



CENTRE FOR  
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ACADEMIC REPORT

# Engaged to Perform: A new perspective on employee engagement

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# Contents

<b>1. Why Is Employee Engagement Seen As Important?</b>	2
1.1 Engagement As Internal Marketing	2
1.2 Engagement As Process Improvement	3
1.3 Engagement As Predictive of Service and Organizational Performance	3
1.4 What Were The Psychologists Saying?	5
<b>2. What Exactly is Engagement? The Practitioner Perspective</b>	7
2.1 Engagement Hits the Practitioner Literature	7
2.2 Key Practitioner Perspectives on Engagement	8
2.3 How is Engagement Apparently Created?	10
2.4 The Limitations to Existing Practitioner Approaches	11
2.5 Do We Have a Problem?	11
2.6 Using a Medical Model to Think About Engagement at the Individual Level	12
<b>3. So What Exactly is Engagement? The Academic Perspective</b>	14
3.1 The Psychological Reactions That Create the Condition of Engagement	14
3.2 What are the Causes and Antecedents of Engagement at the Individual Level?	16
3.3 What Bonds are Needed to Ensure Effective Performance? The Levels of Engagement	19
3.4 The Outcomes of Engagement: Being Clearer About the Intermediate Performance Effects	21
3.5 Summary: A Model of Individual-level Engagement	22
<b>4. Can Individual Engagement Be Managed?</b>	24
4.1 Do HR Practices Impact Engagement?	24
4.2 Employee Segments and Multiple Internal Models of Engagement - Performance	26
4.3 Summary	28
<b>5. Understanding The Organizational Performance Recipes</b>	29
5.1 Service-profit Chain Thinking	29
5.2 Is the Impact of Engagement on Organizational Performance too Good to be True?	30
5.3 Why Should Engagement Have the Same Performance Impact Across Different Service Models?	31
5.4 Unravelling the Real Performance Recipes	35
<b>6. Conclusion: Engage With What?</b>	36
<b>7. End Notes</b>	37

# 1. Why is Employee Engagement Seen as Important?

***Is engagement a future-proof HR strategy? We argue that it is, but we must be far more critical about the concept and develop much better insight into how it influences organizational performance. We have taken far too much on trust.***

Sometimes in organizational life ideas are handed down, rather like Tablets of Stone, and it feels as if managers, without question or reflection, pursue the idea. It sounds right. It must be right. Employee engagement is one of these recent ideas.

Our fundamental purpose in this White Paper is to examine this issue on behalf of HR Directors. We explore how thinking about the issue has developed over time, how assumptions have been created, sometimes tested, sometimes not. We guide the reader through the many, and sometimes conflicting, views about engagement and in so doing, help bring HR Directors to a better understanding of what can be done with this idea. In deconstructing the ideas behind engagement, we then put them back together again in to what we believe is a better HR strategy, and one that will endure over the forthcoming – and crucially important – few years.

As those working in the field will recognise, there are three streams of management thinking that have all led to the importance of employee engagement as both an idea, and as a basis for HR strategy.

- Engagement as Internal Marketing
- Engagement as Process Improvement
- Engagement as Predictive of Service and Corporate Performance

If as an HR practitioner you recognise these different approaches, then this White Paper will be of value in helping you understand -- and testing- the assumptions that your engagement strategy is likely based on. In practice, organizations, or the people made responsible for managing engagement strategies, often see a little of each of the above three purposes within their HR strategy. This is understandable, yet we argue also dangerous. The danger is that each of the three purposes outlined above makes very different assumptions about what needs to be measured under the label "engagement", what the consequence of positive or negative scores on such measurement will be, and what remedial action the organization needs to make dependent on that measurement.

## 1.1 Engagement as Internal Marketing

Given the general lack of development in employee communication mechanisms, engagement has been used by many organizations as a process to help articulate and sell complex change and strategy to the workforce, with the intention of creating a sense of emotional attachment and identification to the goals of the change. Internal marketing thinking is used to target specific communications, identified to resonate with key communities of employees. The goal is to develop a shared mental model of the change or strategy, what is required of both the organization and the employee, and then to assess the extent to which both sides appear to be delivering this "deal".

The employee engagement process, therefore, is often preceded by, and is a natural consequence of, an important prior period of business engagement. Then, in true customer relationship management fashion, the approach is to see how the employees (as internal customers) feel about the proposition. The engagement survey represents an employee feedback mechanism, and a management control device, that needs to be assessed periodically as a barometer to show how well the organization seems to be doing.

## **1.2 Engagement as Process Improvement**

Here the idea behind engagement is also loaded with a performance expectation, but generally still an indirect contribution to performance. The assumption made by the organization is that motivated employees, when also encouraged to act as good citizens, will self-manage, thereby taking initiative to improve on processes. Engagement is seen as part of a quid pro quo exchange relationship, a blanket of trust that can be put in place, whereby motivated employees pay back the investments made by the organization to motivate them by taking care in turn of the organization and its customers. Indirectly, this type of engagement should make the execution of a strategic change smoother and easier. No claims are made by managers that engagement necessarily equals bottom-line performance, but it is seen as a necessary ingredient for – or precursor of - subsequent performance. Senior managers in the organization believe that they are capable of putting in place more complex testing changes once the engagement scores are high. It acts as an investment – not only reducing the side effect or consequence of existing changes on employee attitudes – but an option or insurance premium that can be taken out on future performance.

## **1.3 Engagement as Predictive of Service and Organizational Performance**

The customer services literature, which in turn draws upon models of what is called (explained later) “emotional contagion” and “service climate”, suggests that there is a direct and causal “service-profit chain”. HR practitioners have picked up on this and assumed that the message must be that more employee engagement means more business unit performance. This view developed out of the simple proposition by Heskett and colleagues<sup>1</sup> from Harvard University that organizational profitability can be influenced by a chain of events starting with internal service quality proved to be a landmark paper for HRM. They argued that this chain involved strong and direct relationships between “...profit; growth; customer loyalty; customer satisfaction; the value of goods and services delivered to customers; and employee capability, satisfaction, loyalty and productivity”. Within this hypothesized causal sequence lay important employee variables such as employee satisfaction that were considered vital to achieve important customer outcomes, which in turn directly influenced profitability and revenue growth of an organization. The model proposed by Heskett et al. – and returned to later in the White paper - is shown in Figure 1.

## The Links in the Service-Profit Chain

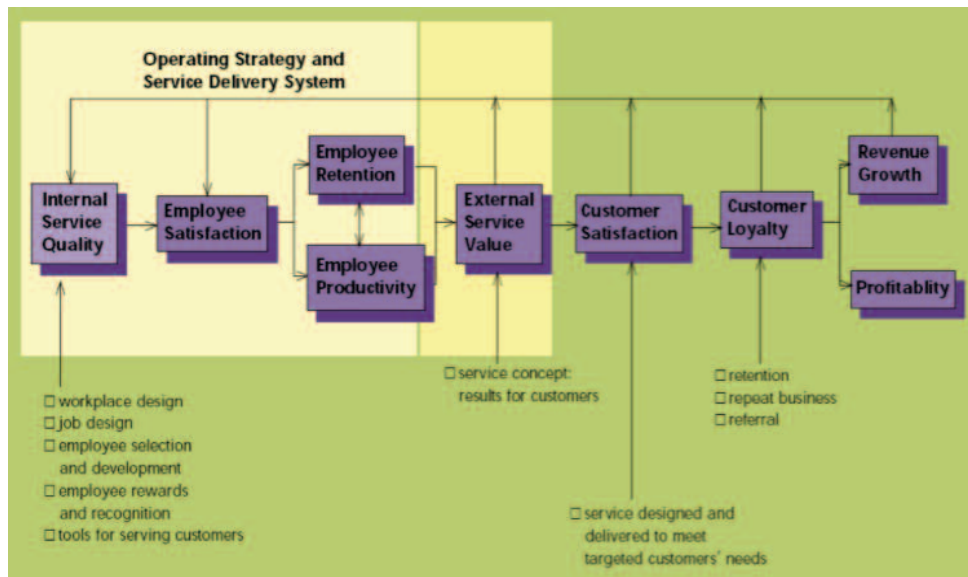


Figure 1: The Service-Profit Chain

The original work by Heskett and colleagues<sup>1</sup> provided convincing case-study based evidence to support their proposed model and created a new research agenda, which is now popularly referred to as “the service-profit chain”. This model has proved very influential for HR Directors and many will refer to it when describing their engagement strategy.

Soon after, following a similar research methodology, Kaplan and Norton<sup>2</sup>, also from Harvard, introduced the concept of *The Balanced Scorecard*. The basic idea was the same. Business performance, as a dependent variable, does not result through direct causal relationships. There is what is called a mediational model. Such models hypothesise that most independent variables (for example HR policies and practices) cause a range of mediator variables, which in turn cause the dependent variable (in this case business performance). The mediator variables, then, serve to clarify the nature of the relationship between the independent and dependent variables. Some aspects of HR might indeed act as a direct precursor of performance, but others clearly act as mediated precursors. The challenge is to unravel the real cause-effect order.

In *The Balanced Scorecard* model too, employees figured prominently (in their fourth box) under the learning and growth perspective. Their ideas also proved very influential on HR thinking and were developed by Becker, Huselid, and Ulrich<sup>3</sup> with the publication of their book *The HR Scorecard*, which again inferred a chain of cause-effect constructs that finally lead to organizational performance.

The idea behind the work of all of these authors was that certain HRM practices had the power to influence employee behaviour in a desired manner such that it finally led to improved organizational performance.

## 1.4 What Were The Psychologists Saying?

At the same time, psychologists began to raise their sights beyond the individual, and started to catch up with the publications in Harvard Business Review. But they also begged to differ in some of the conclusions that might get drawn.

They had been working on the idea for many years that some specific employee concepts, such as employee job satisfaction, commitment or burnout, influenced employee performance significantly. However, this was a critical difference between their work and the stream of research outlined above. Psychologists had been reporting some tenuous links between employee attitudes toward their work with a range of what were called *employee level (intermediate) performance outcomes* – such as organizational commitment, job satisfaction, low intention to leave. However, the idea that employee attitudes could also influence *organizational level performance* was still seen as pretty revolutionary and an untested proposition.

