Beating the Bear Market with Engaged Employees
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By now, it's painfully clear that the economic calamities of 2008 have impacted our budgets, our staffing plans, and our 401k balances. But what impact is it having on the morale and engagement of our employees?

In the 20 year history of employee engagement research, most thought leaders have discounted the impact external economic factors have had on internal engagement measures. However, Quantum Workplace is beginning to notice a meaningful decline in employee engagement comparing Q4 2008 against Q4 2007.

The following pages present the findings of a preliminary study from Quantum Workplace, an analytics firm that administers employee engagement surveys for more than 4000 organizations each year. This document seeks to 1) recognize that unusual economic circumstances can impact employee morale and engagement, 2) identify which aspects of engagement are most vulnerable, and 3) propose 5 action items needed to sustain high levels of employee engagement during a recession.

Evidence of Economic Malaise

In the Fall of 2008 the United States began to suffer a severe economic crisis, brought on by a number of business and economic practices that sent many companies to their demise, thousands to the unemployment lines, and governments struggling to maintain confidence in the global financial system.

What is the extent of this economic challenge? A few sobering facts:

- At the beginning of 2008, the Dow-Jones Industrial Average was over 12,400. By December, it had dropped below 8,200, a net loss of over thirty percent for the year.
- National unemployment rates for November of 2008 reached 6.7 percent, the highest since 1993.[1]
- Some industries, such as domestic automobiles, are suffering and nearing collapse. The National Automobile Dealers Association predicts that roughly 900 of the nation's 20,770 new-car dealers will go out of business this year, and automobile analysts say the number of failed dealerships could rise into the thousands next year.[2]
- American stores are dropping prices for holiday shopping, reducing profit margins and threatening the survival of some stores.[3]

It occurred to us that in the five years that *Best Places to Work* contests have been held yearly in 40 U.S. cities, nothing of this magnitude had happened with the potential of impacting levels of employee engagement across all industries. The research we have conducted into U.S. employers who participate in *Best Places to Work* competitions clearly shows that employers can significantly influence, if not control, how motivated and satisfied their employees are. Still, we couldn't help but wonder what effect such a significant event beyond employers' control--the economic crisis--might have on employee feelings and perceptions about their workplaces. Several other questions came immediately to mind:

- If employees were concerned about their economic futures, would that impact how they felt about the future of their employers?
- If employees were concerned about maintaining their standard of living, would they be more (or less) willing to look for another job?
- Would increased feelings of insecurity make employees more critical of their employers' health care and retirement benefits?
- If external factors such as a severe economic recession could have an impact on employee engagement, what could employers do to mitigate that impact?

Engagement Scores… Up Until Mid-2008

One of the unique aspects of the *Best Places to Work* surveys collected by Quantum Workplace is that the annual awards events are conducted in 40 different cities at different times of the year, but at the same time of the year in each location. In Omaha, Nebraska, for example, *Best Places to Work* polling begins each February, while in Kansas City, Missouri survey responses are collected in August. We had access to year-over-year survey results for hundreds of employers, allowing us to compare what they said about their employers this

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[1] US Dept of Labor.
[2] Auto Dealerships Teeter as Big Three Decline, Clifford Kraus, New York Times, November 28, 2008
[3] Caveat Vendor, Forbes.com, November 30, 2008.

year, in the midst of an economic "perfect storm", to their responses in previous, calmer years.

The survey we use in our employee engagement research measures employee satisfaction, intent-to-stay, how strongly an employee advocates for her/his employer, and the like. Based on what is measured, it follows that employee engagement is strongly influenced by how the organization is led, how employees are rewarded, what training and development opportunities exist, among other factors. Because an organization's leaders control many of these outcomes, they can use the survey results to address the issues they have the ability to influence.

