The Bottom Line

Getting a return on your investment in engagement
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Foreword

Whilst there may still be debate about what engagement is or isn’t, and how best to define let alone measure it, one thing is certain. The importance of people in the workplace will never go away and with it the constant need to attract, retain, nurture, develop and evaluate the effectiveness of that key asset.

Indeed, the current landscape, newly shaped by the forces of Brexit, pushes the people issue up the agenda. How will some businesses thrive, let alone survive, if their traditional source of labour falters or dries up altogether? Some organisations see their people as the heart of the business. Get the people bit right, they say, and the rest will follow – customers, turnover, profit and shareholders. What we might call the ‘purpose over profit’ approach. Others are more driven by Board and shareholder commitments – the ‘profit over purpose’ approach. The latest Edelman Trust report shows that 60% of people think that CEOs are driven more by greed than a desire to make a positive difference in the world. And doing right by employees helps support society too, which is why there are a range of government initiatives to support employers in their wellbeing and engagement policies.

Working with thousands of organisations across the globe every year, we are often asked the $64,000 question: ‘if I invest in my people what impact will that have on the bottom line?’ But the majority recognise that doing right by their people is not only the right and ethical way to run a business it is also, in the long run, the most successful.

Here are some examples of organisations who not only firmly believe in the power of people to drive performance and competitiveness, but who also have the data and insights to support it. They range from small IT consultancies to large, international brands. And we look at the latest research from HR analytics experts HCMI who have found an interesting, and quantifiable link, between organisations’ engagement levels and profit.
Introduction

Talk to any leader at a company that is named a Best Workplace™ and they will tell you that it’s not their products, technology or property that are their most important assets, but their people. This has become a cliché, but like many clichés, it’s grounded in truth. Traditional competitive advantages are drying up and companies are realising that it’s the sum of human endeavour and productivity that has emerged as the driving force behind future business success.

“We are a technology business but what we do for our clients is more than technology: it’s about engaging people,” says Simon Grosse, CEO of Foundation SP, ranked number one in the Best Workplaces™ 2017 Small category. “For us, our culture is our strategy, and the big thing is maintaining our high people standards whilst attracting and retaining talent.”

Spending time and money on engaging employees isn’t just an honourable thing to do – it is crucial to Foundation SP’s business success. “It’s important on that basis not just because we have a strong moral compass but because we believe it’s the best and most intelligent vehicle for being successful and retaining people,” Grosse adds.

A wealth of academic and corporate research into companies that invest in employee engagement has found that they “do well by doing good” – creating value for shareholders1, and companies that are rated highly in corporate social responsibility policies – which includes employee engagement – have fewer financing constraints placed upon them.2

In this eBook we look at the impact of engagement on the bottom line and answer the questions behind the science, with a mix of practical insight from leading companies, evidence-based studies and an interview with researchers in this space.

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The evidence: what does the research say about investing in engagement?

Companies with strong capabilities in engagement and other HR topics, as well as HR strategy, planning and analytics, show significantly better financial performance than companies which are weaker in those areas.3

Those that voluntarily adopt sustainability policies – including meeting the needs of all their stakeholders, such as employees – are more likely to have established processes for stakeholder engagement, be more long-term orientated, and exhibit higher levels of measurement and disclosure of non-financial information.4 Their boards of directors are more likely to be formally responsible for sustainability, with their compensation incentives linked to sustainability metrics.5

This body of research is reinforced by the success of companies around the world that are ranked Best Workplaces™. High levels of employee satisfaction in ranked companies are a valuable tool for recruitment, retention and motivation in countries with flexible labour markets, such as the UK, as well as positive stock market returns.6

On average Best Workplaces™ have stock returns that are better than their peers’ by between two and three percentage points a year.7 One study found that the growth in share prices of companies on the Standard & Poors 500 that are ranked Best Workplaces™ over a ten-year period was 16.39% compared with 4.12% for other companies on the market.8 This period included the 2008 global economic crash, from which Best Workplaces™ recovered their value in just over a year compared with just over three years for unranked companies.9

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4. Ibid.
5. Ibid.
9. Ibid.
Digging deeper into employers’ behaviour finds similar results. When employees perceive managers as trustworthy and ethical, a firm’s performance is stronger. Companies that apply to become Best Workplaces™ that have group incentive methods of compensation such as profit sharing and which are combined with HR practices that empower employees and create a positive workplace culture, experience reduced voluntary turnover, increased retention and raised return on equity.

Trust is in itself a key driver of engagement. The average UK organisation has trust levels of 55% compared to 85% at Best Workplaces™ (as measured by the Trust Index©). Meanwhile, just over half (54%) of employees think their workforce is great, compared to 87% of Best Workplaces™. And in terms of overall engagement, 87% of employees at Best Workplaces™ are engaged, compared to the national average of about a third (which may be linked to the UK’s perennial productivity problem).

