



## Employee Engagement: Progress Report

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## 1. Introduction

During the first workshop at the beginning of 2013, we held small focus groups with our members in order to gain a better understanding of organisational and customer management issues that demanded our attention. The issues that emerged from the focus groups included:

### *Organisational issues*

- Understanding employee fatigue, resilience, and engagement
- How to achieve customer service excellence through third parties
- How to create and maintain a customer-oriented workforce and a customer-oriented organisation
- Internal organisation and skills needed to adapt to changes in B2B customer experience
- Understanding employee effort

### *Customer management issues*

- How to effectively use customer feedback and data
- Should customers be segmented according to what they need, what is important to them, rather than according to the data held?
- How to build relationships with B2B customers online
- Understanding B2B customer satisfaction metrics
- Understanding the customer journey and touch-points
- Understanding channel shift
- Technology (e.g. live videos, cloud, mobile devices) and customer relationship
- Understanding customer effort
- Understanding B2B customer effort
- How to communicate risk and value to customers

In order to shape our research activities, we conducted a short online survey to establish the relative importance of these issues. In total, over a period of one week, 99 executives participated in the survey. The issues that received the most interest from the executives, in order of importance, were:

1. *How to develop and maintain a customer-oriented organisation to support the creation of superior customer experience*
2. *Understanding B2B customer effort, B2B customer satisfaction, and measurements*
3. *Technology and the experiences of customers and employees*

This report focuses on research activities that were designed to address the first issue. Most companies, nowadays, have embraced the idea that businesses must focus on their customers. However, the question remains as to what practices need to be in place in order to build a customer-oriented organisation. What do leaders need to do to create conditions that are conducive to superior customer experience and excellent service quality? The aim of our research in 2013, therefore, is to examine the following questions:

- What are the requisite organisational policies, practices, and procedures in the creation and delivery of superior customer experience?
- How do these policies, practices, and procedures support service delivery? Do they contribute to employees' engagement with work and with the organisation? Do they contribute to employees' job satisfaction, turnover, and performance?

### **1.1. Data Collection**

To provide answers to the research questions, we surveyed over 500 frontline employees who worked for a major chain of nurseries (childcare) in the UK. We asked them about what happened in their branches, how they felt when they were at work, and how they felt about the company and their jobs. We then asked their managers/supervisors to rate each nursery nurse's service performance. Both employee and manager/supervisor surveys were conducted online. Additionally, we asked the company for data on each branch's profitability, staff absenteeism, and staff turnover. We also attempted to obtain customer satisfaction and customer effort scores. However, the company did not have this data and we were not permitted to conduct a separate customer survey.

To be specific, frontline employees answered questions about their branches' service climate and energy, job satisfaction, intention to leave, affective organisational commitment (emotional engagement/bond with the organisation), work engagement (engagement with work activities), and advocacy intention (being an advocate of the organisation). Each employee's service performance score, rated by his/her manager/supervisor, had to be matched with his/her own response manually. After data cleaning and response matching, we were left with 237 cases from 21 branches. Unfortunately, the participating company did not have complete data on branches' profitability, staff absenteeism, and staff turnover so we were unable to examine the effects of policies, practices, and procedures on organisational performance at this time.

### **1.2. Key Findings**

- Employees who work in a favourable service climate display high levels of organisational commitment, work engagement, job satisfaction, and advocacy intention. They are also less likely to leave the organisation.
- Leaders can create a favourable climate for service by embracing the concepts of servant leadership, employee empowerment, and employee initiative, encouraging cohesion and good customer care, providing necessary resources and support, and striving to reduce employees' job-related pressure.
- The pattern of cognitive, affective, and behavioural energies in the workplace can explain if work engagement increases or decreases frontline employees' service performance.

## 2. Service Climate

There are multiple ways to approach the subject of organisational practices. In this study, we adopted an organisational climate perspective, in which employees' perceptions of what really is going on at work are the critical data in understanding organisational behaviour. In other words, organisational climate scholars consider employees' experiences of what happens to and around them to be the only reliable source of information about organisational policies, practices, and procedures—not what is written down or what management says. Although it is crucial that we distinguish between organisational culture and climate, it is also important that we do not get caught up in a theoretical and abstract discussion. Put simply, an examination of organisational culture is an examination of values, belief systems, norms, and traditions—the implicit aspects of organisational life that shape how a company and its members behave. Organisational climate deals with relatively more explicit aspects of life in an organisation. It describes the prevailing atmosphere, mood, tone, or style of behaviours of a company or a work unit. An examination of organisational climate is an examination of a constellation of organisational policies, practices, and procedures.