As new work was carried out, great claims were made about the “effect sizes” that attitudes such as satisfaction and commitment had on organizational level outcomes (effect size is a measure of the strength of the relationship between two variables showing not only whether this relationship has a statistically significant effect, but also the size of any observed effect when replicated across samples).

This generated huge research and consultancy interest. A massive amount of research was then initiated to find the mechanisms through which individual level attitudes could possibly translate into organizational level performance outcomes. A plethora of new concepts came into existence to fill this void. *Employee engagement* was one of them.

Indeed, employee engagement is now being given governmental attention, with the MacLeod Review seeking to “define effective employee engagement, examine the barriers which are preventing businesses engaging with their employees and consider non-regulatory solutions that can be offered to help business overcome such obstacles”<sup>4</sup>.

A key argument in this White Paper is that if engagement is to be a meaningful concept for HR Directors, then as a concept it has to be designed to work at the level of strategic business units or the team. We argue that it must work at this level - business unit rather than individual - because HR Directors need to “reverse engineer” the sorts of performance that are required by the particular service model that their organization pursues. They need to understand the logic that suggests why a range of employee attributes (whether you call them engagement or not) must serve a central purpose in delivering that type of performance. Managers have in their minds a model or a “theory of action”. It is this mental model that suggests to them the specific business performance outcomes that can only result from engaged employees. This model, generally based on deep operational insight into the realities of performance, is what we call a “performance recipe”.

However, in all too many businesses this “recipe”, even amongst those line managers who are “friendly” to the idea of engagement, is based more on an act of faith rather than any sound evidence. By example, a survey of more than 23,000 directors in October 2008 cited by the Human Capital Forum found that four out of five board members believe that a focus on employee engagement improves productivity and service delivery, and three in four believe it improves bottom-line performance<sup>5</sup>. For an HR Director this may seem like good news. But what if Employee Engagement, though clearly very important, does not work in the way that line managers might be prepared to accept? What if it is a much more complex phenomenon than they, or even HR, would wish to acknowledge?

Credit crunches and recessions have a habit of breaking many managerial acts of faith. Is Employee Engagement a future-proof HR strategy?

We argue that it is, but for this to remain the case, we must be far more critical about the concept and develop much better insight into how it influences organizational performance. We have taken far too much on trust.

## 2. What Exactly is Engagement? The Practitioner Perspective

***By measuring top-sliced scales of engagement, based on a small sub-set of empirically useful data, HR functions may get dragged into managing the symptoms and side effects as expressed by each and every patient, rather than the disease and its curative treatments.***

### 2.1 Engagement Hits the Practitioner Literature

The term “employee engagement” caught the eye of practitioners. A stream of consultancy reports seemed to find out how important it was for organizational performance and how a lack of it could lead to disastrous consequences for the organization. For example, a study conducted by Sirota Consultancy<sup>6</sup> reported that organizations that have highly engaged employees exhibited a 16% rise in their share prices as compared to an industry average of 6%. Similar outstanding results were claimed by other consultancy and research organizations.

As employee engagement was being shown to influence shareholder value, some companies chose to make employee engagement an important benchmark in their annual Human Capital Report (HCR). Engagement had become a “must improve” agenda on every HR function’s performance dashboard. It was used by organizations as their employer brand endorsement – being seen as one of the best companies to work for - and was widely quoted for recruitment drives. It became an essential indicator for any organization aspiring to achieve an “Investor in People” or other similar employer brand recognition. Many consultancies offer internal HCRs that use engagement as predictive and diagnostic data. These reports form a part of an HR risk mitigation strategy, a strategy that is intended to identify parts of the organization, or key pools of talent, that given engagement survey data trends, might be suspected of under-performing or leaving in future.

For a time it seemed that HR functions had finally found a tool that could guarantee them a voice at the highest echelons of management. After all, now they had in their power something that could influence shareholder value! Every progressive organization with a proactive HR function started significant exercises to measure, and yearly benchmark, the level of engagement of their employees.

Given that this concept was so widely accepted by the industry, one would assume that they were all measuring the same thing. It is such a disarmingly simple concept that we should take it for granted that it must have an operational and empirical definition that is universally accepted. But that is where all agreements end. There is no universally accepted operational definition of engagement, leave aside the question of whether it is empirically useful or not. So the important question remains: what is engagement?

Given the lack of any universally accepted definition it is therefore important that the organization clearly defines what it is measuring in the name of engagement.

## 2.2 Key Practitioner Perspectives on Engagement

We shall analyze how the concept of engagement has been understood, defined and used from the perspective of practitioners, researchers and organizations who between them have monitored the engagement level of employees. This is not to say that one perspective is better than the other, but it is important to highlight that the different approaches to engagement *might not reflect the same thing and may be based on different assumptions about how engagement works as a process*. Moreover, even within either the practitioner or the academic field, we will show that different approaches are often taken. You should benchmark your organization's scores on engagement with caution.

We begin with the practitioner view. When it comes to measuring and defining engagement, an organization that many practitioners draw upon is that of Gallup Inc. The questionnaire to measure employee engagement developed by Gallup - known as the Gallup Workplace Audit (GWA, also popularly known as the Q12) - comprises twelve questions plus an overall satisfaction question. The items in this questionnaire were found to have a highly significant relation to unit level measures of an organization's performance<sup>7</sup>. We shall go on to argue that whilst such prediction can have value, as engagement strategies become more sophisticated, the development of scales based primarily on their empirical utility can serve to misdirect subsequent HR thinking.

Thus, rather than being driven by theory, Gallup's approach has been more empirical. The items in the questionnaire are a measure of attitudinal outcomes (principally satisfaction, loyalty, pride, customer service intent, and intent to stay with the organization). These items are chosen in part because they measure issues that are within the remit of a supervisor in charge of a given business unit. Gallup had a rich database of employee surveys built up over thirty years, and based on their understanding of those employee behaviours that had maximal impact on a firm's performance, they defined engagement as:

*"the individual's involvement and satisfaction with as well as enthusiasm for work"*<sup>8</sup>.

### Three Different Types of Employee: Gallup

Based on their national survey of US workers, which uses their engagement questionnaire, Gallup also argue that there are three types of employee<sup>9</sup>:

- Engaged employees: work with passion and feel profound connection to their organization. They drive innovation and move the organization forward.
- Not-Engaged: employees are essentially "checked out." They are sleepwalking through their workday, putting time – but not energy or passion – into their work.
- Actively Disengaged: employees are not just unhappy at work; they are busy acting out their unhappiness. Every day, these workers undermine what their engaged co-workers accomplish.

Towers Perrin<sup>10</sup> too has adopted an approach that relies on large survey databases. They define employee engagement in terms of the *preferred characteristics* that engaged employees' exhibit, as distinct from the non-engaged employees, noting three key features of such engagement.

### Three Key Features of an Engaged Workforce: Towers Perrin

- Rational/cognitive understanding of the organization's strategic goals, values and their 'fit' within it (also known as the 'Think' sector)
- Emotional/affective attachment to the organization's strategic goals, values and their 'fit' within it (also known as the 'Feel' sector)
- The motivation/willingness to do more than the minimum effort in their role (i.e., to be willing to invest discretionary effort, to 'go the extra mile') for the organization (also known as the 'Act' sector)

As can be seen, their view of employee engagement is similar to that of Gallup in one regard: they both focus on aspects of employee characteristics (cognitive, affective, or behavioural) that have been found to enhance the performance of a given business unit.

A number of other well-known applied research and consultancy organizations have also defined engagement on similar lines, often emphasising the importance of discretionary effort as the key outcome or distinguishing feature of an engaged employee. The Institute of Employment Studies (IES) defined engagement as follows:

*"...A positive attitude held by the employee toward the organization and its values. An engaged employee is aware of business context, and works with colleagues to improve performance within the job for the benefit of the organization. The organization must work to develop and nurture engagement, which requires a two-way relationship between employer and employee"<sup>11</sup>.*

IES noted that HR practitioners stress that there are three important requirements before such engagement can exist:

1. A healthy "psychological contract" i.e. an unwritten, fragile relationship between the employee and employer that is underpinned by a two-way and trustful relationship.
2. A need for employees to identify with their organization and its values, believe in its products and services i.e. to embrace what the organization stands for
3. A need for employees to understand the context in which the organization operates: i.e. not just show a commitment to the organization, but a desire for business appreciation.

Summarising this, they considered that engagement can be brought down to six things:

- Belief in the organization
- Desire to work to make things better
- Understanding of business context and the 'bigger picture'
- Respectful of, and helpful to, colleagues
- Willingness to 'go the extra mile'
- Keeping up-to-date with developments in the field

### 2.3 How is Engagement Apparently Created?

IES also pointed out, however, that HR practitioners make different assumptions as to how this type of engagement is best created, tending to subscribe to one of two contrasting views:

- A "Bottom-up" philosophy, which contends that levels of engagement are primarily a function of employees' experiences in their jobs. Engagement is therefore largely a result of factors controlled by first-level supervisors.
- A "Top down" philosophy, which contends that engagement is created by the behaviour of an organization and its top-level leaders. Engagement flows out of values and strategic leadership.

Of course, both forces are at play, but attitude surveys have to allow the HR function to diagnose the relative importance of each at the current time. If it is the first one, then the reaction to a set of low engagement scores tends to focus on the (re-) education of first line management, and the skilling of the line to enable them to both sell the strategy down and manage the employee needs upwards. If it is the second one, then the reaction is to create an attractive and compelling vision that employees will find desirable and meaningful. Moreover, without addressing the lack of a meaningful vision, designing interventions at first- or middle-level management is of limited value.

