Employee Engagement, Corporate Profitability, and Retirement Readiness

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> *"To win in the marketplace you must first win in the workplace."*
>
> —Campbell's Soup's former CEO, Doug Conant[1]

> *"If you're going to engage the best and the brightest and retain them, they'd better think that you care more about them than you care about yourself. They're not about making you look good. You're about making them successful."*
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> —Clorox C.E.O. Don Knauss[2]

> *"Strategy is about planning the route. Implementation is driven by people."*
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> —INSEAD Knowledge[3]

If anything is certain in today's business environment, it is that sustainable competitive advantages have gone the way of the dinosaur. The continual flow of disruptive innovation, often from totally unexpected or never heard of before groups, has lead Columbia's Rita Gunther McGrath to conclude that the world's most successful publicly traded companies:

> *"pursu[e] strategies with a long-term perspective on where they wanted to go, but also with the recognition that whatever they were doing today wasn't going to drive their future growth. Interestingly, they had identified and implemented ways of combining tremendous internal stability with motivating tremendous external agility, particularly in terms of business models."*[4]

McGrath observed that a corporation's agility and profitability are directly related to its ability to create and maintain an engaged workforce. She also noted that the engaged workforce is the source of these companies' "tremendous internal stability". After all:

> *"Engaged employees work with passion and feel a profound connection to their company. They drive innovation and move the organization forward."*[5]

> *"When organizations successfully engage their customers and their employees, they experience a 240% boost in performance-related business outcomes compared with an organization with neither engaged employees nor engaged customers."*[6]

Unfortunately, both Gallup[7] and Aon Hewitt[8] found that only about 30% of employees are engaged. To make matters worse, actively disengaged employees—those that are "busy acting out their unhappiness"—cost US companies approximately $450 billion to $550 billion per year[9].

So how does a company create a culture that encourages engagement despite the fact that lifetime employment is a thing of the past? That question was answered by Reid Hoffman, Ben Casnocha, and Chris Yeh in a 2013 HBR blog:

> *"This is the beginning, we think, of the new kind of compact that's needed today. Although it is most evident in the tech world, we've seen elements of it elsewhere—at consulting firms, for example. The chief principle underlying it is reciprocity: Both parties understand and acknowledge that they've entered into a voluntary relationship that benefits both sides…*
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> *The new compact acknowledges the probable impermanence of the relationship yet seeks to build trust and investment anyway. Instead of entering into strict bonds of loyalty, both sides seek the mutual benefits of alliance."*[10]

Towers Watson has found that an important factor in enabling workers to reach a high level of engagement is helping them achieve peace-of-mind over their financial well-being and health:

> *" [E]mployers that successfully invest in supporting both employee health and employee confidence in their financial well-being drive a surprisingly high return on investment for stakeholders. In fact, the ROI tied to employee productivity, talent management and public image can be two to four times higher for organizations that effectively invest in supporting a culture of health and employee financial well-being."*[11]
>
> *"Stress and anxiety about the future are common. Almost four out of 10 respondents (38%) are bothered by excessive pressure on the job. Fifty-four percent often worry about their future financial state, and 56% agree retirement security is more important today than just a few years ago… Roughly four out of 10 respondents would trade a smaller salary increase or bonus for a guaranteed retirement benefit that doesn't rise or fall with the market (in other words, a defined benefit)."*[12]

Based on the fact that 70% of American workers fall into the disengaged (52%) and actively disengaged (18%) categories[13], most employers, even many of the very largest, have ignored these findings and taken a laissez-faire attitude to their employees' financial wellness.

This laissez-faire attitude has been carried over to how firms fund, monitor, and communicate—the latter two being important fiduciary duties—their retirement and health care programs. If companies don't assess in a holistic manner the retirement readiness of their employees, they won't be able to view their retirement programs from the employees' perspective.[14]

To make matters worse, shifting more of the healthcare costs to employees is often done in a vacuum without any regard to how it will likely affect the employees' 401(k) contributions.[15] Thus, viewing benefits purely from the perspective of costs and ignoring their value in enhancing engagement is quite expensive and counterproductive. It can only encourage actively disengaged employees to bash the company on social media.

When asked how Infosys, one of the companies McGrath studied in depth, could afford the costs of constant reorganization and investment in its employees, Sanjay Purohit, the head of planning, replied:

> *"The cost of reorganizing the company is nothing compared to the growth potential it unleashes. We work out what our new axis of growth will be, then reorganize the company to deliver to these axis."*[16]

Agile corporations, like Infosys, recognize that maintaining an engaged workforce is the key to short-term as well as sustainable long-term profitability. An engaged workforce can't be achieved unless workers view their current employment as not only providing a paycheck, but also contributing to their long-term financial well-being, especially their retirement security.

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[1] Kevin Kruse, *What Is Employee Engagement*, http://www.forbes.com/sites/kevinkruse/2012/06/22/employee-engagement-what-and-why/

[2] Adam Bryant, *Don Knauss of Clorox, on Putting Your Followers First*, http://www.nytimes.com/2014/03/23/business/don-knauss-of-clorox-on-putting-your-followers-first.html?_r=1

[3] Comment on top of webpage from INSEAD Knowledge - 20 March 2014.

[4] Rita Gunther McGrath, The End of Competitive Advantage: How to Keep Your Strategy Moving as Fast as Your Business, Harvard Business Review Press, Boston, 2013, p. 16.

[5] Gallup, 2013 *State of the Global Workplace: Employee Engagement Insights for Business Leaders Worldwide*, p. 17.

[6] Ibid., p. 50.

[7] Ibid., p. 83.

[8] Aon Hewitt, *2013 Trends in Global Employee Engagement* Report, pp. 7-8. Aon Hewitt's classification is different from that of Gallup. It appears that Aon Hewitt's highly engaged employees are equivalent to Gallup's engaged employees. Both organizations appear to classify actively disengaged employees in the same manner. Gallup's disengaged category appears to encompass Aon Hewitt's moderately engaged and passive employees.

[9] Gallup, p. 7.

[10] *Tours of Duty: The New Employer-Employee Compact*, http://hbr.org/2013/06/tours-of-duty-the-new-employer-employee-compact.

[11] Towers Watson, *Culture of Health and Well-Being: Driving Business Value*, 2013, p. 3.

[12] Towers Watson, *2012 Global Workforce Study, Engagement at Risk: Driving Strong Performance in a Global Volatile Environment*, p. 2.

[13] Gallup, p. 83.

[14] Towers Watson, *2012 – 2013 Global Talent Management and Rewards Study: The Next High-Stakes Quest—Balancing Employer and Employee Priorities*, p. 4. "Organizations with a highly effective EVP [Employee Value Proposition] … are also about 60% more likely to assess business performance and conduct other analytics to review total rewards programs."

[15] Mercer, *Workers Cut 401(k)s as They Fatten HSAs*, November 20, 2013.

[16] McGrath, p. 21.