It is essential to understand how organisational climate is measured. Since climate is a description of what is really going on in a work unit or an organisation, it is inadequate to gather the necessary information from only one employee. Once leaders have established what practices they are interested in measuring, multiple employees from the same unit must be asked to provide their perceptions of these practices. Aggregating the employees' perceptions can then create a unit's climate scores.

Organisational climate has many focused facets (e.g., climate for ethical behaviour, safety, and innovation). Service climate is one of those facets. It represents the level of importance of service quality in a work unit or an organisation. In past qualitative research conducted in a major UK bank's branch network, we found that there were five themes in the difference between climates for service of high and low customer-retaining branches, namely (a) structure, (b) rewards and recognition, (c) customer care, (d) warmth and support, and (e) cohesion. In other words, the experiences of frontline employees in the high and low customer-retaining branches were different in these five areas. These themes became the initial five practices representing service climate that we aimed to measure. We created a service climate questionnaire based on specific details of each theme. Employees were asked to indicate their levels of agreement with a set of statements (strongly disagree = 1, strongly agree = 7). Our previous report "Organisational Climate Research (2006)" provides a number of illustrations from using this questionnaire.

To further develop our hypothesis, we have subjected the data from the participating nursery chain to a statistical procedure to ascertain whether the five-dimensional structure was meaningful. In essence, we have to identify the structure of how frontline employees think about and experience their work environments. A factor analysis suggests that the five themes should be rearranged or divided further into seven dimensions. That is to say, there are seven themes in how frontline employees perceive their work environments. These themes are the final seven practices that represent a work unit's or an organisation's service climate (see Table 1).

Table 1: Seven Dimensions of Service Climate

Dimension	Description of Dimension (Example item from the questionnaire)
Servant Leadership	The extent to which leaders display service-oriented behaviours towards their employees—i.e., meeting their needs, supporting them in supervisory or coaching capacities, and leading by example (Managers care about employee.)
Cohesion	The extent to which organisational members are closely united—e.g., working as a team, socialising together, having common goals (There is a feeling of pulling together among employees.)
Organisational Support	The level of support that employees receive from the organisational system—i.e., clear roles and responsibilities, the ratio of employees to customers, and workplace layout (The branch is well organised.)
Empowerment	The degree of decision-making authority given to employees and the involvement of employees in decision making (Employees are able to vary their tasks within their jobs.)
Employee Initiative	The recognition that employees play a crucial role in the creation of service excellence—they are trained and are actively involved in finding new ways to improve customer experience. (Employees are actively involved in finding new ways to improve customer care.)
Pressure	The extent to which employees experience pressure in their jobs—e.g., the pace of service, workload, sales or productivity targets (Employees experience pressure in their jobs.)
Customer Care	The extent to which customers are actively and genuinely cared for during their interactions with the company (Employees genuinely care for the customers.)



## 2.1. Examining the Effects of Service Climate

A cluster analysis performed on the usable data from 21 branches suggests that the branches can be divided into two groups—those that have favourable service climate (6 branches) and those that have relatively less favourable service climate (15 branches). The branches in the former group score *higher* on servant leadership, cohesion, organisational support, empowerment, employee initiative, and customer care and *lower* on pressure. Figure 1 shows the average service climate scores of both groups. The differences in the levels of the seven climate dimensions between the two groups are all statistically significant (as tested by multivariate analysis of variance), which means that the differences are large enough to have real importance. The differences really do exist; they are not a chance occurrence.