The practitioner view has also progressively expanded the range of constructs to be measured under the umbrella term of engagement – in many instances stressing not just a sense of "cognitive attachment" and "identification" to the organization and its mission -but a strong emotional element as well. For example, the *Conference Board* offers a synthesised definition that sees employee engagement as:

*"a heightened emotional connection that an employee feels for his or her organization, that influences him or her to exert greater discretionary effort in his or her work."*

This synthesised definition of engagement is derived from those scale items, amongst all those used by its various clients to measure the engagement level of their employees, that could be seen as common. The CIPD too holds similar views on employee engagement and refers to it as:

*"a combination of commitment to the organization and its values, plus a willingness to help out colleagues (organizational citizenship). It goes beyond job satisfaction and is not simply motivation. Engagement is something the employee has to offer: it cannot be 'required' as part of the employment contract."*

## 2.4 The Limitations to Existing Practitioner Approaches

To summarise, we see two specific limitations in the practitioner and consultancy views on engagement. Their approaches are:

- Largely driven from their respective survey databases. The survey items are designed for problem description, tracking and benchmarking. They are not necessarily designed for problem solution.
- Based on an empirical model rather than a theoretical one (when compared with how the researchers have approached the concept – see the next section). The disadvantage of an empirical model is that information is gained by means of observation, experience and experiment, rather than by any structure of analysis (a theory) that enables observations to be explained and linked back to an underlying reality that brings the observations together.

If you wish to make observations on engagement, and then argue its value to important strategic or performance outcomes, you need to be able to analyse how and why it is working (or not). Sadly, these workings are more complex than we would wish!

### Problems with the Practitioner Approach to Engagement

Practitioner work looks for key differences in employee surveys between high and low performing business units, and then lump the items that are significantly related to performance together to form the core of what they call engagement. There are three major problems with this approach:

1. Most survey-based research tends to infer causality in a way that suggests that it is the answers to the engagement items that can be presumed to “cause” performance, not merely correlate with it. *However, there is very little support from their research designs that in reality enables them to make such a strong assertion.*
2. There is little “construct validity” behind the items being clubbed under a single name of engagement. The scale items are not embedded in any validated theory, so it is unclear exactly how they enable and deliver performance. Performance cannot always be predicted. *If you don't know **how** a measure delivers its assumed outcome, you can't manage the use of it.*
3. Perhaps reflecting this, although all the major consultancies *use different items in their measures, they all label it as engagement.*

## 2.5 Do we Have a Problem?

We believe we do. We are not just being pedantic in talking about empirical models and theoretical models. We are saying that the time has come for us to move beyond the existing empirical models and data that exists around the study and management of engagement.

Much good work has been done by the consultancies on behalf of HR in bringing the issue of engagement to the attention of line managers and in developing benchmark data. But here is the problem. In these difficult economic times, imagine that you were asked to bet your organization's money that an increase in a collection of attitude survey items answered by individuals, that are then averaged together, will automatically, and in all future circumstances, lead to higher business performance. Would you do it? Would you make that bet? Then imagine you had to bet your own dwindling personal financial resources, your future pension, on the same proposition. Would you still do it? Or would you want to know a bit more about how this engagement game really works?

We believe the wise person would want to do the latter. To this end, in this White Paper we take a critical eye to both the practitioner and the academic world, but in doing so, hopefully also provide some guidance as to how we can make the pursuit of engagement a more robust HR strategy.

One risk – likely to become a feature for more organizations in the current economic environment – is that HR Directors find that they are merely managing 'active disgruntlement'. The CIPD's Chief Economist notes that "... the combination of hard times and diverse employee attitudes could test some engagement strategies to breaking point"<sup>12</sup>.

With access to a number of internal employee surveys, we would note that a number of organizations are looking at engagement survey data that present them with a hotch-potch of negative data that suggest a wide range of different points of dissatisfaction, and even where there may be a common dissatisfaction, there is apparently a different cause from one business unit to another. After a period of what can be seen as "survey drift", all that gets unearthed is a range of different 'dissatisfaction recipes'. In order to know how to respond to survey findings the solution is to run another (hopefully better designed) survey!

## 2.6 Using a Medical Model to Think About Engagement at the Individual Level

The problem is, if you want to measure all the things that will give you the "hearts and minds" of your employees, you are going to have to develop an awfully long questionnaire! Think of all the necessary components about which questions might be asked if a robust model of the engagement process is to be examined.

Then add in all the usual pragmatic policy and internal marketing questions that often must also form part of an employee survey.

### How Does Your Engagement Survey Measure Up?

Engagement surveys need to be designed around a model that allows a medical diagnosis. What is the point in running a survey that tells you about the state a patient is in, if the diagnosis does not also consider all the other symptoms that exist, and if the measurement is not guided by a model of how these all fit together, and so can best be treated?

The medical model enables a single examination of the complaint, history, examination of the condition, ancillary tests if needed, diagnosis, treatment, and prognosis with and without treatment. It aims to find the treatments for diagnosed symptoms and syndromes and treats the human as a very complex mechanism. Engagement thinking needs to follow the same logic.

In the next section we examine the condition of engagement a bit more diagnostically. It is worth signalling the sub-text to this next discussion:

- Organizations are “asking” much when they expect significant proportions of their people to be so “engaged” .
- What is being measured at the moment by many organizations may in fact be misdirected effort.

By the end of the next section we hope it becomes clear that some of the items chosen to be included in engagement surveys may produce results that look good on the surface - but they hide some of the more difficult and enduring employee pathology that lies beneath – and may therefore not prove to be a sustainable diagnosis, especially as organizations experience the more testing “hard times” associated with a recession.

Practitioners do not have too many problems with the concept of engagement, as long as it can be used reliably to predict and manage team or organizational performance. Yet to be confident that the survey findings are authentic, organizations need to consider some basic principles about engagement:

- Is engagement primarily a psychological reaction to job design and role, readily switched on or off?
- Is engagement the corollary of burnout, and so a more diffuse and difficult to address outcome?
- Is engagement more like an attitude (e.g. job satisfaction) or is it a state of motivation?
- How is engagement any different to related ideas, such as job involvement, job commitment, and organizational citizenship behaviour?

The fact that we still have to ask such fundamental questions shows that we are pursuing an HR strategy about which we know less than we think.

In short, by measuring top-sliced scales of engagement, based on a small sub-set of empirically useful data, HR functions may get dragged into managing the symptoms and side effects as expressed by each and every patient, rather than the disease and its curative treatments! There is no point in measuring engagement if its management cannot be modelled - what is needed is measurement of a generic model of human functioning, with engagement being one of the functions that is modelled, but the impact of each factor upon the other understood beforehand. Surveys that measure long lists of factors – or short composite scales - that may have something to do with employee engagement can serve to merely confuse.

### 3. So What Exactly is Engagement? The Academic Perspective

***HR Directors need to “reverse engineer” the type of performance that the organization is trying to create, and to understand the depth to which – and the ways in which – the organization needs to foster links and bonds with its employees.***

In this section we:

- analyse the main research that has investigated the condition, causes and consequences of engagement at the individual level
- present a model that helps to capture and model the various individual-level factors that are being measured by organizations.

It has to be acknowledged that the definitions of engagement used by academic researchers are sadly not necessarily any better than practitioner ones in producing an operational definition that clearly differentiates the concept from other (similar) constructs. However, as will become evident in this section, a more theoretical approach does help to understand the phenomenon of engagement. In reviewing the main ideas we consider where they have originated and what assumptions and theories they are based on. Only then can we understand better what needs to be managed as part of an engagement strategy.

We begin by quickly summarising what engagement is considered to be about when psychologists have examined it.

We shall go on to argue in this White Paper that the most fruitful way of thinking about engagement is to see it as a team or business-unit level concept – rather than something to be managed at the individual level. However, most organizations have not yet made this jump. They still think about engagement at the individual level – they see it as gaining the “hearts and minds” of their employees. We start therefore, by explaining how hearts and minds work! Not an easy way to manage!

#### 3.1 The Psychological Reactions That Create the Condition of Engagement

Back in 1990 Kahn<sup>13</sup> approached the issue of employee engagement by drawing on the “theory of self” and understanding how our “different selves” interact with the roles that we need to play in our work place. He postulated that:

*“People can use varying degrees of their selves, physically, cognitively, and emotionally, in the roles they perform, even as they maintain the integrity of the boundaries between who they are and the roles they occupy. Presumably, the more people draw on their selves to perform their roles within those boundaries, the more stirring are their performances and the more content they are with the fit of the costumes they don.” (p. 692).*

### **Engagement as a Performance, Triggered by Job Design**

For Kahn, work is a performance, and as individuals we are more convincing at some performances than others. He drew on interpersonal, group, intergroup, and organizational research, but he then combined these findings with the job-design perspective that had been developed at the beginning of the 1980s by Hackman and Oldham<sup>14</sup>. His assumption was that as job design determined the roles individuals need to play within a work setting, it was a key determinant of “what self” will be elicited out of the employees who are playing those roles. Job design was hypothesized to be instrumental in determining whether an employee will use an engaged or disengaged self-in-role.

Kahn defined the two opposite types of engagement as follows:

*“... Personal engagement... (is) the harnessing of organization members' selves to their work roles; in engagement, people employ and express themselves physically, cognitively, and emotionally during role performances.*

*..... Personal disengagement... (is) the uncoupling of selves from work roles; in disengagement, people withdraw and defend themselves physically, cognitively, or emotionally during role performances.” (p. 694).*

This approach considers the condition of engagement as a psychological reaction to the job role people are required to play in their work. It is akin to the concept of “psychological presence” - a dedicated focus on the job which enables people to move away from any mental distractions that may lower job performance.

Such a condition comprises three aspects common to all attitudes (each of which must be measured to understand if the condition of engagement exists):

- relating to mental processes of perception, memory, judgment, and reasoning (which is called cognitive),
- relating to mood, emotion, feeling and sensibilities (which is called affective), and
- behavioural.

This is a very different condition, however, to another way in which the idea of engagement is discussed, which has its basis within the realm of job stress research.

### **Engagement as the Opposite of Burnout**

Maslach and colleagues<sup>15</sup> had a very different view about the concept of engagement. They viewed it as the positive end of continuum - with job burnout being on the negative end. As burnout is characterized by exhaustion, cynicism, and inefficacy, engagement is its polar opposite - with characteristics of energy, involvement, and efficacy. Such a heightened state of vigour, dedication, and absorption is neither a momentary high, nor is it target specific; rather, it a highly persistent and pervasive affective cognitive state.