Our own data shows that Best Workplaces™ on average receive 34 applications for every vacancy compared to an average of just 23 applications at unranked organisations; have less absence (2.7 days per year on average compared with 6.3) and lower levels of voluntary turnover (for example, 11.3% in the professional services sector compared with an industry average of 24.7%).

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12. CIPD Absence Management Survey 2016 and Great Place to Work® 2015/2016 survey data
Even companies not yet ranked Best Workplaces™ are able to see a return on their investment in employee engagement. When it first undertook a Culture Audit© and Trust Index© in November 2015, specialist consultancy Catalyst found that 60% of its employees agreed the company was a great place to work, but there “weren’t any startlingly good results”, according to its CEO Andrew Middleton.

So as well as investing time in various initiatives to separate the board and management team and create four employee-led ‘streams of change’ to change the company’s approach to people, infrastructure, sales and marketing and account management – the company “spent money obviously,” Middleton says, “and in tandem with all the investment people made in internally-focused initiatives, our client business also flourished and we started growing again.”

The following year Catalyst Development’s attrition halved, it saved £100,000 on recruitment costs – being able to recruit through word of mouth rather than agencies – and its Culture Audit© and Trust Index© scores increased the following year. By December 2016, 90% of employees were saying the company is a great place to work, and scores increased across the board.

Yet, it’s not just investment in engagement that leads to competitive advantage. Measuring that investment can strengthen companies’ performance too. Analytics of engagement investment and the use of key performance indicators related to finance and employee engagement can boost the influence of the HR function within business, particularly if it moves beyond recording HR metrics such as cost and headcount towards more sophisticated output indicators, such as productivity.

Any regulatory imperative on employers to report their employee investment engagement is limited to the EU Non-Financial Reporting Directive, in which companies with more than 500 employees across the EU are required to include non-financial information in their annual reports, covering employee-related matters such as actions taken to ensure gender equality, implementation of fundamental conventions of the International Labour Organisation, working conditions, social dialogue and respect for the right of workers to be informed and consulted.

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14. These are tools used by Great Place to Work® to evaluate organisational trust, engagement and culture.
However, these are grouped in with other huge topics such as environmental protection and anti-corruption and bribery, and while the UK government has currently transposed these requirements into UK law, this could be subject to change following the country’s exit from the EU, and it is not mandatory for companies with fewer than 500 employees to report on such matters.

There is evidence that voluntary reporting of employee engagement is gaining traction, however. The charity Business in the Community has been campaigning for public companies to report on employee engagement and wellbeing for over a decade and its Workwell benchmark measures FTSE 100 companies reporting on their engagement activities. BITC has demonstrated an increase in what companies are reporting in relation to employee engagement and how many are reporting it. 16

The proportion of FTSE 100 companies reporting on how they develop better relationships at work has increased from 76% to 90% over a three-year period. 17 Seventy-eight percent of FTSE 100 companies demonstrate how they offer better specialist wellbeing support to employees, compared with 68% three years ago, and 90% now report what work they have done to improve their workforce’s physical and psychological health, compared with 84% three years ago. 18

But many companies still underinvest in employee engagement, particularly because building intangible assets such as human capital (which are typical of companies in the twenty-first century) requires significant and sustained investment, and many CEOs may have short-term concerns relating to stock market performance. 19

And while there isn’t a requirement for companies to report on their employee engagement-related activities and spend, it will typically be the preserve of employers such as the Best Workplaces™ to both invest in and report on their employee engagement activities.
Case study: research connecting trust, engagement and the bottom line

Stephen Weltz is Workforce Analytics Manager at Human Capital Management Institute, an organisation that uses workforce analytics to improve business performance. Stephen and his team are looking at ways organisations can link engagement with financial performance. He recently led a study aiming to connect whether companies on the Great Place to Work® Best Workplaces™ list had greater business performance than those that didn’t.

“We essentially looked at the Great Place to Work® UK Trust Index© and its link to what we call workforce productivity, ultimately linking that to the bottom line. In simple terms, there’s a positive correlation between the overall Trust Index© and the individual metrics that make up the index, including things like engagement, recognition, job security and team work.

“Secondly, at the aggregate and the individual level, these metrics are also related to a higher workforce productivity and ROI that affects the bottom line.”

In terms of hard stats, Stephen and his team found that for every 1% increase an organisation had in the Trust Index©, there was a corresponding ROI increase of between £75,000 and £1,000,000.

*Dependent on level of investment and size of organisation

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**Dependent on level of investment and size of organisation**
What financial measure should we use?

“We use Human Capital ROI ratio which is essentially a profit metric that compares revenue/profit to the total amount being spent on the workforce, or Total Cost of Workforce,” says Stephen Weltz. “Companies often measure revenue/profit/sales per FTE (full-time equivalent), which although not bad metrics are incomplete. Comparing financial results to headcount is useful but not precise because headcount can vary significantly in cost. Using Human Capital ROI ratio, we can get a measure that gives you the pound return for every pound you spend on the workforce.”

