



# IS A NARROW FOCUS ON ENGAGEMENT MAKING ORGANIZATIONS MISS THE MARK?

A Comprehensive Examination of the Impact of Engagement on Business Results

## OVERVIEW

**In recent years, employee engagement has increasingly captured the interest of both organizational leaders and academic researchers due to the common assumption that engagement plays a key role in promoting organizational success and building an organization's competitive advantage.<sup>3,4</sup> However, all this focus on engagement may be unwarranted when you pause and take a look at actual research.**

Academic research has demonstrated mixed results in connecting engagement to outcomes. For example, even though some support has been found for the relationship between engagement, turnover, and performance<sup>1,2</sup>, other research hasn't found a direct effect of engagement on turnover or engagement on performance.<sup>1,5</sup> Should employee engagement truly warrant such intense industry focus? Scientific research should cause one to wonder.

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When looking to practitioner research, the claim that engagement is driving outcomes is not supported with meaningful and accurate analysis. Some practitioners have claimed that engagement drives performance by simply identifying that organizations high on engagement outperform those organizations that have lower engagement scores. This does not support a claim that engagement drives performance. They have not provided true analysis of whether one thing is related to another or if engagement drives performance, performance drives engagement, or perhaps some other factor not accounted for. For example, when ice cream sales are high, shark attacks tend to be high as well. Would you argue that trying to increase shark attacks will result in greater ice cream sales? No way. But practitioners have been getting away with these claims because they sound good and are easy to believe.

SMD challenges these assumptions and tests the true relationship between engagement, other commonly measured employee attitudes, and several important business metrics. When considering the lack of consistent results connecting engagement to business outcomes, organizational leaders would be remiss to blindly trust that engagement will certainly lead to better business outcomes. Further investigation is critical in determining whether engagement is a driver of business outcomes across various organizations.

## **UNCOVERING KEY DRIVERS**

The key to understanding where to focus your organization around survey scores hinges on understanding the most appropriate analytic method to prioritize your focus on driving business results. The most stringent method is structural equation modeling, which provides several advantages over correlation and simple regression analyses. This method allows you to determine the impact that each survey category has on multiple business metrics simultaneously. These results can be simplified to provide a priority of focus areas among all survey categories so that action planning and follow-up from an employee survey can be strategic, efficient, and will drive results. While this methodology is complex, the cost of this type of analysis has decreased dramatically in recent years along with a reduction in the time it takes to execute. With the investments made each year in employee surveys, it only makes smart business sense to maximize the utility and return on these investments by implementing a smart analytics plan to help with strategic follow through.

## **EXAMINING THE IMPACT OF ENGAGEMENT ON BUSINESS OUTCOMES**

With the concerns noted above, SMD set out to determine which employee attitudes and experiences, as measured on employee surveys, are connected to business metrics that matter to SMD clients. The clients included in this study represent a variety of industries including healthcare, non-profit, retail, manufacturing, and professional services. These organizations also range in size from less than 100 employees to several hundred thousand employees. SMD examined data across nearly 30 organizations and over a half a million employees.

The goal of this research was to assess how often each of the most commonly measured employee attitudes was found to be a statistically significant driver of business outcomes. SMD compiled the results of its structural equation models for each client and determined which survey categories were found to be key drivers of their business outcomes. For simplicity, SMD combined various financial metrics under one group, Financial Performance, and combined Customer and Patient Satisfaction (HCAHPS) measures into one Customer Satisfaction group. SMD also assessed the linkages of survey categories to employee performance, voluntary turnover, and turnover risk (i.e., organizational commitment). The results are in Table 1.