Accordingly, this group of researchers define the condition of engagement<sup>16</sup> as:

*“...a positive, fulfilling, work-related state of mind that is characterized by vigour, dedication, and absorption.”* (p. 74).

It is important to note that there are some significant differences between these two conceptualizations of the condition of engagement.

- For Kahn, job engagement is very role specific - it is in fact the role that determines what “type of self” will be elicited (engaged versus disengaged). The condition of engagement is therefore more easily switched on and off.
- But for Schaufeli and colleagues<sup>17</sup>, the condition of engagement (as the opposite of burnout) is a pretty diffuse and long lasting state, and it has more pervasive impacts.

To compound the problem, many definitions of engagement do not take enough care to distinguish it as a condition in relation to a number of other similar concepts - such as job involvement, job commitment, and organizational citizenship behaviour (OCB). In terms of a medical model, these related conditions form some of the “ancillary tests” that are necessary in order to produce an accurate diagnosis.

### **3.2 What are the Causes and Antecedents of Engagement at the Individual Level?**

To understand what causes engagement, and therefore what it causes in turn, we need to embed the idea in a well-founded theory. The good news is that the “condition” of engagement outlined in the previous section forms part of the social exchange that takes place within the organization – and the nature of this exchange is much better understood.

Saks<sup>18</sup> has proposed we use Social Exchange Theory (SET) as the best theoretical foundation to understand the concept of engagement. According to SET, reciprocal interaction forms the basis of group behaviour. Even when there are no formal laws that govern exchange, social beings feel obliged to return favours. Informal relationships emerge in social groups over time. As social beings, we try maintain equity through giving and taking in various forms. Though there is no perfect measure of costs and benefits in social exchanges, these theorists believe that feelings of loyalty, commitment, and discretionary effort are all in some form a social reciprocation by employees to a good employer. Being an engaged employee is one of the ways employees repay their organization, and there are two ways in which this engagement is paid back:

- job engagement, which is specific to the role task an employee is principally hired to perform;
- organizational engagement, which is a more diffuse concept referring to other roles that an employee plays being a part of the larger organization.

Like many other researchers, in terms of prognosis, Saks<sup>19</sup> believes that the consequences of engagement are largely positive, but the important thing to find out is what causes it. He proposed the following cause-effect model of engagement (see Table 1):

Antecedents of engagement	Types of employee engagement	Consequences
<ul style="list-style-type: none"> <li>• Enriched and challenging jobs (Job characteristics)</li> <li>• Quality of the employee-organization relationship (Perceived organizational support)</li> <li>• Quality of the employee-supervisor relationship (Perceived supervisor support)</li> <li>• Rewards and recognition</li> <li>• Fairness in the processes that allocate resources or resolve disputes (Procedural justice)</li> <li>• What is considered just or right with respect to the allocation of goods in a society (Distributive justice)</li> </ul>	<ul style="list-style-type: none"> <li>• Job engagement</li> <li>• Organizational engagement</li> </ul>	<ul style="list-style-type: none"> <li>• Job satisfaction</li> <li>• Organizational commitment</li> <li>• Level of intention to quit</li> <li>• Organizational citizenship behaviour</li> </ul>

Table 1: Antecedents, Types and Consequences of Engagement

Saks found that:

- the quality of the employee-organization relationship (called perceived organizational support or POS) predicted both job and organizational engagement, whereas
- enriched and challenging jobs (job characteristics) predicted only job engagement; and
- fairness in the processes that allocate resources or resolve disputes (procedural justice) predicted only organizational engagement.

He also found both forms of engagement – job and organizational - mediate the relationship between HR practices (which are the antecedents in his model) and employee-level outcomes (job satisfaction, organizational commitment, intention to quit, and organization citizenship behaviours). So HR practices lead to different levels of engagement, which then have consequences for things like job satisfaction and commitment. Later in the White Paper we go on to look at the evidence that engagement, or its consequences such as commitment, go on to predict important aspects of organizational performance, such as customer behaviour.

So, according to Saks, employee engagement is not the same thing as job satisfaction or organizational commitment; rather it is best thought of as an antecedent cause for these intermediate performance outcomes.

There are many such factors that explain why an individual is going to be engaged or not, but psychologists tend to focus on five (mainly because research shows that these factors most frequently act as primary determinants of the social climate of the organization, and therefore how good the social exchange is likely to be). This social climate determines whether any significant engagement between the individual and the organization is likely to be developed subsequently, or if currently present, is likely to be maintained<sup>20</sup>. It mediates much of the quality of the social exchange between the organization and the individual. If these antecedents are not in place, HR Directors should not even think about attempting to build future engagement without them.

### **Important Aspects of the Social Climate That Act As Antecedents to Employee Engagement<sup>21</sup>**

1. The perception that the organization's systems, procedures and ways of allocating resources (financial and non-financial) are fair i.e. that there is no perceived breach in key forms of justice<sup>22</sup>. When employees look at the budget mechanisms, the rewards systems, the promotions and performance systems, do they think they are fair, reliable and equitable?
2. The perceived support received from the organization (this is called Perceived Organizational Support (POS)<sup>23</sup>). This describes the quality of the employee-organization relationship and is defined as a general perception by the employee about the extent to which the organization values their general contribution and cares about their well-being. Employees might understand that times are hard and there is little their organization can do for them at the moment, but they may still sincerely believe that if the organization could do something, it would.
3. The support received from the supervisory relationship. This describes the perceived supervisor support, but also importantly describes the quality of, and the existence of, a positive two-way relationship between a supervisor and an employee. It is often measured using the concept of what psychologists call Leader-Member Exchange (LMX)<sup>24</sup>.

4. The level of trust that exists in the employment relationship<sup>25</sup>, notwithstanding the fact that the nature and focus of trust these days is changing (employees might be more likely to trust their profession, their team, their project or mission, rather than necessarily trust their organization).
5. The existence of sound job characteristics and designs that provide employees with the necessary job variety and challenge, autonomy, control and power to deliver the strategy the organization wants them to engage with.

### 3.3 What Bonds Are Needed to Ensure Effective Performance? The Levels of Engagement

So, in terms of conducting ancillary tests, organizations need to measure (all) the primary antecedents to engagement – perceptions of job characteristics, organizational support, quality of leadership, fairness, rewards and trust.

They also need to understand the bonds that these are intended to create – the sorts of linkages between the individual and the organization that an analysis of good organizational performance dictates. Not all performance requires the same level of engagement.

Psychologists tend to agree on a number of different types of relationship, bond, or attachment to the organization that seem to capture the human experience and social exchange. This is a “Hearts and Minds” way of thinking about engagement.

The idea that employees are either engaged or not, and that once engaged, the impact on performance is linear (a bit more engagement equals just that bit more performance) is of course overly simple (and yet much of the practitioner literature presents this picture).

HR Directors need to “reverse engineer” the type of performance that the organization is trying to create, and to understand the depth to which – and the ways in which – the organization needs to foster links and bonds with its employees.

For employees to be “engaged” with their organization – for the organization to have their hearts and minds - there are four bonds (psychologists see these as different types and levels of employee-organization linkage) that arguably have to be in place. Again, any measurement of engagement needs to assure the organization that the linkages necessary for performance are actually operating, or to help them diagnose which linkages are not working!

### **The Necessary Bonds of Engagement: A Model of Psychological Ownership<sup>26</sup>**

1. *Motivation and incentive to bond*: first, people have to have a reason and a desire for social membership (with the organization), which includes feelings and beliefs regarding the reasons why they want to maintain a relationship with, or their membership of the organization<sup>27</sup>.
2. *Organizational identification*: then, people have to use the characteristics of the organization they work for to define themselves. Before, for example, pride can exist, employees have to socially classify themselves in terms of what they believe to be distinctive and admirable attributes of their employer<sup>28</sup>. If employees claim pride, are they engaging with your mission, your values, your goals, your brand? Just because senior managers engage with a new business model, why should they expect that most employees will, or should, identify with the sorts of performance that now needs to be engineered to make this model work? Without prior identification, they will not.
3. *Internalization*: the personal learning, internal recognition and personal adoption of the values and goals of the organization<sup>29</sup>. How many organizations ask that employees “live” the organization’s values? What they really want to know is how are they enacted in key situations? Having identified with your values, have I understood why they are important and applied that learning?
4. *Psychological ownership*: an attitudinal state of mind involving feelings of being psychologically-tied to an object<sup>30</sup>. Do employees treat the organization’s resources as if they were their own? Is there a sense of responsibility and obligation that comes from the feeling of ownership?

For each of these linkages that may be forged between an organization and an individual, one can imagine the search for more sophisticated measurement and assessment approaches in order to make the individual differences in these areas more amenable to assessment through survey – whether for selection, development or attitudinal monitoring reasons. The good news is that they are all considered to be learned responses, more than they are inherited predispositions<sup>31</sup>.

So four bonds are important at the individual-level: employees who have a motivation and incentive to become a social member, who in addition to this identify with the organization, who have also internalised these messages into their own behaviour, and finally who then have some sense of shared ownership with the organization.

Of these bonds, psychologists have stressed the importance of the second – the issue of employee identification with the organization – noting that it is often an under-stated challenge in the work that has been carried out on engagement.

There are some important messages for the current situation we find ourselves in. In the context of both business model change - and also an economic decline that is attributed to factors beyond an employee's control - then for many organizations looking forward, their employees' identification, or the lack of it, becomes the central question. What happens when employees ask: why should I live your values when you do not live mine?

There are many points of societal or organizational disgruntlement that employees might choose to ignore in good times, but choose suddenly to cite in a survey when times are bad. They were always important; it is just that now it seems more legitimate to mention it!

So, with each of these important precursors, much better diagnosis is needed. For example, if there is a problem with the resources that people feel they need to do the job, is it due to systemic problems in job design (problems with decision-making levels, resource allocations, interest and wholeness of the job and so forth), or is it more to do with perceptions of inappropriate workloads? Do your current measurement systems enable you to tell the answer?

The solution to each problem looks quite different, and there is no point in measuring engagement if the diagnosis does not suggest the cure.