“So we looked from multiple angles and this falls in line with research other companies have done and also what we’ve done too. We believe multiple angles, multiple research backup, a closer look at hypotheses, support a strong case for engagement impacting productivity and financial results.”

Stephen and his team also included a ‘lagging factor’ which bolsters the validity of the results. Essentially, the engagement scores occur a little bit prior (about half a year on average) before the financial results and workforce productivity numbers the team measure. This is expected: you wouldn’t expect your end-of-year engagement to show as strong a correlation to end-of-year financial results because that engagement hasn’t had a chance to affect the company’s results.

Of course, there’s the possibility that higher productivity and financial performance cause higher engagement and trust, rather than the other way round. Stephen says that while the lagging factor addresses this, there is likely a bi-directional relationship: there’s a virtuous circle and you would expect high performance to increase engagement and morale.
How do organisations invest in employee engagement?

The Best Workplaces™ themselves demonstrate a wide range of approaches to investing in employee engagement, which reflect the wide range of sectors and sizes of organisations that comprise the ranking.

At one end of the spectrum, large and multinational companies, such as hotelier Hilton Worldwide, invest in all aspects of its employees’ experience – training and development, benefits, competitive compensation, wellbeing programmes, facilities and more. The company also focuses on two-way communications and wellbeing.

“We say that our team members are the ‘heart of Hilton’ and we deliver on this mantra by focusing on three main areas: providing supportive working environments, expanded career opportunities and world-class rewards and benefits,” says Ben Bengougam, Senior VP – HR, EMEA, Hilton Worldwide.

TSB’s approach is similar, and the bank puts a strong focus on communication as part of its ‘partner experience’. The CEO does a live blog every fortnight and a live stand-up with question and answer session for the workforce every other week. A chat station on the intranet allows people to talk to each other and HR to keep an eye on the 8,000-strong workforce’s concerns. A ‘Link Group’ is made up of 150 partners undertaking 18-month stints in which they regularly discuss issues relating to employees and then present to the Executive Committee once a quarter.

“They make a series of recommendations for changes and things that we can do better,” says HR Director, Rachel Lock. “They are giving us feedback so that we can make real changes to the way we do things. We have made a series of changes and I am very proud of the group.”
Companies at the smaller end of the market often take a different approach, usually because their workforce is in one location and budgets may be smaller. Solicitors AV Rillo focuses on developing as supportive an atmosphere as possible. New starters have buddies and mentors, and the two partners have an open door policy for all 40 staff.

“It’s a family business so it’s important for us to get family values,” says Senior Partner Angelo Piccirillo. “We started off in business 19 years ago, just the two of us [Angelo and his brother Tony]. We were totally engaged because it was our business. As people came on board we thought there were two ways of looking at it – either we grow as a business and put money first or we put values first.” The company focused on the latter and has since grown in employee and customer numbers and won dozens of awards.

Manufacturer Rowlinson Knitwear, which employs 45 people, also focuses on values, but faces slightly different challenges within the manufacturing sector, specifically, engaging lower-paid employees undertaking manual work.

The company became majority employee-owned in 2015 and gave the highest earners a 1% increase compared with a 35% increase for lower-paid staff over the past six years. Benefits like crisis loans, mental health and wellbeing tools, and paying everyone’s auto-enrolment pension have helped employees struggling with personal finances. This has affected the company’s approach to other HR practices, such as recruitment. “We recruit by values and look for people who will be engaged and we look to have everyone involved every day in every way in the company,” says Managing Director Donald Moore.

Over in the staffing sector, IT and Engineering recruiter ISL Recruitment hasn’t tried to “reinvent things”, according to its Director, Alan Furley. “We’ve looked at what other people do, what some of the recognised standards are and how we can adapt those to our business. We’ve also ensured that we don’t make engagement so bespoke that we can’t allow comparisons with our peers,” he adds.

The company has a regular system of chatting to its 34 employees about what’s good, what’s bad and what they want to do differently. “It’s having that mentality of not being afraid to ask the question even though you might not like the answer,” Furley adds.

Fellow recruiter – this time in the financial sector – Goodman Masson has trademarked its employee engagement programme, The Experience®, which provides a variety of tools and benefits under the four themes of ‘work’, ‘grow’, ‘reward’ and ‘connect’.

“There is not one thing that we do in isolation but because of these four components we ensure our people have the right tools and infrastructure to do a great job, have the opportunity to professionally develop, are well and correctly rewarded and they work in an environment that they want to be part of and don’t want to leave. The result? Our people stay with us, they build a greater knowledge of their markets better, have stronger client relationships and their performance goes up,” says CEO Guy Hayward.
For Stephen Gordon, Divisional Marketing Director of REL Field Marketing, the most important investment the company makes in engagement is time, although they do make hard financial investments too.

