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## The Role of Rewards in Building Employee Engagement

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# The Role of Rewards in Building Employee Engagement: A Survey of Rewards Professionals

**A**mid the worst global recession in decades, employees have suffered through wage freezes, lost bonuses, increased work demands and downsizing. The need to motivate employees under these circumstances and the recognition that once the economy improves top talent may leave for other opportunities have created a renewed emphasis and white-hot spotlight on “employee engagement.”

Although a variety of definitions can be found, employee engagement is typically described as encompassing high levels of employee involvement, commitment to the organization and discretionary effort. Engaged employees value, enjoy and have pride in their work. Studies have shown they are more willing to help each other and the organization succeed, to take additional responsibility, to invest more effort in their jobs, to share information and collaborate with other employees and to remain with the organization than employees who are less engaged (Lazear 1989; LePine, Erez and Johnson 2002; Riketta 2008, 2002; Royal and Yoon 2009). Additionally, employee engagement and related variables, such as commitment and cooperation, have been found to be associated with organization performance (Harter, Schmidt, and Killham 2003; Macey and Schneider 2008; Schneider, Macey, Barbera, and Young 2009).

Employee engagement has never been more important. In a competitive economy where organizations are



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operating more leanly than ever, unanticipated departures of key talent can have a particularly detrimental impact on the work environment and the firm's ability to meet customer expectations. The competition for scarce talent is going to become even more intense as the Baby Boomers retire (Gordon 2009). A recent Hay Group study reported that engaged employees are 10 percent more likely to exceed performance expectations (Royal and Yoon 2009). It also found that companies with high levels of employee engagement show turnover rates 40 percent lower and revenue growth 2.5 times higher than companies with low levels of engagement.

Although the focus of engagement efforts has been on team-building programs, employee-opinion surveys, work climate and non-financial rewards, egalitarian pay structures have been found to be related to employee cooperation, involvement, satisfaction, and commitment (Bloom and Michael 2002; Levine 1991; Pfeffer and Langton 1999). All have been used as proxies for employee engagement. Even though WorldatWork's Total Rewards Model indicates that rewards programs should drive employee satisfaction and engagement, research has not examined specific rewards practices used by HR and compensation professionals or attempted to relate pay programs directly to employee engagement levels.

The purpose of this study is to determine how rewards programs and employee engagement are related and whether rewards programs are associated with organization performance. Specifically, the authors wanted to learn:

- What rewards policies and practices are associated with employee engagement
- The extent to which involvement in the development and execution of pay programs enhances employee engagement
- The extent to which employee engagement is associated with organization performance.

## **DATA COLLECTION AND SAMPLE CHARACTERISTICS**

A sample of 6,300 WorldatWork Association members, primarily rewards professionals, was invited to participate in this rewards and employee engagement survey. The survey was open for about a month from Dec. 15, 2009 through Jan. 12, 2010. A total of 736 WorldatWork members worldwide (12 percent) responded.

Respondent demographics shown in Figures 1 and 2 indicate that the survey has a diverse sample representing companies of different sizes and from many different industries. While the diversity of respondents located outside the United States was limited, the breakdown mirrors the WorldatWork membership in the proportions of the countries represented. The majority of respondents represented organizations from the United States (55 percent).

Participating organizations were fairly evenly distributed by size (See Figure 1). Figure 2 shows a diverse range of industries represented by the respondents; the largest representation was from the professional, scientific and technical services (17 percent).

The research findings presented in Figures 3 through 8 group statements into variables based on similarity of their content and analyses indicating that the

compensation professionals responded to the statements in similar ways. Responses to individual items' mean scores, standard deviations, and a more detail breakdown of the findings can be found in the Survey Brief — *The Impact of Rewards Programs on Employee Engagement* published by WorldatWork. Factor analyses and reliability analyses were used to determine the degree to which the statements that make up the variables were related. These analyses can be obtained from the author Dow Scott.