### **3.4 The Outcomes of Engagement: Being Clearer About the Intermediate Performance Effects**

We have argued so far that many definitions confuse the condition of engagement with the outcome that it is supposed to create – commitment, satisfaction, pride and so forth. To make matters even more confusing, some of these desired outcomes can be seen to exist at the individual or employee-level, whilst others really exist (and are best managed) at a group or collective-level. We argue – see the box below – that organizations need to be much clearer about what we call here “Intermediate Performance Effects”. How do these – indeed which of these - performance outcomes lead to the particular organizational performance you have in mind? Do they just make the strategy easier to sell? Do they lead to productivity, or customer service, or innovation? Against which dashboard of business metrics? In short, be clear first about the intermediate effects, and then show how these can be combined into a recipe to create organizational performance. Perhaps then you have an engagement strategy.

#### **Is Engagement Best Seen as an Employee or Group-level Intermediate Performance Outcome?**

Which of these outcomes do HR Directors try to create through an engagement strategy?  
How does each intermediate outcome impact actual organizational performance metrics?

### *Employee-level variables with intermediate performance effects*

Knowing which specific, or bundle, of HR practices improve factors such as:

- job satisfaction (how content an individual is with their job),
- motivation (a state of arousal and reason to act towards a desired goal),
- discretionary effort,
- job and organizational commitment (being bound intellectually or emotionally to a course of action and displaying sincere and steadfast purpose).

### *Collective or group-level variables with intermediate effects*

Knowing which collective or group-level outcomes, themselves strongly influenced by the culture and climate of an organization, have to be shared before they create the most effective performance. The factors involved here variously been called:

- morale (group climate exhibited by confidence, cheerfulness, discipline, and willingness to perform assigned tasks);
- organization citizenship behaviours (being a “good soldier” through positive social behaviours such as helping others, innovating, volunteering); and
- closely related to the above, contextual performance (defined as discretionary behaviours that go above and beyond the requirements of the job description, such as following organizational rules and procedures even when personally inconvenient and assisting and cooperating with co-workers).

## **3.5 Summary: A Model of Individual-level Engagement**

Looking back at the various definitions (practitioner and academic) of engagement we have presented, it is clear that most of them mix up the different conditions (individual-level or collective and group-level conditions) that act as important precursors to performance, and they also bring in various possibly-related ancillary conditions. But it is self-evident that each of these individual and group-level conditions may each be created through very different types of HRM intervention. As we noted earlier, psychologists therefore still question whether the condition of engagement:

- is an attitude (having the three components of cognition, affect and behaviour as noted earlier) and therefore is similar to the concept of job satisfaction), or
- is more akin to a motivation (i.e. a heightened state of goal directed behaviour as in vigour).

As will be seen throughout this White Paper, by default, the vast majority of work that has been carried out has treated it as an *attitude*, although not everyone chooses to accept this. To all intents and purposes, then, when we use the word, or talk about the HR approach towards it, let's accept we think engagement is an attitude.

In integrating a number of streams of psychological research, we believe that those organizations interested in managing engagement as part of an HR strategy should consider it to operate according to the model shown in Figure 2.

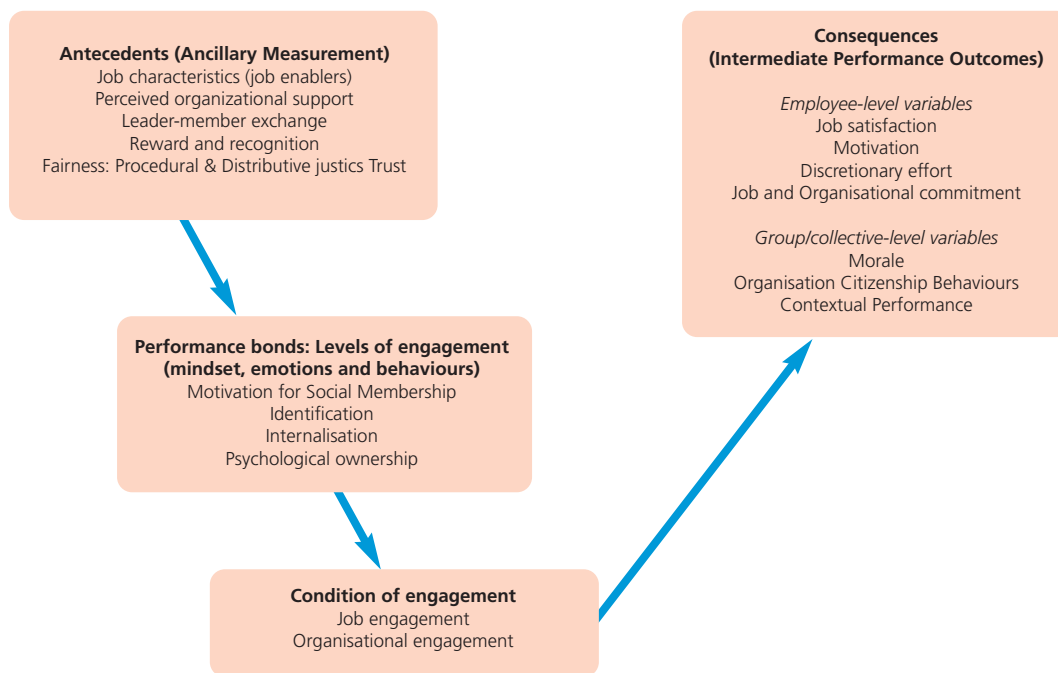


Figure 2: The antecedents, bonds, condition and consequences of individual-level engagement

Not surprisingly, psychologists believe that an important challenge facing employers is to better understand the individual factors that are associated with, shape and explain the employee's relationship with the organization, and produce outcomes that appear to fit the practitioner's view of engagement.

In the next section, we ask how this model fits in with the existing understanding of the link between human resource (HR) management practices and organizational performance, how this link must be moderated and mediated by employee reactions to these HR practices, and how employee engagement is assumed to predict organization-level performance outcomes.

## 4. Can Individual Engagement be Managed?

***When it analyzed data for one of its major clients, a leading Survey provider confided that there were as many as 20 different models of engagement inside the one organization.***

The concept of engagement, then, is still in its infancy and in absence of a universally accepted operational definition, the antecedents and consequences will keep changing depending on the lens through which it is viewed by practitioners and researchers. Caution is advised when looking at the causes and consequences of engagement; one must look at how engagement is being defined and measured before accepting the results at their face value.

In the previous section we laid out a complex set of factors that any measurement of engagement has to be able to model if the organization wants to understand what is going on at the individual level. We argued that organizations need to be able to understand the different states of mind and emotion that exist, but they also need to understand how these are linked, through a series of intermediate individual and group-level outcomes, to organizational performance.

In this section we ask another searching, but necessary, question. Even if somehow engagement can contribute to performance – is it something that can realistically be managed? Can it be influenced by HRM practices? Will these practices create the same impacts on engagement across your workforce, or is everyone going to respond in their own way?

Having squared the first issue, then in the section after this one we shall be able to address the question of organization performance. We shall point out that engagement at the individual level does not predict quite as much organizational performance as is often claimed – perhaps because of some of the issues we discuss in this section. This does not mean, however, that we think engagement has been an over-rated concept – far from it! It is because we need to refine the concept, and we need to have a much more sophisticated understanding of how beliefs and attitudes flow into the rich set of performance outcomes that most organizations are trying to manage.

So, does good HRM impact engagement (whether engagement is considered to be an individual or a group-level phenomenon)? Then, on the assumption that it does, how do factors associated with engagement in turn impact organizational performance?

### 4.1 Do HR Practices Impact Engagement?

In order to answer the first question - whether HR practices impact an individual's engagement - we have to make a quick detour and briefly remind ourselves what research on the link between HRM and organizational performance has taught us. The implicit problem here is as follows. If the evidence has shown that HR practices do not predict organizational performance that well, does that mean that trying to link engagement to organizational performance is not worth the candle? The attempt will fair no better. Or does it tell us that, if we also understand the role that employee engagement plays, we will be able to make a much stronger case for the importance of HR?

The role of HR practices and policies in influencing organizational performance has been of interest to both researchers and practitioners alike for many years. However, an exhaustive systematic review of research on this topic from the early 1940s to the year 2006 found that there are very few longitudinal studies in this field that allow us to affirmatively claim a causal link between any definite set of HR practices and an organization's financial performance<sup>32</sup>.

What this research did show was that there was a more robust statistical and theoretical link between various HR practices and *intermediate* level performance outcomes, such as job satisfaction, organizational commitment, motivation, absenteeism, and employee turnover (the factors described as consequences of engagement in Figure 1). As can be seen, most of these intermediate outcomes are at the level of the employee and not the organization.

Thus, good HR practices may lead to high employee commitment and low employee turnover, but the question as to whether it will lead to high financial performance is a totally different issue. Before we analyze the links between HR practices and organizational level performance, it is advisable to have a better understanding of how performance is described and measured.

Various models have been proposed to understand the various levels of performance. There are good theoretical reasons to believe why certain HR practices may have an impact on some types of performance outcomes (which we refer to as proximal outcomes) and how the impact of these HR practices is mediated through and moderated by a set of psychological variables that get affected by good or bad HR practices. The model below summarizes some of the theorized links from HR practices to organizational level performance that helps to position work on individual engagement.