“The engagement culture we have built has been hard won both in terms of the financial spend but even more so when it comes to the precious resource of time given the many other demands on our managers.”

“It is a simple fact that engagement-led initiatives and participation absorb a significant amount of management time and from hard experience we believe that it is the time rather than the money invested that makes the absolute difference when it comes to engagement.”

Gordon highlights one particular aspect of their engagement culture that is highly valued by employees but has zero direct financial cost.

“One of the things that constantly surprises me is the value that our people place on the simple fact that managers throughout the business take time to get to know them and that senior managers know them by name and that anyone in the organisation can talk to or write to anyone else including the MD!

“The cost of this perceived benefit in financial terms is zero other than the investment of a little time and some listening yet the benefit is called out over and over again by colleagues who state that they feel valued and a part of a family rather than just a number.”

“...from hard experience we believe that it is the time rather than the money invested that makes the absolute difference when it comes to engagement.”

Stephen Gordon
Divisional Marketing Director,
REL Field Marketing
Goodman Masson is also able to measure its employee engagement spend through The Experience®. In the 2016/2017 financial year the company set aside £250,000 to spend on engagement for its 140 employees and has reported positive HR metrics across a number of areas. Productivity per employee has risen by over 30% and over 40% in profit. Sickness days have gone from an average of 279.5 in 2013 to 155 in 2016.

Professional services firm EY has also seen the benefits of engaged employees. When it measured revenue growth for the business groups within EY that were recording best-in-class engagement in the two-year period after its employee survey, they were 10 points higher than those who did not have engaged people, meaning they were 10 points higher in revenue growth, seven points higher in gross margin and six points higher in retention levels.

“The ‘why measure engagement’ question generally produces dialogue roughly categorised into two groups of people,” says Maggie Stilwell, Managing Partner for Talent, UK & Ireland. “The first say that if companies generate great financial results employees will get engaged behind them, and the second who say engaged employees generate growth and that is the elixir to the discretionary effort which drives great business performance. The reason I am on the latter side is the evidence from our own business.”

Stilwell points out, however, that measuring engagement is not an exact science, and there is a loop between it and great financial performance that exists.
Being able to measure engagement is “really only about making sure we get better at it,” says Head of People at retailer Pets at Home, Vicky Hill.

“One of our key business strategies is to have ‘friendly experts’ who can knowledgeably advise our customers on what is best for their pets in a way that the customer can understand. To do this we need colleagues who are passionate about pets, believe in the services and products and are happy to do what they are doing. And in order to become ‘experts’ they need to stay with us for several years.”

By measuring levels of engagement the company can also establish when things aren’t going so well within the workforce. “Having the opportunity to make changes and correct things that aren’t working so well is a gift that we get from our colleagues’ feedback,” Hill adds. “One of the things with engagement is that this year’s ‘excellent’ is next year’s ‘normal’.”

Stephen Weltz also points out a potential positive effect that comes from measuring and reporting on engagement and trust.

“We looked at the companies working with Great Place to Work® over time, and found that after their engagement with Great Place to Work®, in the following years we saw an overall increase in workforce productivity as they continued to work with them, so there may be a positive impact of focusing on, recording and trying to improve on engagement.”

Stephen Gordon, Divisional Marketing Director of REL Field Marketing, told us that his company measures engagement for two main reasons.

“The first is being able to evaluate the progress we are making towards achieving our vision and goals and secondly, and perhaps more importantly, by measuring performance we can identify very specific areas where we need to improve and do a better job in driving engagement. As a consequence of higher levels of engagement we believe we will see improved business results for both our customers and REL.”

“Being able to measure engagement is really only about making sure we get better at it.”

Vicky Hill
Head of People, Pets at Home
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How can organisations measure effectively?

Pets at Home undertakes surveys of its colleagues to measure engagement but Hill is at pains to point out that they only work if the feedback is taken in the right way and clear actions result from it. “Relying on surveys alone is a mistake as they are only really an annual temperature check, so finding as many ways of getting feedback is key.”

The retailer also deploys listening groups, direct question and answer sessions, pulse surveys and exit interviews. “Listening, accepting the feedback for what it is and then doing something should be a continuous process that flows through the organisation,” Hill adds. “People very easily see through half-hearted attempts made by those who are doing things to ‘tick boxes’, and so you have got to go all-in, or not bother!”

There are different approaches to measuring employee engagement at the smaller end of the spectrum. Solicitors AV Rillo knows that it spends at least £200,000 a year on employee engagement – a “big part of our budget” – according to Angelo Piccirillo. “We look at absence and retention levels and measure on the basis of profit and we have got KPIs for the board that link up,” he adds.