Most research we've seen suggests that employee engagement is primarily a function of what happens inside a particular employer versus some outside factor. In an article published in the spring of 2008, researchers concluded that engagement was generally high in the United States and their data did not reveal that economic conditions at that time were impacting the results:

> *"No doubt there are many challenges to keeping today's workforce engaged. But is talk of a "psychological recession" overstated? Quite possibly. Take, for example, recent research that compares* employee engagement *around the globe. Twenty-one percent of U.S. workers are highly engaged and 63 percent report moderate* engagement*, leaving just 16 percent reporting they're disengaged. Compared to other countries, only Brazil and Mexico post more "highly engaged" workers than the United States... It's certainly more difficult to get things right these days, but we see a lot of organizations adapting to the changing needs of* employees*. If there is a recession in* employees' *psychological attitudes, it's still driven largely by what the organization does and the consistency with which managers and leaders support the organization's promise."*[4]

In fact, the Quantum Workplace data collected in *Best Places to Work* events across the United States tended to reinforce this view. One study, for example, reported that overall *Best Places to Work* engagement survey results had increased slightly from 2005 through the first six months of 2008. The increase was just slightly more than two percent, certainly within the margin of error, and not giving any indication of a downward trend.

So the general consensus, at least through the first half of 2008, was that employee engagement in the United States was stronger than in most countries and apparently immune to the reports of a coming recession. Economists now report that the recession technically began in December, 2007, but as we now know, the worst was yet to come--in the late summer and early fall of 2008, the economic conditions in the country began a dramatic decline.

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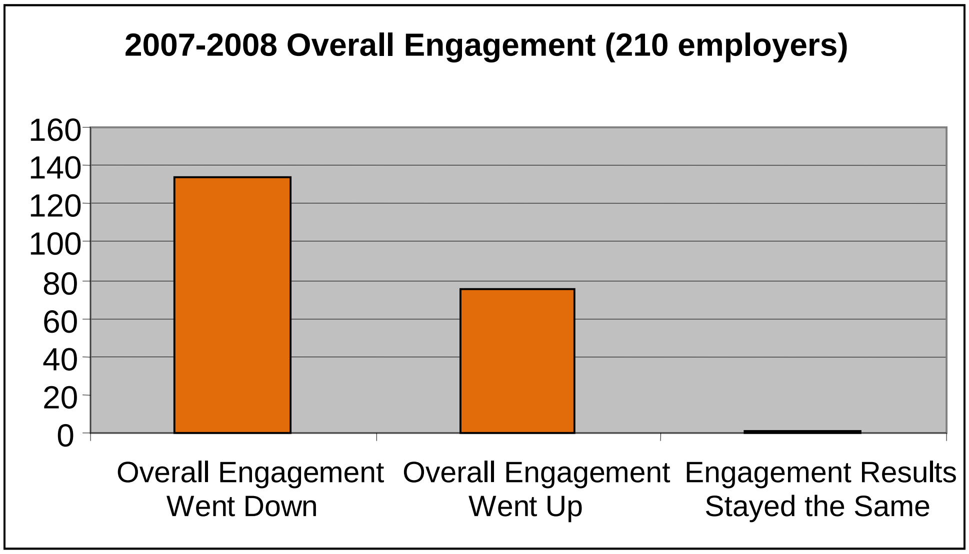
[4] Beating the Recession's Bubble, by Wellins, Rich, Conference Board Review, May/Jun 2008. Vol 45, Issue 3

Would the far more serious economic news make it harder for *Best Places to Work* to retain their premier-employer status?

Can Employee Engagement Withstand A Recession?

In November of 2008 Quantum Workforce collected data from *Best Places to Work* employers where the surveys had been conducted in the fall of both 2007 and 2008. There were hundreds of employers who participated in several events across the United States, and of those, 210 participated in both years. Among those 210 a sufficient percentage of their employee populations completed the survey to establish that overall results were reliable within a margin of error of plus or minus three percent.

The chart below shows how the 210 employers fared from 2007 to 2008:



By an almost two-to-one margin (134 to 76), more employers had lower overall employee engagement scores in the Fall of 2008 than in the Fall of 2007. This result is certainly out of the ordinary from our trends for the last five years, and strongly suggests that external circumstances regarding the economy may well be influencing employees' attitudes about their jobs and workplaces.