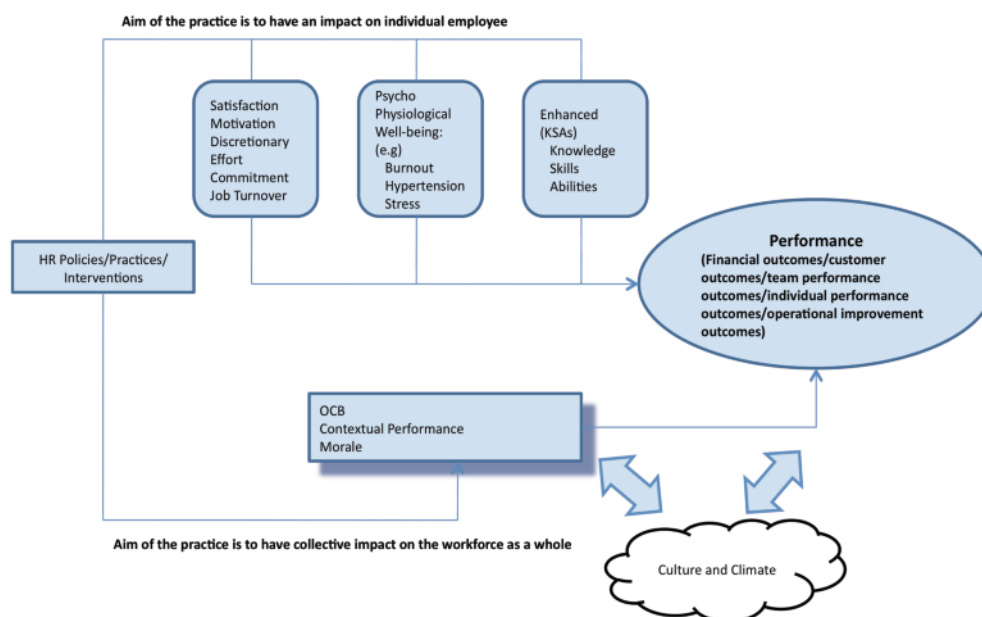


Figure 3: Various models linking HRM with Performance

Most of the variables in this model are well defined and can be differentiated from each other. On the extreme left is the box of HR practices and policies and on the extreme right is individual and organizational performance. With regard to engagement, in between HR and performance are two sets of linkages:

- employee-level variables with intermediate performance effects (such as job satisfaction, motivation, discretionary effort, job and organizational commitment); and
- collective or group-level variables also with intermediate effects (such as organization citizenship behaviours, pride, morale, and contextual performance).

Having explained the different definitions of engagement previously, it is hopefully clear to the reader that it has been defined variously as a combination of two or all these concepts!

Such an undifferentiated view of engagement – thinking about it mainly as an individual-level outcome - creates real problems for HR Directors. Moreover, averaging individual scores on things like pride does not necessarily mean that “pride” is going to work at a collective level. One individual is proud about one thing, another about something else, and put together as a team this group of apparently proud people may be incapable of delivering collective performance.

What we are hinting at here – and will lay out in more detail later on – is that if you want to assess something that only really impacts performance at a collective – the questions that you have to ask, or way in which you assess it, has to tap that collective capability. Ten out ten people saying “I am proud to work for my organization” does not mean that you can assume they know how to use that pride to deliver performance.

The other problem in using engagement (in an undifferentiated manner) as a potential driver of enhanced organizational performance is the existence of multiple employee segments within large organizations.

## **4.2 Employee Segments and Multiple Internal Models of Engagement - Performance**

In many organizations, HR Directors are looking at survey results that are very difficult to interpret, with for example scores high in one part of the organization but low in another (even though both units may be performing acceptably), or some survey items linked with performance in some units but a different set of “high scores” on survey items predicting performance in another. In explaining the problem to us, one leading provider firm confided that when they analyzed data for one of their major clients, there were as many as 20 different models of engagement inside the one organization. This was not a one off situation.

This is the problem of what has been called “employee segments”. We now briefly outline the issues. Under this philosophy, organizations identify those segments of their employees whose performance really drives return on investment.

It involves the application of customer relationship management principles to the organization's own workforce - an employee-as-consumer organization relationship - and is used to identify the optimal workforce required to match customer expectations. Large UK employers such as Tesco, Marks and Spencer, Vodafone and Royal Bank of Scotland are known to have pursued this strategy. For example, in 2003 Tesco, the leading UK supermarket and food retailer acknowledged that it knew more about its customers than it did its employees<sup>33</sup>. On the basis of consumer research, staff were placed into one of five categories or employee segments (want it all, live to work, work to live, pleasure-seekers, and work-life balancers) in a bid to be more receptive to employee needs. They ascertained what staff wanted from a career in Tesco and provided a series of what was termed "for me" solutions to enable staff to tailor their hours and employment relationship to their needs. Staffs were surveyed twice a year to link their engagement scores to improvements in other areas.

When employee attitude data are examined, it is important to appreciate the impact that demographics have in their own right. In some instances, the employee segments that result can themselves easily be characterised by demographic tags. Engagement levels often co-varies with other things, such as whether they are relatively new to the organization, are young, what their gender is, their hours of work and pay patterns, what country they work in, whether they work for a core or a more peripheral organizational unit (for example one that is outsourced), or whether they come from a particular organizational constituency (often important when an organization has developed through acquisitions). The problem is – if someone or some organization runs a quick data analysis for you and suggests that across the board engagement scores seem to be linked with high organizational performance – you do not know if actually that performance is being created because they are engaged, or whether actually it is because they are young, female, working for a non-acquired bit of your organization, and so forth. These segments just happen to be engaged. You might be fooled into believing, if you take the data at face value, your solution is to go and pump up the engagement scores in general, when it might really be to deal with the issue that is driving each group's underlying problem.

These demographics are often proxies for both a specific employment experience faced by these segments, or a specific mindset that predisposes them to certain attitudes about management. Demographics can also be important in helping interpret findings – new recruits might have a more positive perception of organizational life (because there is a novelty effect) whilst those with longer service may systematically be pre-disposed to more cynical assessments. The sustainable solution is to deal with the things that give the longer-service employees a negative mind-set, not recruit low-service people to build up your engagement human capital index.

### 4.3 Summary

What we are saying is that, if looked at the individual level, engagement is just too complex and too big a concept to be able to consistently and reliably explain much organizational performance. You are measuring the symptoms of performance, not the causes. It throws up too many red herrings and you can spend as much time trying to dig beneath the survey data to explain and interpret it as you did in designing and running it in the first place.

Moreover:

- If you want to use engagement to manage organizational performance, sometimes it works through intermediate outcomes that can be measured at the individual level – being satisfied, committed, loyal and so forth
- Sometimes it only works when it creates a collective capability – employees as a team display certain behaviours and emotions, understand how to correct their unit's performance
- Different types of employee respond differently to the same conditions and often the way they answer the questions, and whether that particular answer will go on to predict how good their performance will be, depends on lots of other characteristics. Some employee segments may use engagement well, others may not.

So, if HR is to know how best to leverage employee engagement, it needs to become expert in the “performance recipes” that bring together employee performance and important aspects of organizational performance. The link between employee engagement and organizational performance – which we examine in the next section - is then the last piece of the jigsaw that we need to consider.

## 5. Understanding the Organizational Performance Recipes

***There are a number of different service business models, and if we think about it, the potential contributions that employee engagement should make to organizational performance must differ also.***

### 5.1 Service-profit Chain Thinking

We began this White Paper by noting that many HR functions – and supportive line managers - fall back upon the service-profit chain to argue a link between engagement and performance. Let us briefly restate the basic tenets and assumptions of the theory. It is considered that there is a clear link between employees' work experiences and financial performance in the service sector, with customer satisfaction acting as a critical intervening variable. This is based on a series of presumed causal links:

1. An association between employee satisfaction and customer satisfaction. The initial studies in the late 1990s reported correlations between customer satisfaction and a range of employee perceptions of the organization climate, reflected in attitudes such as satisfaction and commitment<sup>34</sup>. By the early 2000s reviews by work psychologists<sup>35</sup> and empirical tests<sup>36</sup> confirmed that customer satisfaction and employee satisfaction were correlated.
2. An association between employee perceptions of the organization climate (especially its focus on service) and customer satisfaction levels<sup>37</sup>; followed by an association between favourable climates and levels of employee satisfaction and commitment<sup>38</sup>. A meta-analysis of evidence by Harter and colleagues<sup>39</sup> based on 7,939 business units in 36 companies examined the relationship at the business-unit level between *employee satisfaction-engagement* and the business-unit outcomes of customer satisfaction, productivity, profit, employee turnover, and accidents. It found that a measure of employee engagement was correlated with customer satisfaction. Generalizable relationships large enough to have substantial practical value were found between unit-level employee satisfaction engagement and these business-unit outcomes. The implication is that changes in management practices that increase *employee satisfaction* may increase business-unit outcomes, including profit.
3. An association between customer satisfaction and financial performance. By the mid-1990s marketing research argued that levels of customer satisfaction and intentions to purchase were linked<sup>40</sup>, although by the late 1990s, more mixed evidence began to emerge, with the link to intended purchases broadly supported<sup>41</sup> but the link to actual purchases more uncertain<sup>42</sup>.

In short, empirical evidence suggests that the service profit chain is generally supported at the business unit level, but the evidence is largely piecemeal.

However, there have been very few tests of the whole chain, and those that have been carried out provide a much more sober conclusion on the size of effect between individual-level engagement and organizational performance outcomes. Almost all the research work coming out of the practitioner literature makes quite strident claims about how engagement (as measured by their respective scales) is a key contributor to the financial bottom lines of the organizations from where the data has been collected. But such claims of causality fail to stand up in the face of rigorous checks on the methodology adopted and scales used to carry out the research work.

## 5.2 Is the Impact of Engagement on Organizational Performance Too Good to be True?

A number of studies indicate that the relationship between employee attitudes and organizational performance may not be very straightforward.

### **The Problem of Reverse Causation and Long Causal Chains**

A number of longitudinal studies have found significant reverse causation between attitudes and performance, i.e. the performance of the organization may be feeding back, such that performance causes positive employee attitudes rather than the other way round<sup>43</sup>.

Other studies point to the long chain of events that occur between employee attitudes and organizational performance. For example another study by Schneider and colleagues<sup>44</sup> using a technique called meditational analysis, found that service leadership significantly relates to service climate, this service climate then influences the extent to which employees demonstrate customer-focused organization citizenship behaviours, which in turn then have an impact on customer satisfaction, which then impacts sales! The problem with long causal chains is that it only takes one or two events outside the influence of HR to break the whole chain, so good work on employee attitudes can soon get dissipated.

The issue of reverse causation between employee attitudes (engagement being one such attitude) and organizational performance, coupled with the long list of mediators between them, has opened up much debate about the issue of employee engagement as a cause of good or bad performance.