The company uses the international Net Promoter Score to get feedback from employees and benchmark itself with other organisations. “Last year we scored +65 [compared to Apple, which scored +70] and this year we are currently at +76. It’s going up because we’re keeping our staff engaged.”
For a company with a global footprint like EY, the principle of measuring engagement is similar, even if the execution is different. The company’s global employee survey, which runs every two years for all staff, provides data which can be cut and spliced a number of ways to measure employee engagement.

“We look at it by geography, office, level, age, tenure, ethnicity, gender, and sexuality and disability where we have the data,” Maggie Stilwell says. “We try and examine it from every which way so that we can get the best understanding of what it’s telling us and how we replicate best practice.”

Stephen Gordon of REL Field Marketing says the organisation runs two surveys: an annual internal People Satisfaction Survey and the Great Place to Work® survey.

“One of the key benefits of both surveys is that they provide feedback against specific areas of engagement and colleague satisfaction and it is therefore possible to address areas where feedback shows we are not doing as well as our colleagues would like. Each year we act on the feedback and aim to improve scores.”
Panel: A different approach to measuring engagement

Measuring employee engagement is “really important to TSB because we want to know that we are getting it right for our people and we also want to know where we can do better”, says HR Director Rachel Lock.

When the bank was separated from Lloyds Banking Group and launched onto the High Street in September 2013, its customer research revealed very low public trust in banks (in 2008 Lloyds Banking Group had received a £20.3bn rescue package from the UK government following the financial crash), particularly in relation to the prevalent bonus culture.

These findings led TSB to take the radical step of abolishing sales targets and incentives, and introducing an on-target opportunity of a 10% annual award for all employees – regardless of grade. This was achieved with few challenges, as a result of a strong communications programme and a focus on engagement.

CEO Paul Pester has a live question and answer session with partners every fortnight, and a written or video blog in the weeks in between. Partners from across all levels and functions of the company can apply for 18 month stints on The Link group, which discusses different topics with the workforce then meets the Bank Executive Committee once a quarter to make recommendations and give feedback.

And the Interlink forum – a chat tool on the intranet – encourages regular communication and collaboration across the company. “We have got all of those touch points across the organisation to see how engaged our people are,” Lock says.

This has reaped rewards for TSB – the bank has improved its HR metrics and customer ratings and delivered double-digit growth. Profits have climbed 68.1% year on year, to £177.7 million in 2016.

But Lock “hasn’t got a clue” what the bank spends on employee engagement. “If you end up having a budget, then that would be quite sad and in some ways be extremely limiting. We do what we need to do in line with our values, so I don’t think you can put a price on that sort of thing,” she says.

“I don’t intend to add it up because we’re not going to stop doing any of the things that we are doing.”
EY also puts employee engagement on its global scorecard alongside other metrics. “I can’t give you a pound figure for how much we invest,” Stilwell says. “All I can say is that it is something that is of global importance to us. Our scorecard fits onto one page of A4.”

Hilton Worldwide’s Ben Bengougam agrees that employee engagement is “not an exact science and it’s quite difficult to draw direct correlations between investments in engagement and financial returns on those investments”.

This view is shared with other Best Workplaces™. While investment in engagement is a “key focus” for ISL Recruitment – “I don’t doubt that we invest a lot both in terms of time and money,” Alan Furley says – “I wouldn’t be able to make the investment tangible”. “Quantifying the investment is a challenge and it’s something that I would like us to improve but I wouldn’t obsess over it.”

Nevertheless, he “sees a correlation” between HR metrics and engagement initiatives. “We definitely measure the impact, even if we can’t measure the exact financial return.” In a business in which 80% of the workforce are recruitment consultants, their performance can be measured easily by revenue and compared with whether they are engaged or not.

Do we need a figure for engagement spend in order to measure its impact?
For example, the company maps the average recruitment consultant’s billings against employee retention levels (see below).

“Buy-in from leaders is a crucial aspect of engagement working, which is hard to measure in terms of direct financial cost.”

Stephen Gordon
Divisional Marketing Director, REL Field Marketing

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“There are areas where it’s easier than others to measure it and look at the link – if you have more engaged people you’re going to retain more people and that will save you money on hiring, leading and managing,” Furley adds.

In a manufacturing business like Rowlinson Knitwear employee engagement is as “important a measure as the financials and just like the numbers a guide to success”, says Donald Moore, but he “wouldn’t know how to measure” what the company spends on employee engagement.

The company’s engagement journey has been about employee and customer satisfaction scores. Since becoming employee-owned in September 2015 the company has seen employees become more caring about each other and about new people coming in, and the customers. In other words, employees are acting like business owners. “It’s like they all feel totally connected with the company, and so now we recruit by our values, not skills or talent,” Moore says.

The company has also witnessed an increase in employee satisfaction from 34% to 100%, customer satisfaction from 43% to 98% and profits from 2% to 13%. The link cannot be a coincidence.

