as to release every employee's total salary and bonuses from the previous year in its annual wage disclosure report. If employees are concerned about their compensation, they are encouraged to make an appointment with HR to discuss their issues.

Transparency is particularly difficult for traditional leaders. They often believe they can "manage the truth" through PR, communications specialists, or timed release of information. Today this typically fails, and people immediately see the deception. New research shows that among Millennials, transparency from leadership rates as among the most important drivers of company loyalty.

Third, leaders must continuously invest in people. High-engagement companies have executives who spend money in learning, regularly meet with teams and provide feedback, and genuinely care about each individual. Our research on "high impact learning organizations," conducted in 2005, 2008, and 2011 (before, during, and after the last recession), showed each year that companies that "overinvest" in L&D (spending per employee) rated highest in employee retention, innovation, and customer service and outperformed their peers threefold in long-term profitability. This trend shows that investment in people matters during good times and bad.

Finally, our research suggests that senior leaders must continuously focus on inspiration. Through their words, communications, and actions, it is the top executives who ultimately engage everyone in the organization. By talking about the future, sharing the vision, and translating the business strategy into meaningful, personal concepts, leadership can be one of the most important drivers of engagement.

A FOCUS ON SIMPLICITY

Highly engaged companies work very hard to make work simple. They remove administrative overhead (compliance processes, formal check-off processes, multistep processes) in favor of trust, autonomy, and a focus on cooperation.

Simplicity, or the removal of formal bureaucratic overhead, can have a dramatic impact on work satisfaction. A series of work-productivity studies by the University of Rotterdam shows that workers who operate in highly complex environments tend to have increased levels of cardiovascular and other illnesses, unless they are given extraordinary amounts of autonomy and local support. Without increased amounts of empowerment and local control, complexity can lead to high levels of error and stress.

Southwest Airlines, one of the top 20 rated employers in 2014, has honed simplicity and empowerment in its business model. The company focuses heavily on employee empowerment in its management training, letting the local team(the airplane crew) make all the decisions they need to run safely, on time, and on budget. The company also works hard to keep its entire business simple: Southwest uses a single airplane model (Boeing 737) and common boarding and reservations processes for every flight. The company has celebrated more than 40 years of profitability and continues to score among the highest in customer satisfaction year after year.

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CAPTURING REAL-TIME FEEDBACK

How do organizations implement these 20 practices in an integrated and holistic way? Our advice falls into two categories.

First, HR and leadership must develop a complete understanding and mindset of these factors and how they all are interrelated. Almost every management practice impacts employee engagement, so while we focus on performance, growth, and innovation, we must simultaneously focus on the impact each strategy has on individual people.

Second, it's important to instrument your company so you obtain regular, unbiased, and anonymous feedback. People always want to talk about what's working and what's not in their company. An annual employee survey is far too slow and limiting. Today pulse survey tools, sentiment monitoring tools, and employee sensing tools give employees a variety of ways to express their feelings and provide direct feedback to managers and peers. Four new tools—Culture Amp, BlackbookHR, TINYhr, and BetterCompany—each have different ways of actively measuring employee feedback and sentiment. Consider these tools as the anonymous "heartbeat monitors" of your business.

PUTTING EMPLOYEE ENGAGEMENT AT THE CENTER OF EVERYTHING WE DO

If we don't have teams committed to our mission, passionate about their work, and willing and ready to work together, we cannot possibly succeed over time. While 90 percent of executives understand the importance of employee engagement, fewer than 50 percent understand how to address this issue. Today's technology-flooded world of work has become complex, demanding, and integrated into our lives. Even though 79 percent of companies today find it daunting and difficult, they can plot their path to the future and design organizations that will thrive with passion, performance, and engagement by focusing on the five elements of irresistible organizations.