### **The Complex Art of Linking Employee Measures to Customer Measures**

What is not known with any certainty, for example, is how customer satisfaction mediates the relationship between employee experiences and financial performance, and how employee satisfaction is associated with specific components of a service model. We must remember that organizations build complex service models that attempt to bring together a range performance factors, such as internal service quality, customer expectations, organizational image or brand, perceived product or service quality, external service value, customer satisfaction, customer loyalty, customer advocacy, and so forth.

The answer to the question “how do employee attitudes (and the various measures we have noted might reflect these) create each and every type of customer measure” may well be different – part of a unique and competitive strategy – for each organization... or something that is indeed open to good analytics.

A recent study of the service-profit chain in the retail banking sector<sup>45</sup> examined data for four retail banks (one in Ireland and 3 in the UK). Each organisation had a national branch network and provided similar services covering current and savings accounts, loans, mortgages, insurance, business advisory services and automated cash withdrawal. The unit of analysis was the bank branch. 1,407 branches were examined. Attitude and climate measures were derived from employee opinion surveys, levels of sales performance from central records, and levels of customer satisfaction from an overall customer satisfaction measure and periodic structured telephone surveys with existing branch customers.

Although the service profit chain was found to operate in the same way for all three banks, and customer satisfaction was found to mediate the relationship between commitment and sales achievement, the effect size was relatively small, with there being a more powerful direct impact of employee commitment on sales achievement.

A range of climate factors (team climate, job enablers and supportive climate) were very predictive of employee commitment (predicting 83% of commitment) but this employee commitment predicted only 4% of customer satisfaction, and 8% of sales achievement. This small effect still had some financial utility. Theoretically, a one standard deviation change in commitment (almost impossible to create of course) would be associated with a 0.31 standard deviation increase in sales achievement or 6% increase in sales, worth £150 million across the network of a bank. However, the authors pointed out that:

“... the processes that link employee experiences and attitudes to business unit effectiveness remain to be clarified.... most investigations of the service profit chain have considered only bi-variate relationships between the relevant variables... [we need] a stricter test of the service profit chain within the broader context of organizational functioning”<sup>46</sup>.

### 5.3 Why Should Engagement Have the Same Performance Impact Across Different Service Models?

So, we need to be more circumspect in over-stating the impact that individual-level engagement can have on corporate performance measures. Once more controlled designs are used, measuring a wider range of individual level attitudes and associated segment variables (such as demographics), then the link becomes less powerful.

We noted above that there is a general relationship assumed between employee satisfaction and customer satisfaction, but is there any difference in the sensitivity or influence that employee engagement has over organization performance – especially when organizations operate to

different service (industry) models? Why should we expect the same impact across all service (and indeed less service-orientated) settings?

One of the problems faced in answering this question is that many studies surprisingly have asked customers to rate employee satisfaction or vice versa – which is not really a very reliable type of measurement. Only 28 studies have used *independent* measurement of employee satisfaction and customer satisfaction (this is called dyadic data). Where more reliable and independent data exist, the findings range from those that suggest a positive relationship between employee and customer satisfaction<sup>47</sup>, to those that suggest a negative one<sup>48</sup>.

Is assuming a simple and generalizable link between employee and customer satisfaction across all *service models* just naïve? HR Directors would be wise to adopt the mantle of customer service professionals, and to investigate the way in which different service models create different relationships between employee satisfaction and customer experiences. In fact, there have been three models (see Table 2 below), all based within the customer service literature. A recent study has used meta analysis to summarise the evidence across a range of different service contexts<sup>49</sup>.

Model	Causal Mechanism	Level and Scope of Analysis
Emotional Contagion: Based on the work of Elaine Hatfield <sup>50</sup> and colleagues	Person-to-person interactions lead to transfer of emotional expression and subjective service experiences through mimicry. Positive emotions transfer into customer satisfaction	Individual level of analysis of person-to-person service transactions
Service-profit chain: Based on the work of James Heskett <sup>51</sup> and colleagues	Employee satisfaction improves productivity and the value derived from service, enhancing both customer perceived service quality and customer satisfaction, which in turn predict other customer behaviours with financial consequence	Individual level data collated at the Business unit level of analysis to assess the quality and value of one-to-one service relationship
Service Climate: Based on the work of Ben Schneider <sup>52</sup> and colleagues	Level of organizational support and climate factors that facilitate service effort foster a higher quality of service and customer satisfaction	Data aggregated at business unit/ collective level, but with implications for the individual level of analysis, to assess the relationship quality and satisfaction with the organizational context

Table 2: Different Conceptual Models That Link Employee satisfaction to Customer Outcomes

There are a number of different service business models, and if we think about it, the potential contribution that employee engagement should make to organizational performance must differ (see Table 3).

<p><b>PERSONAL VERSUS NON-PERSONAL/POSSESSIONS<sup>53</sup></b></p> <ul style="list-style-type: none"> <li>• Personal services (e.g. healthcare, fitness): Require “up-close” interactions between employee and customer throughout the encounter and high visibility of service processes to the customer). Versus...</li> <li>• Non-personal/possession services (e.g. equipment repair, call centre) where service production can take place away from the customer, interactions can be limited to the transactional, and service processes can remain hidden in a service factory).</li> </ul>
<p><b>ENCOUNTER VERSUS RELATIONSHIP<sup>54</sup></b></p> <ul style="list-style-type: none"> <li>• Encounter(e.g. airlines, fast food). Convenience is a main driver for choice of service provider. Systems designed to satisfy customer’s needs, employees can be scripted. Transactions mainly brief and transactional. Versus...</li> <li>• Relationship Business (e.g. hairstylist, doctor, dentist). Customers incentivised to seek same service provider for each encounter, employees more able to internalise customer’s personal needs and expectations, personal and commercial bonds can be formed and display of emotions have more lasting impact on customer perceptions.</li> </ul>
<p><b>COLLABORATIVE VERSUS SINGLE SERVICE INTERFACE RELATIONSHIP<sup>54</sup></b></p> <ul style="list-style-type: none"> <li>• Employees working in a collaborative, team-based and mutually supportive work process can create “inter-dependence” effects, realising synergies by feeding off mood state of one or two lynchpin employees. Versus...</li> <li>• Single employee interface more dependent on personality and mood state of one employee.</li> </ul>
<p><b>RELATIVE STRENGTH OF B2B OR B2C INTERACTIONS AT DIFFERENT POINTS OF THE VALUE CHAIN<sup>56</sup></b></p> <ul style="list-style-type: none"> <li>• Business to Consumer (B2C). Dependent on above distinctions at the point of customer interface. Versus...</li> <li>• Business to Business (B2B). Organizational buying potentially more impersonal and objective. Subject to B2C dynamics but buying behaviour also determined by personal networks and corporate reputation attributes.</li> </ul>

Table 3: Contextual Differences in Service Model That Impact The Engagement – Performance Relationship?

Across the 28 studies conducted, employee satisfaction explains on average 6.3% of customer satisfaction and 8.4% of perceived service quality. The relationship was stronger in personal service versus non-personal services – 16.8% in personal service business models. The conclusion made by customer management researchers is as that:

*“...the relationships are positive and statistically significant [but] the effect sizes are relatively modest... [however] we believe it is wise for... managers to regard them as being substantively significant... It is remarkable that employee satisfaction explains that much variance... A modest lift in customer satisfaction and service quality based on dealings with employees is likely to bring about substantial increases in customer retention, loyalty and equity, as well as profitability and competitive advantage”<sup>57</sup>.*

But, in some sectors the intensity or richness of customer contact is assumed to create quite unique conditions. The airlines industry was famous for the original customer service work by SAS on “moments of truth”<sup>58</sup> and the importance of “thin slices of employee behaviour”. Jan Carlson famously pointed out that each of his 10 million customers on average only ever interacted with 5 customer service facing employees. In the US Airline industry - an industry famed for poor service – a recent study using the SERVQUAL measures of expected versus experienced service quality, suggests that employee personal touch (individual attention, helpfulness, courtesy and promptness) explains 54% of reported airline passenger satisfaction<sup>59</sup>.

However, should not service quality and customer satisfaction be expected to be less closely associated with employee satisfaction in an encounter service business compared to a relationship service business model? The evidence says that this difference in service model does not make a difference, nor does it differ across business-to-business (B2B) versus business-to-consumer (B2C) service models.

Also, why should customer-perceived service quality always result from employee satisfaction? Walmart finds that it has been able to computerise schedules to vary staff numbers according to the number of shoppers in the store, because the increases in customer satisfaction caused by having an optimal number of staff on hand outweighs minor losses in employee satisfaction caused by having less predictable work schedules and pay.

In addition, research evidence shows that employee satisfaction determines the perception of service quality. As with service value, the perception of service quality is a mental judgement and assessment made by the customer about the service that is delivered. Once made, this judgment then explains 77% of measured customer satisfaction (which is a more emotional response to overall service). Are different ways in which Employee performance may be evaluated by customers in two different ways – the perception of service quality, and the experience of customer satisfaction. Employee satisfaction is assumed to be linked to both these performance outcomes in three ways:

- Leading to more helping behaviours,
- Enabling the display of certain emotions as part of your job – called emotional labour, and
- Generating a commitment to a service ethic.

## 5.4 Unravelling the Real Performance Recipes

HR Directors, however, have a fantastic opportunity to step into the void that currently exists. We know that engagement can have positive impact on high-level performance outcomes such as financial performance – but that these effects are not as large as often claimed, and they work through complex dynamics and sets of causal processes. Relying on simple models that are assumed to apply across all business and service models and across all groups of employees whatever their talent or strategic centrality, is most likely naïve.

However, on the basis of existing work inside organizations, new alliances are being forged on the back of strategic change management projects – creating new shared thinking between HR professionals and other professional groups. It is not uncommon for HR professionals to be working side-by-side with corporate communications, internal and external marketing, and operations experts. As these professionals work together on these projects, they are sharing their models and their insights into how employees truly impact operational and strategic performance. HR professionals have an opportunity to lead much of this thinking, but from a more realistic perspective than current human capital and employee engagement work suggests.