**Table 1. Study Results**

Survey Category	Voluntary Turnover	Customer Satisfaction/ HCAHPS	Financial Performance	Employee Performance	Turnover Risk/ Intentions
Career Development	✓	✓	✓		✓
Communication		✓	✓		✓
Compensation	✓		✓		✓
Customer Focus	✓	✓			✓
Diversity		✓			✓
Engagement	✓	✓	✓		
<b>Job Fit</b>	✓	✓	✓	✓	✓
<b>Management</b>	✓	✓	✓	✓	✓
Mission/Vision/Values	✓	✓	✓		✓
Quality		✓			✓
Safety	✓	✓		✓	✓
<b>Senior Management</b>	✓	✓	✓	✓	✓
Teamwork	✓	✓	✓	✓	✓
Tools/Resources		✓	✓		✓
Work-Life Balance	✓	✓		✓	✓

\*Green check marks represent key drivers in four or more organizations and blue check marks represent key drivers in fewer than four organizations.

\*\*Blue survey categories were the top three most consistent key drivers across all organizations.

The results of the study speak for themselves. Across a large subset of our clients who have administered employee surveys in the past 18 months, engagement was a key driver of their business outcomes only 28% of the time. That means if these organizations had solely focused on improving engagement, they would have put forth time, effort, and resources to something that would not provide any bottom-line improvement 72% of the time.

**Table 2. Example Engagement Items**

I am motivated to contribute more than what is expected of me in my job.
I am proud to say that I work for this organization.
I would like to be working at this organization three years from now.

It's not the intent of this study to declare that employee attitudes do not drive business outcomes at all. In fact, SMD found significant relationships between various employee attitudes and business outcomes in 100% of the organizations in the study. The key take away is that engagement (i.e., the

five-item scale that measures engagement), was not significantly related to business outcomes 72% of the time. Similar results could be found with other employee attitudes in this study – BUT no other employee attitude is garnering the unfounded blind focus that engagement is getting. Organizations that use engagement as a proxy for business results are making faulty assumptions and bad decisions nearly three-quarters of the time.

Engagement is NOT a business outcome - it is not even a good proxy for business outcomes.

**Table 3. Example Items**

Category	Example Item
<i>Job Fit</i>	I like the work I do.
<i>Job Fit</i>	My job makes good use of my skills and abilities.
<i>Management</i>	The person I report to creates an environment of trust.
<i>Management</i>	I receive useful feedback from the person to whom I report.
<i>Senior Management</i>	Senior management’s actions support this organization’s mission and values.
<i>Senior Management</i>	I have confidence in senior management’s leadership.

One of the most important findings from this study is that none of these categories matter all the time for every outcome across all organizations - there is no silver bullet that works for every organization. Each organization should use analytics to determine which aspects of their employee experiences are most critical to their business outcomes. There is not a one-size-fits-all approach when it comes to understanding and taking action on employee experiences. Organizations can, and should, be doing a better job of strategizing on how to use their employee survey data in a way that will drive business results. Narrowing in on engagement, or any other employee attitude, is a dangerous strategy if you are not able to show the direct connection between survey scores and business metrics.

### A NOTE ON TURNOVER AND TURNOVER RISK

One important note and consideration should be made regarding these results. Engagement cannot be connected to turnover risk in these analyses because the turnover risk metric is created by taking the commitment-focused items from the engagement measure and using them as leading indicators of potential unrest and likely turnover among employees. As such, statistically the full engagement measure cannot be included in this analysis. Further, while this metric is the most strongly related survey metric to actual turnover, the strongest conclusions are drawn from examining the survey categories with actual turnover a few months after the survey. SMD provides its clients with turnover analytics results at four to six months after the survey to determine which employee experiences were the key drivers of voluntary turnover. This enables leaders to directly address the factors that can provide the greatest reduction in voluntary turnover at their organizations.

### CONCLUSION

In general, SMD does not disagree with the measurement of engagement in an employee survey, or its use as a gauge of overall employee morale. Its position, based on objective, advanced analysis, is simply that focusing so narrowly on one metric as the end-all-be-all of employee experiences could be a huge misstep for organizations. ***The results demonstrated that engagement was a key driver for organizations less than a third of the time.*** Before investing in improving any survey metric, make sure your organization is truly linking it to a business outcome to ultimately generate actual business results.

## References

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