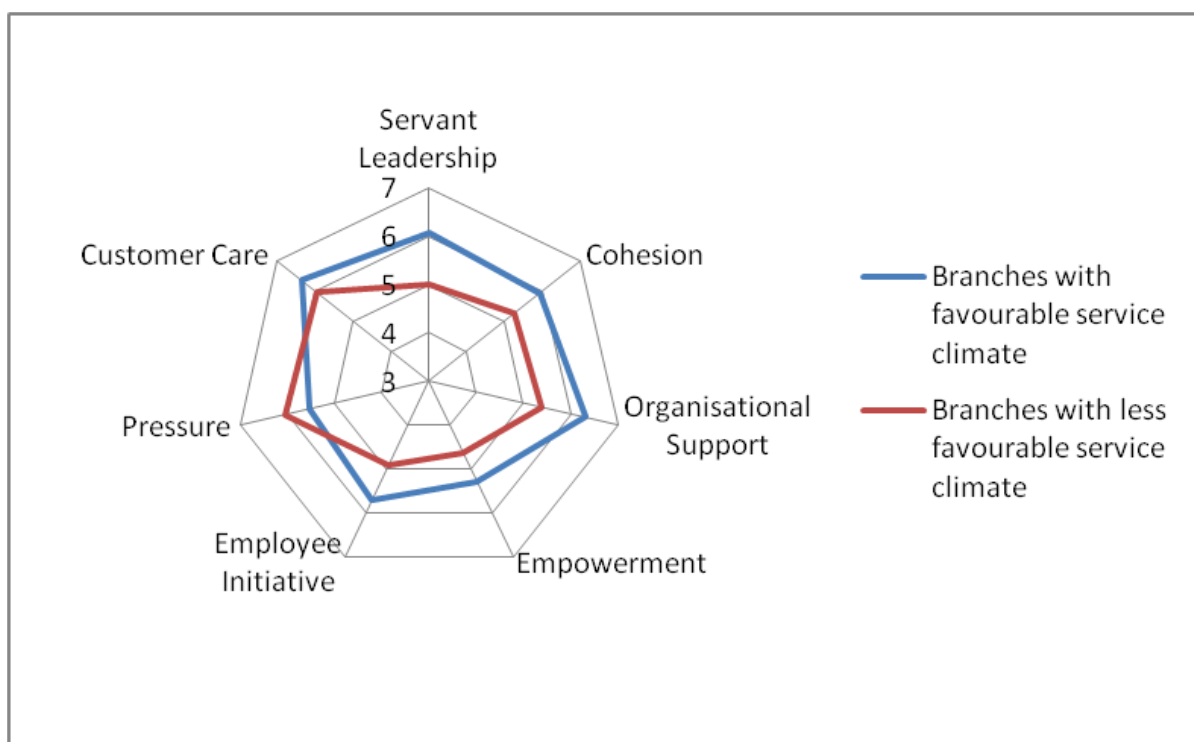


Figure 1: Average Service Climate Profiles of the Two Test Groups

As shown in Figure 2, employees who work in the branches that have more favourable service climate display:

- Higher affective organisational commitment,
- Higher work engagement,
- Higher job satisfaction,
- Higher advocacy, and
- Lower intention to leave.