Managers have in their minds a “theory of action” that suggests the specific business performance outcomes that only result from engaged employees - what we call a “performance recipe”. Some of these presumed links between employees and organizational-level performance outcomes may be misguided, and not supported by data, but other knowledge is extremely insightful. HR professionals need to help line managers understand the complex business performance measures that they relate to, and how these performance outcomes are best engineered through people management, and employees need to understand the benefits of engaging with that particular view of performance.

We argue in the Conclusion that if engagement is to be a meaningful concept for HR Directors, then as a concept it has to be designed to work at the level of strategic business units or the team. We argue that it must work at this level - business unit rather than individual - because HR Directors need to “reverse engineer” the sorts of performance that are required by the particular service model that their organisation pursues. They need to understand the logic that suggests why a range of employee attributes (whether you call them engagement or not) must serve a central purpose in delivering that type of performance.

## 6. Conclusion: Engage with What?

***We are talking here about separating out the cause from the effect. The Performance Belief is the cause, and being Engaged to Perform is the effect. As a strategic function, HR should be most concerned about how it needs to manage engagement – how it gets employees to believe in the vision of performance the organization offers, and not how engagement is measured. Yet the inescapable reality is that in shifting attention to how engagement is managed, it becomes clear that what you measure also has to change!***

What conclusions do we therefore draw about engagement? Today it is a widely accepted concept by practitioners. However, having reviewed the approaches taken by the likes of Gallup, Towers Perrin, and Conference Board, and then looked at the scientific research that explains why it should matter and how it should work, we believe that the concept of engagement needs now to be given some clearer boundaries. We need to accept what engagement is, and what it is not.

In redrawing these boundaries, there is much to learn from other disciplines that have been working on similar concepts for a long time, but in a different context. We noted earlier that some organizations treat the concept of engagement as an internal communication strategy. For such organizations, engagement means that their employees understand what the organization stands for, what the organization expects from them as employees, and what it is ready to provide them as employees in order to deliver the desired goals. This is more than just a very business-orientated psychological contract. It is very performance-led. In short, from the top to the bottom engagement is intended to ensure that the organization shares a common corporate goal. When employees understand this objective, and live up to their organization's expectation, then that organization considers that it has an engaged workforce.

What seems to be happening in those organizations that have such a perspective on engagement, is that their HR functions are learning how to manage and market engagement better, drawing upon existing research on consumer behaviour and communication. In translating this research, and professional understanding, the context changes from knowing how to engage an external consumer (engage them with your brand, corporate values, or product and service value proposition) towards knowing how to engage the employee as an internal consumer. Communication is therefore being internally directed. In practice, then, for more and more organizations we suspect that engagement is an outcome of the internal communication strategy of an organization. This reality is often underemphasized.

Moreover, when engagement is used by organizations as an integral part of their business strategy, it becomes much more of a two-way process. A wide range of activities become important for HR when they put in place the capability to be able to manage the process of engagement – a capability that shapes how they send and receive the signals, how they interpret what those signals are telling them, and how they redirect strategic performance accordingly.

An engagement strategy tends to send very strong messages to employees and organizations alike. The strategy – that which the employees are ultimately being asked to engage with – is being made more amenable to communication and more amenable to the thoughts, feelings and behaviours of

employees. However, the organization is accepting that the price for transmitting this understanding downwards is that they have to adapt their actions in line with the things that employees are engaged with, or are disengaged with.

In this White Paper we hope we have provided a convincing case for why the HR profession needs to de-layer the concept of engagement, and then rebuild it in a more meaningful way. In rebuilding it, there seem to be two separate strategic needs:

1. First, organizations need a two-way process to match their strategy with the way that their employees think, feel and act. Many organizations will continue to use bellweather engagement surveys to check on these employee *attitudes*, although as we have argued, unfortunately are still likely to use a hotchpotch of multiple constructs comprising cognitions, affect, and behaviour. So, one important agenda is to improve and sharpen up this measurement in ways we have explained throughout this White Paper.
2. Second, from an applied perspective, the most fruitful way to think about engagement is to look much more carefully at how attitudes are formed and how they get translated into real behaviour – and to take engagement back to its fundamental roots. The key question is to ask yourself: What exactly is it you need your workforce to engage with?

It is this second agenda that we believe is the most strategic, and the one that HR functions should now turn their attention to. First, HR should ask what do they expect out of an engaged workforce? The answer to this question will be different for different organizations and in fact may be quite different within an organization for its different business units. Once we know what to expect from an engaged workforce, then we must know how to influence this engagement.

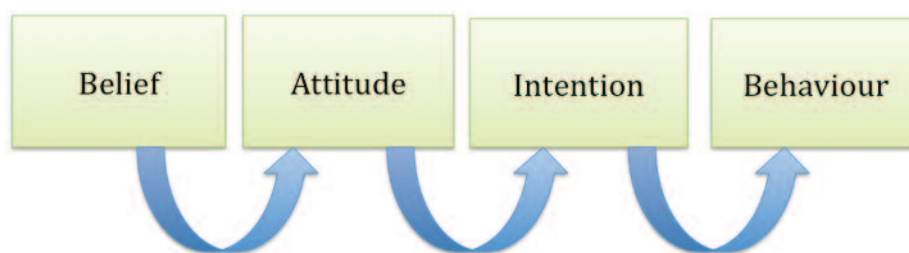


Figure 4: Taking Attitudes Back To Their Root.

In general, engagement has become the new mechanism for trust and for employee voice. There is strong evidence that both these things are critical ingredients of organizational performance<sup>60</sup>. Such research points to the importance that employee *beliefs* about the organization have to the organization's subsequent financial success. The appropriate feelings, emotion and behaviour should be seen as an *outcome* of - and an accompaniment to - the employee's underlying beliefs and perceptions about the strategy and their trust and commitment to the performance logic that is being pursued by the organization (see Figure 4).

### Managing Attitudes – Going Back to the Necessary Beliefs<sup>61</sup>

If engagement is thought of as an attitude, which we have shown is the dominant way that it has been treated, then HR practitioners should apply what we know about how attitudes operate. Psychologists point out there is a sequence through which any attitude (remembering that job satisfaction, commitment, or engagement are attitudes) ends up influencing behaviours.

Fishbein made some important and useful distinctions in this area. Attitudes themselves are influenced by prior beliefs – it is beliefs that cause attitudes. In arriving at a belief, employees are coming to a subjective probability that there is a relationship between the object of their belief, and some other object, value, concept or attribute. What this means is that with regard to organizational performance, employees make a judgement about the ability of their organization to be able to deliver this. These beliefs then shape the specific attitudes that they hold. An attitude – be it engagement or job satisfaction or commitment - is "... a learned predisposition to respond in a consistently favourable or unfavourable manner with respect to a given object". If you really want to know how good your HR has been in delivering an engaged workforce, measure the subjective probabilities that employees give to your organization's ability to deliver important aspects of the strategy and the necessary type of performance.

In short, we are saying that when HR deals with engagement, it needs to separate out the cause from the effect. By measuring things like how much do employees understand organizational goals, their emotional attachment to such goals, and willingness to provide discretionary effort, all one can know is the absence or presence of these employee attributes. Everything that is measured in the existing scales of engagement are outcomes – but these only really result from some underlying belief that employees have about certain work related factors. We have shown that much effort has been spent attempting to prove that one outcome (engagement attributes) relates to another outcome (organizational performance). The results could be much better, much more robust, if we measured the causes of engagement.

To make the construct of engagement more applied – more predictive - we need to move a step back and investigate what "causes" employees to be engaged. We suggest that engagement should be treated simply as an outcome that follows from relevant prior beliefs. It will be far better to direct your measurement to what we call the "**Performance Belief**". We define this performance belief as:

"A shared belief of a team that it has the required ability, resources, goal clarity and leadership attributes to achieve the desired performance outcomes."

The *Performance Belief* is the cause, and being *Engaged to Perform* is the effect. As a strategic function, HR should be most concerned about how it needs to manage engagement – how it gets employees to believe in the vision of performance the organization offers. The inescapable reality is that in shifting attention to how engagement is managed, it becomes clear that what you measure also has to change!

How should we think about changing what is measured? Goal theory advocates that clear and precise goals are a prerequisite for good performance and to achieve a given goal requires more than resources. Shared beliefs, in our view, extend to other requirements for better performance. Employees should also believe that they have the required control over their work environment and backing of the team leadership to achieve the desired results. Do employees believe that they - and their team - have all the resources and attributes that are needed to deliver the set performance targets? If they do, then there might be something worth engaging with. If they do not, then it does not help much knowing that nonetheless they are still satisfied and proud.

We argue that in thinking about engagement - especially when it is being used to manage performance - it makes far more sense to:

- Measure and manage the beliefs about your underlying performance logic, and how you think that prescription of performance has been associated with the strategy (we call this your “performance recipe”). HR needs to articulate whatever it is that you want your employees to engage *with*.
- Ask the harder questions – do employees believe in your strategy and the assumptions you make about the necessary performance? What are the probabilities of success that their beliefs are based on?

We need to say a little bit more about what this performance belief looks like. If it is to be assessed, then such assessment would need to look at:

- Whether there is an *understanding* of the performance logic that underlies the operations of a given business unit amongst employees
- How this performance logic can best be managed to deliver the strategy i.e. how people *contribute value* to the strategy.
- A belief that the unit has within its control the ability to deliver the performance recipe (this is a sort of collective efficacy – a *shared belief in team’s ability*)
- A belief that the business unit has the resources, capabilities to deliver this performance (that the unit they work in *has a sense of agency*).
- And finally, a belief that the immediate leadership has the right attributes to encourage and promote all the above stated beliefs. A belief in supportive leadership will be the key ingredient for the proposed construct of *employee performance belief*. If that is missing, nothing else will work.

In the final analysis, the concept of engagement would be better served if its cause is better understood, measured and managed. “Performance beliefs” are surely what we really need to measure, especially in organizations looking at employee engagement as a strategy to enhance organizational level performance. As a Centre for Performance-Led HR that is certainly our aim and we suggest that it is time the debate on engagement moves on to what lies beneath it, so that HR has the right measures to manage and establish a construct that is directly related to an organization’s performance and effectiveness.

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## Notes



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