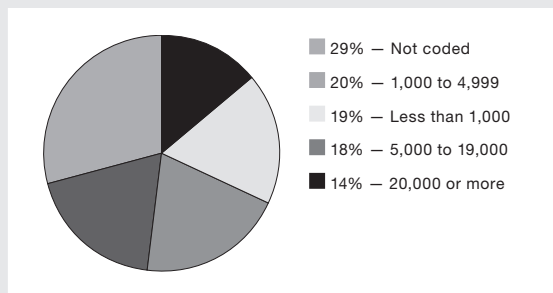
## FINDINGS AND DISCUSSION

As discussed earlier, research indicates that employee engagement has a positive impact on business outcomes. The study

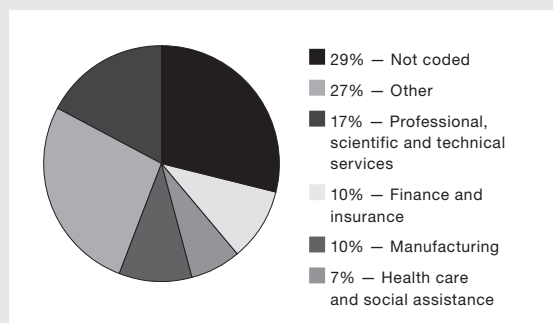
participants confirm that efforts to engage employees via rewards programs have positively impacted innovation and customer relationships and translated into competitive advantage and increased financial performance (See Figure 3).

Along with positive business outcomes for organizations, higher levels of engagement are also likely to result in internal efficiencies and savings. Participants report that efforts to engage employees through rewards programs have, for instance, translated into reduced turnover (See Figure 4). Employee turnover is costly, with estimated cost of replacing employees between 50 percent and 150 percent of salary (S. Hillmer, B. Hillmer, and McRoberts 2004; Waldman, Kelly, Aurora, and Smith 2004). For an organization with 2,000 employees and an annual turnover rate of 5 percent, that translates into approximately \$4 million in turnover costs (assuming an average salary of \$40,000). And the hidden costs of turnover may be even greater in terms of disrupted customer relationships, lost organization- and job-specific knowledge, and increased strain placed on remaining employees. The study indicates that engagement-focused rewards programs can also help create more positive work cultures and climates that enhance cooperation and teamwork and reduce complaints about internal pay equity.

**FIGURE 1 Survey Respondents by Organizational Size — Number of Employees**



**FIGURE 2 Survey Respondents by Industry**



## IMPACT OF FINANCIAL AND NON-FINANCIAL REWARDS ON ENGAGEMENT

As shown in Figure 5, benefits, short-term incentives and bonuses are the financial rewards that have the highest impact on employee engagement. The impact of benefits may seem counter-intuitive to some, but one could effectively posit that benefits are the one reward that is received most equally by all employees. Short-term incentives may score high because of their typical direct relationship to performance. Long-term incentives and financial recognition have the lowest impact on engagement. The authors were surprised that recognition was perceived to have so little impact, but the reason may be that few organizations typically issue recognition awards via formal programs.

Intangible rewards generally have a much higher impact on employee

FIGURE 3 Impact of Rewards on Business Outcomes



FIGURE 4 Impact of Rewards on Climate, Culture and Internal Efficiencies

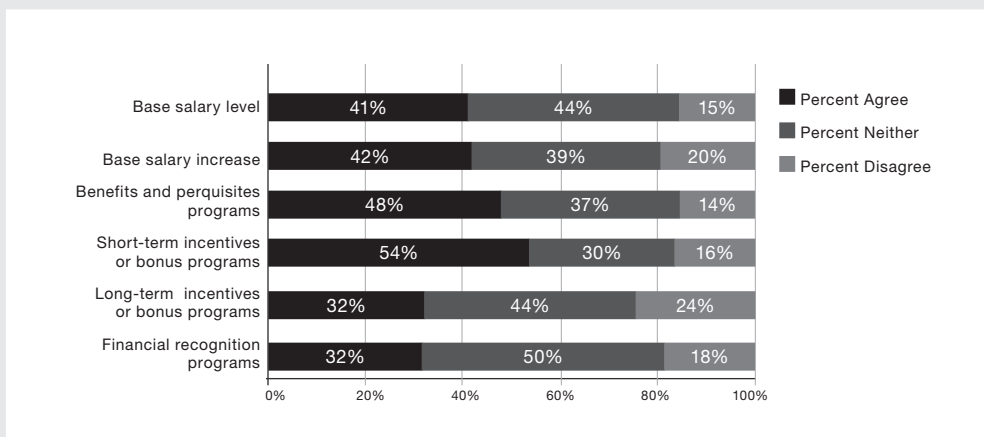


engagement than tangible rewards. (See Figure 6). All of the intangible rewards, with the exception of non-financial recognition rewards, scored higher on impacting employee engagement than the most impactful financial rewards.