Pets at Home has a clearer engagement budget – £250,000 per annum – for surveys, reward budgets and milestone gifts, but this is “the tip of the iceberg”, according to Vicky Hill. “The time we invest in

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ISL Recruitment
Average Consultant Billings vs ISL Employee Retention

"Retention" vs "Average billings"

- 30% to 90%
- Q1-Q2 2016 to Q1-Q2 2017
- Billings range from 5000 to 13000
engagement will be the real cost – training courses, listening groups, presentations on engagement strategies, fundraising, actually having some fun (sports days, team days out), coaching colleagues and even taking the time to actually be nice to someone and help them out rather than focusing on your own workload,” she says. “The list is endless.”

As a result, measuring return on investment in engagement is a “really tough one as engagement is such an intangible thing that turning it into a hard KPI isn’t straightforward”. Instead the retailer looks at a suite of people KPIs – colleague retention, absence, annual colleague survey scores and customer feedback scores.

“In reality, we also have a very soft measure of ‘how does it feel?’,” Hill adds. “You know as soon as you walk into a building/department if people are engaged and happy or not. This can be just as powerful as a number.”

Stephen Gordon of REL Field Marketing says the company doesn’t have an overall engagement budget because some activities within the engagement strategy sit within individual customer budgets, like bonus and reward schemes, team meetings and conferences, while others are centrally funded by REL.

“It’s hard to quantify what classes exactly as engagement as, for example, a major win for one of our teams last year was rolling out an improved data capture tool (tablet) and whilst this wasn’t specifically an engagement initiative it was absolutely answering one of the field team’s biggest gripes. Therefore while it was a major contributor to morale and was deployed in response to what our colleagues told us, we would class that investment as functional rather than directly motivational.

“I guess if we aggregated the values of all the activities that we regard as directly driving engagement across the organisation then I’d estimate we spend in the order of £200,000 - £250,000 per annum.”

Gordon adds, however, that this investment is “magnified” by the time the company invests in engagement-led activities and by ensuring that their colleagues are listened to and are aware of what the company is doing to bring their vision to life. In fact, he says that buy-in from leaders is a crucial aspect of engagement working, which is hard to measure in terms of direct financial cost.

“Engagement and trust that need to be developed cannot be bought. They need to be earned. Cultural engagement is a long-term strategy, not a one- or two-year project, and the oxygen it needs to thrive is absolute buy-in from the leadership team in the organisation and a commitment to put the time and effort into bringing it to life every day.”

“If the commitment to invest the time and effort isn’t there then save your money!”
Pets at Home does review its financial data against engagement data, “and it can clearly be seen that highly engaged teams deliver high performance,” Hill says. “Although it isn’t as straightforward as that every time; a highly-engaged team may have a dip in sales due to external factors but it isn’t often that great commercial KPIs come from teams with low engagement.”

There is a slight difference in what kind of correlation Best Workplaces™ believe can be demonstrated between what they spend on employee engagement and the business’ levels of commercial success. It’s simple enough to measure non-financial HR metrics such as absence, recruitment and retention, compared with a costing of soft and hard benefits that are available to employees.

It becomes harder when HR professionals want to make a calculation relating to levels of productivity, and linking to that their spend on something like training, for example. However, there are financial measures – savings achieved through HR metrics – that can help demonstrate the correlation. Stephen Weltz has some useful tips for organisations looking to measure employee engagement and its link to key HR metrics.

“First off, organisations must have usable data. If they haven’t measured trust and engagement, they need to do so immediately.
“When you want to show how it improves your own financial performance, there are two ways it can do so: either through greater output, or reduced savings/cost input. Which one to focus on will depend on the organisation. You need to know your primary goals.”

Stephen also helpfully draws a distinction between proving indirect and direct links.

“A direct link would be saying, for example, that engaged sales employees are selling more. That’s powerful. But sometimes you need a more indirect route, for example connecting engagement to other parts of the talent management lifecycle, such as turnover. Organisations should think about which route – direct or indirect – is the easiest to get them from trust and engagement to an ROI.”

“Organisations must have usable data. If they haven’t measured trust and engagement, they need to do so immediately.”

Stephen Weltz
Workforce Analytics Manager
Human Capital Management Institute
Panel: Demonstrating a correlation

The tech provider Foundation SP has internal metrics and targets, measuring for employee satisfaction and happiness (ESAT), client satisfaction and happiness (CSAT) and business/financial revenues and profit – financial performance (BSAT).

“We think about them in that order – employees first,” says CEO Simon Grosse. “Although you could think about it as a triangle – if the company is not profitable people aren’t going to be happy – but if you think about the flow of the company it should be employees first, then clients, then financial results – ‘happiness’ and strong sustainability for the business.”

This approach has led the company to measure what it spends on engagement and how that correlates with revenue and profit. In 2014, the company had top-line revenue of £2.2m, a gross profit of £130,000 and a £50,000 spend on engagement – 2% of revenue.