Evaluating Losers and Gainers—Getting Through Tough Times

To explore this issue further we conducted an analysis of the 210 companies, both those that had higher engagement scores (gainers) and those whose scores had dropped off (losers). The analysis revealed several factors where companies that lost ground were hardest hit. Conversely, we found areas where the gainers--those employers that were still positively engaging their associates--were doing exceptionally well.

It's been said: "For a tree to become tall it must grow tough roots among the rocks." Our analysis of survey data and verbatim comments uncovered five key differentiators that reveal how some employers (the gainers) are growing "tough roots" and where others (the losers) may be losing their hold. The following 5 items were responsible for a disproportionate share of the variation among winners and losers:

1. Setting a clear, compelling direction that empowers each employee
2. Open and honest communication
3. Continued focus on career growth and development
4. Recognizing and rewarding high performance

5. Employee benefits that demonstrate a strong commitment to employee well being

We believe a review of these areas is useful in determining how employers can proactively manage in these difficult economic times.

Which Way Are You Heading?

It appears that employers are heading in opposite directions based largely on how they are treating and managing employees during changing conditions, and that many of those with rising engagement scores are simply continuing with their existing positive management practices despite the downturn. Regarding the five differentiators above, we observe:

#1: While the future might look grim in the eyes of some employers, employees at other companies are working hand-in-hand with their supervisors to create a positive future for the company.

Our studies tell us that in the best of times employees are more highly engaged when they see where the company is going and understand their roles in helping the company go there. This is largely a function of senior leaders and line managers clearly and frequently communicating where the company is headed and how each person makes a contribution. As a colleague of ours advises: "Leaders need to make sure employees are in the boat, know where it's going, and have an oar in the water!" Indeed, we need to make sure we are helping our associates understand the strategy of the company, why this strategy make sense, and how each person in the organization can make a positive and meaningful contribution to the success of that effort.

In more difficult times, this charge becomes even more important. The results of that effort to help employees see where the company is going, and how each person has a line-of-sight contribution to the success of the business, can be seen in the comments of more engaged employees. One supervisor described how he feels about the direction of his company: "Even in these uncertain times, I feel very good about working (here). They have made the right financial decisions to make the company strong and I love the products we sell."

> *We have asked our 80 service advisors what they are noticing with customers and we will be hearing back from them soon. We have had to lay people off since the economy started its downturn in December of 2007. But, we know we are going to make it through*

> *tough times because we do things right. We are also very open about the business and what's happening during times like these, and we paint a very vivid picture of what the good times will look like after we get through this. (Our emphasis) We ask our associates, "How would you like to be a competitor of ours?"*
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> Ryland Owen, Trainer/Recruiter,
> Nalley Automotive, Atlanta, Georgia

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#2: While some employers are hiding bad news from their employees, other companies are keeping their employees informed and updated, even if the news isn't always good.

Our studies of winning *Best Places to Work* employers show that leaders who are maintaining employee engagement are doing a better job of keeping communication open and robust. This is particularly true when times get tough. Company leaders may be hesitant to keep lines of communication open right now. The exact opposite is called for. One executive told us that, in dealing with changes that affect employees, he: "communicates early and often. We even tell people when there is no news that 'there is no news. They appreciate the candor."

Employees need a constant stream of information, reinforced in different ways by different parties using different media. When a fast-food restaurant advertises a new menu item, they don't just run the ad once—you see it again and again. Take a page from product marketing as you think about communicating with your employees. Open and ongoing two-way communication, particularly right now, can reap significant benefits.

#3: While some employers are cutting jobs or scaling back on promotions, other employers are helping their associates see opportunity in the midst of the crisis for their own growth and development.