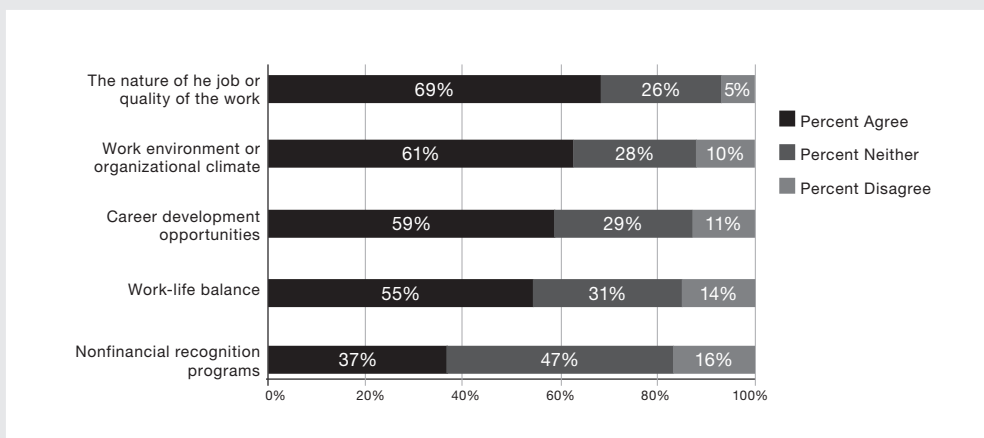
As shown in Figure 7, the quality of leadership also has a pronounced impact on employee engagement in organizations. Most of the leadership attributes noted in Figure 7 also score higher than the impact of most financial rewards on engagement. This speaks to the importance of the right people steering the organization, as well as the criticality of the first-level supervisor, in determining an employee’s engagement level.

Conventional thinking and numerous research studies suggest that participation in rewards program design and implementation builds ownership and commitment (Fernie and Metcalf 1995; Wagner 1994). Indeed, this study found

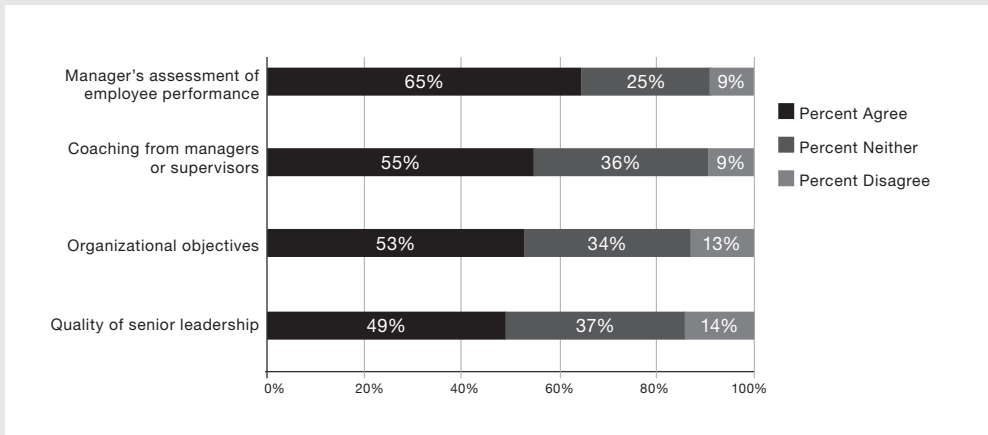
**FIGURE 5 Impact of Financial Rewards on Engagement**



**FIGURE 6 Impact of Nonfinancial Rewards on Engagement**



**FIGURE 7 Impact of Leadership on Engagement**



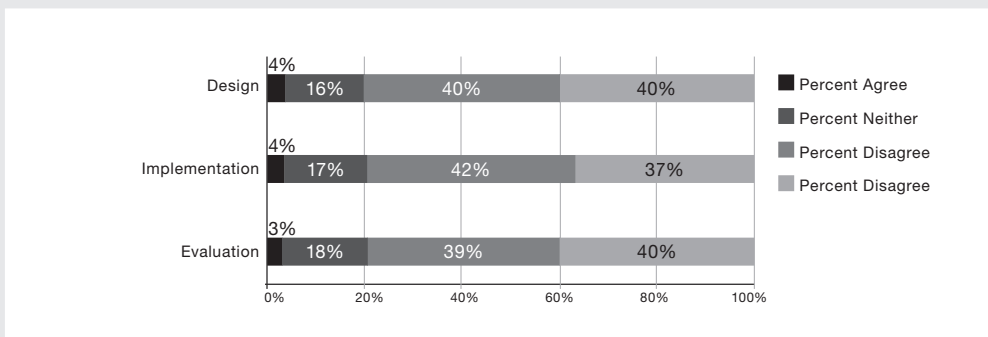
rewards program involvement is linked to more positive views of effectiveness of rewards strategies in engaging employees ( $r \geq .35$ ). However, the researchers found very low levels of employee and manager involvement in rewards program design, implementation and evaluation. Figure 8 shows that the vast majority of organizations do not consistently get their employees' input in rewards program design, implementation, or evaluation.