By 2017, following a company-wide focus on engagement and work with Great Place to Work®, the company is reporting top-line revenue of £3.5m, gross profit of £600,000 – inclusive of a £276,000 spend on engagement – 8% of revenue. Profit has quadrupled in just over two-and-a-half years.

The categories of engagement spend and amount spent over the two separate financial years were:

<table>
<thead>
<tr>
<th>Category</th>
<th>2014 spend</th>
<th>2017 spend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors’ time specifically on engagement</td>
<td>£15,000</td>
<td>£50,000</td>
</tr>
<tr>
<td>Leadership/Management time specifically on engagement</td>
<td>£15,000</td>
<td>£60,000</td>
</tr>
<tr>
<td>Software platforms to support engagement</td>
<td>£0</td>
<td>£28,000</td>
</tr>
<tr>
<td>Learning and Development</td>
<td>£10,000</td>
<td>£60,000</td>
</tr>
<tr>
<td>External consultancy and creative video production to support engagement</td>
<td>£0</td>
<td>£20,000</td>
</tr>
<tr>
<td>Coaching</td>
<td>£5,000</td>
<td>£25,000</td>
</tr>
<tr>
<td>HR time specifically on engagement</td>
<td>£5,000</td>
<td>£25,000</td>
</tr>
<tr>
<td>Great Place to Work® and Investors in People</td>
<td>£0</td>
<td>£8,000</td>
</tr>
</tbody>
</table>
Grosse points out that the company’s values are more important than return on investment; however the ROI “tells a powerful story”. As well as these figures, the company has other demonstrations of a return on its engagement investment. In 2016 not one member of staff left the company.

“All we have looked at so far are the real pounds we have spent against those areas,” he adds. “What we haven’t got to yet are the intangibles. It’s refreshing for us to see how much we have invested in employee engagement and to see that it has been worth it. If someone had said to me 2.5 years ago, ‘You’re spending £50,000 on engagement - do you want to increase it to £276,000?’ I think I would have probably said, ‘no thank you’. But there absolutely is a compelling correlation between the two.”
There is greater consensus on the role that being a Best Workplace™ has in demonstrating a return on engagement investment. It provides a benchmark against other high-performing companies in the same and different sectors, and acts as a recruitment and engagement tool for employees to see how companies are taking engagement seriously.

Foundation SP has found that using the Great Place to Work® framework has played a role in measuring return on investment engagement. “It has formed a complete picture of everything that we need to look at,” Grosse says.

Even though the company was named Best Workplace™ in the Small category in 2017 it won’t be resting on its laurels and assuming it has got everything right. “These days there’s always someone better and more forward-thinking around the corner. We put a lot of effort and time into ensuring that we are continuously introducing new and exciting ideas and techniques. We are constantly looking at this continuous improvement to keep it fresh,” Grosse adds.

Rowlinson Knitwear used its entry into Best Workplaces™ to determine whether it had made further progress since becoming employee-owned. “We have a strong desire to improve and the Best Workplaces™ survey is an excellent benchmark,” Donald Moore says.

Hilton Worldwide uses its work as a Best Workplace™ to measure itself against the best, too. “Hilton’s mission is to be the most hospitable company in the world, and we can only achieve this mission if we attract, develop and retain the best
people," says Ben Bengougam. “While we do not focus on engagement to win awards, we appreciate plaudits and they help us position our value proposition as attractive and competitive.”

EY’s Maggie Stilwell agrees. “It’s so important to keep outward-looking and not get too caught up in yourself,” she says. For EY, the current hot topic is to what extent the company should have extra feedback mechanisms for employee engagement other than an annual pulse survey and the Best Workplaces™ survey.

“The question is trying to get the balance between the great benefits of a survey where you can check participation and really feel you have got a mandate for change,” Stilwell adds. “It’s managing that participation rate, getting something that keeps the benefits of anonymity and scale whilst giving you enough data that you can tailor your response to fix the things that need fixing.”
Panel: Why measurement and people analytics lead to business success

Stephen Weltz makes the point that measuring and reporting on engagement is part of a wider positive trend in HR’s position in the organisation.

“Most successful organisations have some form of dedicated analytics function in HR. The combination of technical skills with the ability to visualise and conceptualise data has been shown to be valuable in other parts of the business and is now coming into HR. Data is a fundamental part of the business nowadays and the workforce is no exception.”

The greater maturity analytics has, the more value it adds too.

“We are moving towards strategic analytics and not simply the endless cycle of reporting. Analytics is moving away from having reports for the sake of it and towards having a closer look at whether the metrics you’re measuring are predictive of future company success and drive action.

“Organisations are moving from standard reporting to predictive analytics and then to prescriptive analytics, which tells you not only how things were, but how they’re expected to be in the future, and what you should do about it. It’s not just info for the sake of info, but info driving action.”

From a moral and societal perspective, measuring engagement and trust and using this data in analytics is positive.