Job satisfaction is still an important contributor to employee engagement. We encourage employers to continue efforts to help associates stay positive and excited about their work. Most of us would like our employees to feel the way this way: "I love my job. Enjoy the sales process. It's been the toughest year of my 26-year career in sales. I hope to continue as I know the economy will get to normal and we will succeed." (Telecommunications associate)

Part of the concern employees have about the future in a recession is not only the status of their current job, but whether there will be chances for them to grow. If employers can continue to make investments in the development of their employees, we believe they will respond in kind. One technology employee states: "I have been impressed with the training they invest in their workers, the money they spend to keep us up to date technologically so we are competitive, and the way they keep us informed."

#4: While some employers may be instituting hiring freezes and cutting back on perks, others will continue to find ways to reward those who are taking care of customers and keep them coming back.

Companies who are maintaining or increasing engagement among their workers right now are getting significantly better ratings related to fair pay and recognition. We know that hiring freezes and pay freezes are often necessary tools to deal with rising expenses and reduced revenues. But now more than ever employers need to actively seek opportunities to reward employees who are making outstanding contributions to the success of the enterprise.

Non-monetary recognition can go a long way to helping employees feel appreciated. In other cases just making sure that employees feel pay is "fair" will be acknowledged and valued. It's important to remember that "fair" is not only employee perceptions about "external pay equity" (compared to a similar job at another employer), but "internal pay equity (compared to a similar job inside the company).

You can be sure that employees are carefully watching the actions of leadership regarding recognition. As one employee from a company whose engagement scores declined from 2007 to 2008 complained: "Recognize us, but provide incentives versus just lip service! Stop taking advantage of workers with long hours and continued promises of more pay!

> *We decided this year not to pony up $70K to reserve the nightclub where we had held our big holiday party for 1,000 associates as we had done in past years. We chose to have it at one of our own hotels instead. It will be a more conservative party, but it is still a big deal because it's where we recognize our associates for all their contributions during the year and hand out a few awards that are very important to us as a culture.*
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> Jane Howard, Chief People Officer, Joie De Vivre Hospitality, San Francisco, California

#5: While some employers are scaling back employee benefits, others are committed to helping maintain the health and vitality of those who work for them.

Companies that enjoyed higher engagement scores in 2008 did markedly better on items related to employee perceptions about benefits. In difficult economic times employees need to feel like their "security" needs are being met. Having quality, affordable benefits is certainly one of those needs that, when addressed, positively impacts overall employee engagement. One employee at a marketing and public relations firm remarked: “In the last three years (our company) has made vast improvements in employee benefits and company culture. In the eyes of this employee these investments are paying returns.

Employees are naturally concerned about benefits, particularly given that many are paying an ever-increasing burden of health insurance premiums. We encourage employers to reinforce employee benefits when they can and, at a minimum, continue to communicate what benefits are available and how employees can easily access them.

What You Can Do To Beat the Bear Market?

Having a highly engaged workforce certainly doesn’t completely insulate an organization from economic recession. But a more engaged workforce can act as insulation, a buffer if you will, from the effects of the economic downturn.

It may be difficult to implement the lessons described above, but as Winston Churchill admonished: “Kites rise highest against the wind - not with it.” The additional efforts to engage your employees, in spite of the blustery currents, can garner significant returns. Listen to one employee who still feels so engaged that being lured away to a competitor doesn’t interest him:

> *“In spite of economic conditions, (our company) consistently sets into place a plan for growth. Not only for the company, but for our clients and associates. I’m lured by competitors frequently and the offers are enviable and give me pause in my career; however, I feel like time and again, this is still the place to be.”*

Another employee sings the praises of her supervisor, who shows a strong commitment to employee development. Read his comments carefully, as they provide a compelling insight into how every senior leader and line manager can engage a higher percentage of their employees:

> *“My supervisor is very supportive of me on a personal and professional level. She shows genuine caring and readily acknowledges team members for their contributions. When there is an issue, I can trust her to come to me privately to discuss ways a situation could have been handled better. She trusts me to do the job effectively.”*

Although a majority of the employers we have studied suffered lower levels of engagement in the midst of the current recession, many are forging ahead and, in doing so, retaining and developing their best and brightest. Will your kite rise with the prevailing wind?