While involvement is slightly better for managers, it appears that a majority of rewards programs are still designed in the ivy tower by corporate HR, finance and operations staff.

In summary, the core headlines from Figures 3 through 8 on the role of rewards in supporting engagement are:

- Intangible rewards and leadership have more impact on engagement than base pay, benefits and incentives.
- Short-term incentives are the tangible rewards that have the most impact on engagement.

**FIGURE 8 Compensation Program Design, Implementation and Evaluation**



- Quality of work, work environment, career development and senior leadership are the intangible rewards that have the most impact on impacting employee engagement.
- Managers and employees are seldom involved in the design of pay programs.

## RECOMMENDATIONS

The study's findings indicate that rewards programs can have a positive influence on employee engagement. Figure 9 shows the authors' Top 10 list of actions that organizations would be well served to take to improve engagement in their workplaces. This list is based on the authors' research and substantial experience. The list has been divided into two groups: general organizational priorities and rewards-oriented priorities.

**FIGURE 9 Top Ten List for Improving Engagement**

<u>Organizational Priorities</u>	<u>Rewards Priorities</u>
1. Make a business case for engaging employees	6. Go beyond compensation and benefits to a total rewards mindset
2. Measure and monitor engagement	7. Include employees and managers in rewards design and launch
3. Take action on survey results	8. Tailor total rewards to workforce segmentation
4. Make everyone responsible for engagement.	9. Use engagement metrics in performance criteria
5. Connect people with the future	10. Communicate the value of what you have

### Organizational Priorities for Engagement

- 1 | Make a business case for engaging employees.** Employee engagement should not be confused with employee satisfaction. The focus of engagement initiatives is not on making employees happier but rather on creating the conditions that encourage high levels of organizational commitment and a willingness to invest maximum effort in achieving key goals and objectives. The increased emphasis among organizational leaders on employee engagement reflects a growing recognition of the critical link between people and strategy and the extent to which human capital provides the most sustainable source of competitive differentiation for organizations. Organizations that manage employee engagement most successfully clearly articulate how high levels of employee motivation support core priorities such as enhancing productivity and innovation, fostering and sustaining strong customer relationships and retaining top talent (Royal and Yoon).
- 2 | Measure and monitor engagement.** It is important to recognize that employee surveys are always *two-way* communication tools. They allow organizations to solicit feedback from employees on key topics related to organizational



effectiveness. But what an organization chooses to measure with a survey also sends important signals to employees about its values and priorities. In this way, an employee survey can be an effective intervention even before questionnaires are completed and data are analyzed. The authors have found that the content of an engagement survey should connect with the key “value propositions” an organization is offering to its employees. Alignment with objectives not only promotes appropriate employee expectations but also more actionable results. By soliciting employee feedback in areas of focus for the organization, survey results can be more readily incorporated into ongoing improvement efforts.

- 3 | Take action on survey results.** This study indicates that an employee engagement survey is a means to an end. It is not enough that the data are reliable and valid, confidentially gathered, or even provocative. An engagement survey initiative is only successful if the results are used. In this regard, it is critical to remember that the goal is not to improve survey scores for their own sake. The survey is being conducted to understand factors in the work environment that impact important organizational goals and objectives. In addition to working through the survey data and taking note of issues that emerge, it is equally important to focus on the strategic objectives associated with the survey and work back to the survey results to understand what the data indicate in regard to those objectives.
- 4 | Make everyone responsible for engagement.** The authors’ experience indicates that employee engagement cannot be a focus only in and around employee surveys and other measurement efforts. It needs to be incorporated into the way an organization operates. Engaging line managers is critical to the success of initiatives designed to promote higher levels of engagement among employees. If the connection between engagement programs and the concerns of line managers is not clear, managers may see themselves as too busy with their day-to-day responsibilities to play an active role. That’s a deadly response in any organization because it suggests that managers are viewing engagement initiatives not as tools provided for them to help accomplish core business objectives, but instead as add-on activities that are being assigned to them. Typically in the early stages of an engagement initiative, line managers play a secondary role to internal project coordinators or external consultants. But once information is collected and the attention of the organization turns to communicating the results and using the results to drive organizational improvements, external consultants and internal project coordinators need to step back and rely on line managers to carry the results forward into the organization.
- 5 | Connect people with the future.** Engagement success is about more than encouraging positive views of the present realities of the organization. Fostering buy-in and commitment over the longer term also requires that employees

have a positive view of the future of the organization and their futures in it. Three considerations are key:

- **Clear and promising direction.** Ensuring that the practical implications of organizational directions are clear to employees is essential to effective execution. But connecting employees with the big picture is equally important from a motivational perspective. In their work, most employees are looking for an opportunity to contribute to something larger than themselves, a chance to make a difference. Appealing to this sense of purpose is critical to promoting high levels of employee engagement.
- **Confidence in leaders.** If faith in the direction of the organization is critical for fostering high levels of employee engagement, so too is ensuring that employees have confidence that senior management is capable of executing on strategic objectives. Today's employees recognize that their prospects for continued employment, career development and advancement are dependent on their companies' health and stability. They cannot be expected to bind their futures to those of their employers unless they are confident that their companies are well managed and well positioned for success.
- **Development opportunities.** Employees are increasingly aware that they are responsible for managing their own careers and that their futures depend on continuous elevation of their skills. If employees are not expanding their capabilities, they risk compromising their employability within their current organizations or elsewhere. Accordingly, opportunities for growth and development are among the most consistent predictors of employee engagement (Royal and Yoon).

#### Rewards Priorities for Engagement

- 6 | Go beyond compensation and benefits to a total rewards mindset.** This study indicates that leaders and managers understand that rewards go far beyond compensation and benefits and build the core organization messages, such as an employment value proposition, around what is meant by total rewards. Develop tools for managers so they can effectively reward employees beyond the confines of compensation and benefits and develop and reinforce communications around total rewards.
- 7 | Include employees and managers in rewards design and launch.** To balance the needs and wants of the organization and employees, managers should know what employees value in rewards. But this study clearly showed that many organizations do not have a good handle on what their employees' value in rewards. Most organizations have a mindset around listening to their customers to learn what they value in products and services. This mindset should then apply to their most important internal customers, the employees. As per the study's findings, engagement is enhanced when employees and managers are involved in the design and launch of their pay programs.

- 8 | Tailor total rewards to workforce segmentation.** Identify the most meaningful and valued rewards in the organization. Do rewards values vary across the organization and work units? Recognize that different employee groups value different rewards and build the manager's rewards tool kit based on this understanding. How can managers use career development, organization and job design, non-financial recognition programs and organizational work climate to reward their employees?
- 9 | Use engagement metrics in performance criteria.** According to several research studies, the best organizations have more balance in their performance scorecards (Stark 2002). This includes balance in timeframes, measurement level and measurement types. These organizations tend to have human capital measures in their scorecards at twice the prevalence of other organizations. This includes measuring and managing engagement. If not doing so already, an organization should consider establishing baseline measures in the first year of the scorecard process and monitor and rewards trends in achieving engagement levels in subsequent years.
- 10 | Communicate the value of what you have.** The authors' previous WorldatWork research indicates that organizations must clarify and focus on a few direct channels and tools to communicate these messages (Scott, Sperling, McMullen, and Bowbin 2008). It is a more powerful strategy to reduce down to core rewards messages rather than using the "everything and the kitchen sink" strategy. Total rewards statements to individual employees are powerful tools for communicating the value of rewards offered by the organization. The HR function should be actively involved in helping line managers understand and use their tool kits to communicate rewards value.

What is the role of rewards programs in an engagement strategy? With today's organizations operating increasingly lean, employees are being asked to do more with less. In higher workload environments, employees are generally more keenly aware of rewards programs and policies. Acutely aware of all that they are contributing, employees are inclined to increase the pressure on their organizations to balance rewards with their contributions. In this context, it is more important than ever to ensure that rewards policies and programs are perceived to adequately recognize employee efforts and contributions.

Employee engagement involves striking a new employment bargain with employees. Organizations must invest in creating the conditions that make work more meaningful and rewarding for employees. Employees, in return, are expected to invest more effort into their work and deliver superior performance. ■

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