“There’s so much importance placed on financial metrics and balance sheets, but we’ve moved into an age where a lot of the value and power of a company is intangible, it’s not machines you own or land but it’s your intellectual and human capital and your company’s ability to produce new things.”

“Because of this, another trend we’ll see more and more is better standards in human capital reporting. Investors and leaders will request important information on human capital and as that happens more there will be standards set and general ideas around workforce metrics and which should be reported.

This transparency encourages long-term thinking, because short-term measures that impact the balance sheet – such as large-scale redundancies – will be reflected poorly in the human capital metric trends.
What does the future hold?

What is clear from the Great Place to Work® approach to measuring investment in engagement is that the process evolves, and continued assessment is crucial, especially in the face of future challenges such as skills shortages, multi-generational workforces with differing needs and Brexit-related uncertainty.

“The workforce is becoming more complex and it is vital that we continually improve the way we are engaging with team members,” Ben Bengougam says. “Hilton Worldwide is always evolving our approach to employee engagement and measurement. We need to do more to make sure we are serving the needs of all generations.”

Rowlinson Knitwear’s Donald Moore agrees: “We will always want to measure and improve employee engagement, especially if we are faced with greater challenges.”

The process is also circular. “Basically, if your colleagues want the business to be the best it can be, they will keep telling you what you can do better,” says Pets at Home’s Vicky Hill. “You just need to give them the confidence you will listen and change as a result.”

“The workforce is becoming more complex and it is vital that we continually improve the way we are engaging with team members.”

Ben Bengougam
Senior VP HR EMEA
Hilton Worldwide
When it comes to measuring the return on investment in engagement, the hard work continues apace. However they measure or report it, employers care about how much time and money is put into engagement and how that links back to business success. “It’s like two layers,” says Foundation SP’s Simon Grosse. “It’s a really interesting exercise for us to track return on investment, but if people embark on employee engagement just for the ROI they’re doing it for the wrong reasons.”

What’s most important is having a desire to have a deep relationship with employees within a values-led culture, which will ultimately reap rewards for everyone.

Stephen Gordon agrees: “My personal belief is that the time and effort directed to engagement-driving activities and in caring for our colleagues is far, far more valuable than the money we physically spend as without winning hearts it’s very hard to win minds!”

“What’s most important is having a desire to have a deep relationship with employees within a values-led culture, which will ultimately reap rewards for everyone.”
A lack of legislative imperative, and a focus on short-term concerns, has led many companies to underinvest in employee engagement and other ways to strengthen intangible assets.

Because engagement is intangible, it can be difficult to show a direct link between investment in engagement and a financial return. However, studies are emerging that support a link between engagement, financial performance and productivity.

Not all investments in engagement are monetary – many companies leading on engagement highlight the time investment from senior leaders and managers as a crucial part of an effective employee engagement strategy.

Engagement strategies at the best-performing organisations are linked with their size, natural history, culture and all the factors that lead to success – this link increases the chance of engagement investment hitting the bottom line.

There are many reasons to measure engagement, such as identifying areas ripe for future investment, creating transparency to engage senior leaders with employee voice and improving HR’s standing in the organisation in order to drive future capability and effectiveness.

How you measure engagement depends on the organisation. You may start by using engagement surveys to get a baseline on engagement, along with measuring key HR metrics such as attrition. Some companies then link their engagement scores directly to customer satisfaction scores or client results. Many organisations engage employees directly with employee voice initiatives, but you must be prepared to take action off the back of feedback received.

Do you need a concrete figure of engagement spend in order to demonstrate its value? Many leading organisations say it’s not an exact science as there can be a big time investment. Others have a central budget for ‘formal’ engagement activities with a caveat: many activities that increase engagement come from departmental or team budgets.

Engagement can benefit the bottom line in two ways: increased output and reduced costs. If you want to measure the impact of engagement and its link to performance, it’s useful to start thinking in this way. Often engagement will impact both metrics rather than one in isolation.

HR will be expected to increase its measurement of human capital metrics in the future. One of the driving forces is the increasing maturity of analytics and the value it can add when we really understand the human capital in our organisations.
ABOUT GREAT PLACE TO WORK®

Great Place to Work® is a consultancy specialising in workplace culture, helping organisations to create exceptional, high performing workplaces where employees feel trusted and valued.

We help employers improve recruitment, retention and productivity by putting employees at the heart of the organisation, analysing what they think and feel and identifying the real issues that need to be addressed. Part of a global organisation, we apply data and insights from around 10,000 organisations across the world to benchmark individual performance and advise employers on how to continuously improve employee engagement and wellbeing and so help build and sustain business performance.

We run the Best Workplaces™ awards to enable the organisations we work with to celebrate their achievements, build their employer brand and inspire others to take action.

We share our learnings through our research and publications at national, regional and global level, as well as through conferences and events.

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