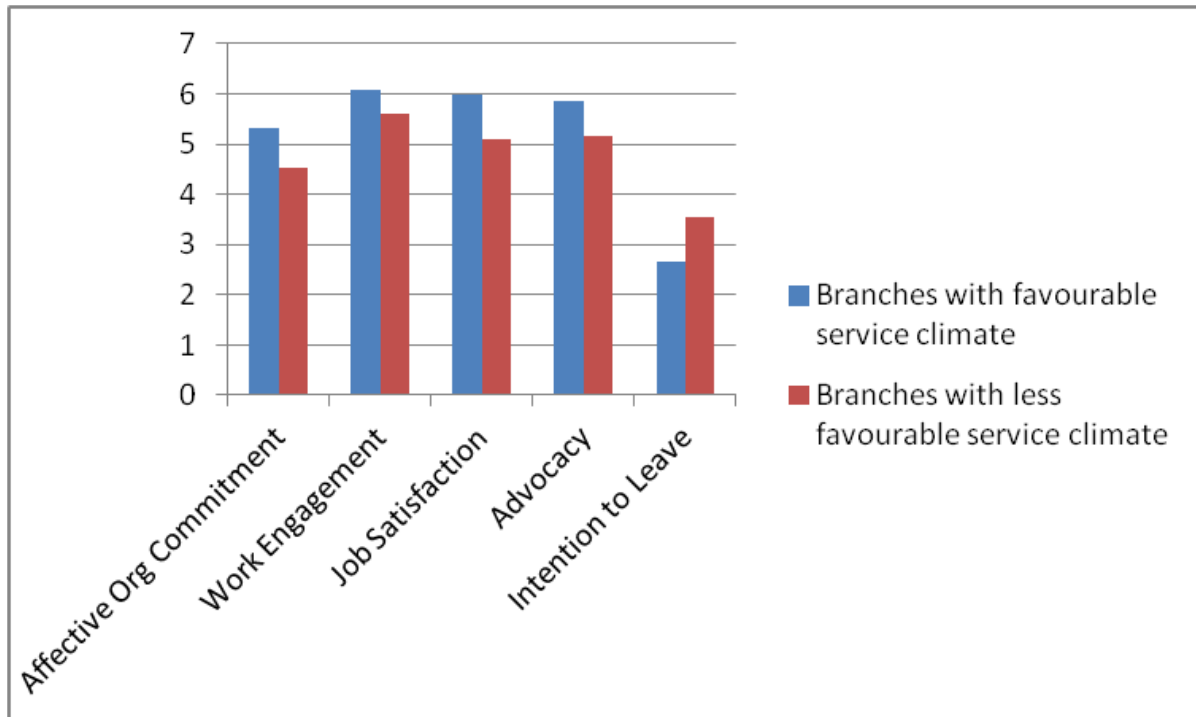


Figure 2: Key Outcomes of Service Climate

In other words, employees who work in the branches that have less favourable (i.e., more negative) service climate display:

- Lower affective organisational commitment,
- Lower work engagement,
- Lower job satisfaction,
- Lower advocacy, and
- Higher intention to leave.

The differences in the levels of these five key outcomes between the two groups are all statistically significant (as tested by multivariate analysis of variance). Since job satisfaction and intention to leave are well-known concepts in business, their definitions will not be discussed in this report. The concepts of affective organisational commitment, work engagement, and advocacy are explained below.

### ***Affective Organisational Commitment***

Affective organisational commitment refers to affective attachment to the organisation. Employees who are committed to the organisation affectively have emotional bonds/relationships with their employers. They stay with the company because they want to, not because they have to (e.g., I have choice, my life would be disrupted if I decided to leave, other jobs are hard to find) or feel that they should (e.g., I would feel guilty if I left, I feel obligated to stay, I have a sense of obligation to the people I work with). They have a sense of belonging to the organisation and feel that the organisation's problems are their own.

## Work Engagement

Work engagement is a positive, fulfilling, work-related state of mind that represents employees' psychological well-being while they are at work. Employees who are engaged with their work carry out their duties with vigour and dedication. *Vigour* refers to high levels of energy and mental resilience, the willingness to invest effort in one's work, and the persistence in the face of difficulties. *Dedication* refers to a sense of significance, enthusiasm, inspiration, pride, and challenge—manifestations of a positive connection with one's work. Additionally, employees who are engaged with their work tend to be completely immersed or fully absorbed in their work. They carry out tasks with full concentration and tend to find that time passes quickly. Put simply, engaged employees are “fully there”—physically, cognitively, and emotionally—when they are working. Disengaged employees may “be there” physically, but they are not motivated to do more than just to get by.

## Advocacy

Advocacy refers to an employee's intentions to behave as an advocate of his/her organisation. An advocate supports his/her company by (a) recommending the business to friends and family, (b) recommending the organisation as an employer, and (c) defending the organisation if an outsider criticises it, such as in the media or by a member of the public.

## How the Five Key Outcomes Variables are Related to Each Other

By using a form of structural equation modelling, we were able to identify the ways in which the five key outcomes— affective organisational commitment, job satisfaction, work engagement, advocacy, and intention to leave—are related to each other. These relationships are shown in Figure 3. Specifically:

- Affective organisational commitment increases work engagement.
- Affective organisational commitment reduces intention to leave.
- Job satisfaction increases work engagement.
- Job satisfaction reduces intention to leave.
- Low intention to leave, in turn, increases work engagement.
- Work engagement, in turn, increases service performance.

Additionally, as shown in blue:

- Affective organisational commitment increases advocacy.
- Job satisfaction increases advocacy.

$R^2$  is a measure that tells us how much of the variability in the dependent variable is explained by the predictors. Therefore, from Figure 3, we can say that affective organisational commitment, job satisfaction, and intention to leave together can explain 44.3% of the variability in work engagement. The other 55.7% would be explained by things that we did not capture in our study. The signs that appear with each arrow tell us the direction of each relationship. Negative or inverse relationships are shown in red. Advocacy does not have a significant link with intention to leave, work engagement, and service performance.

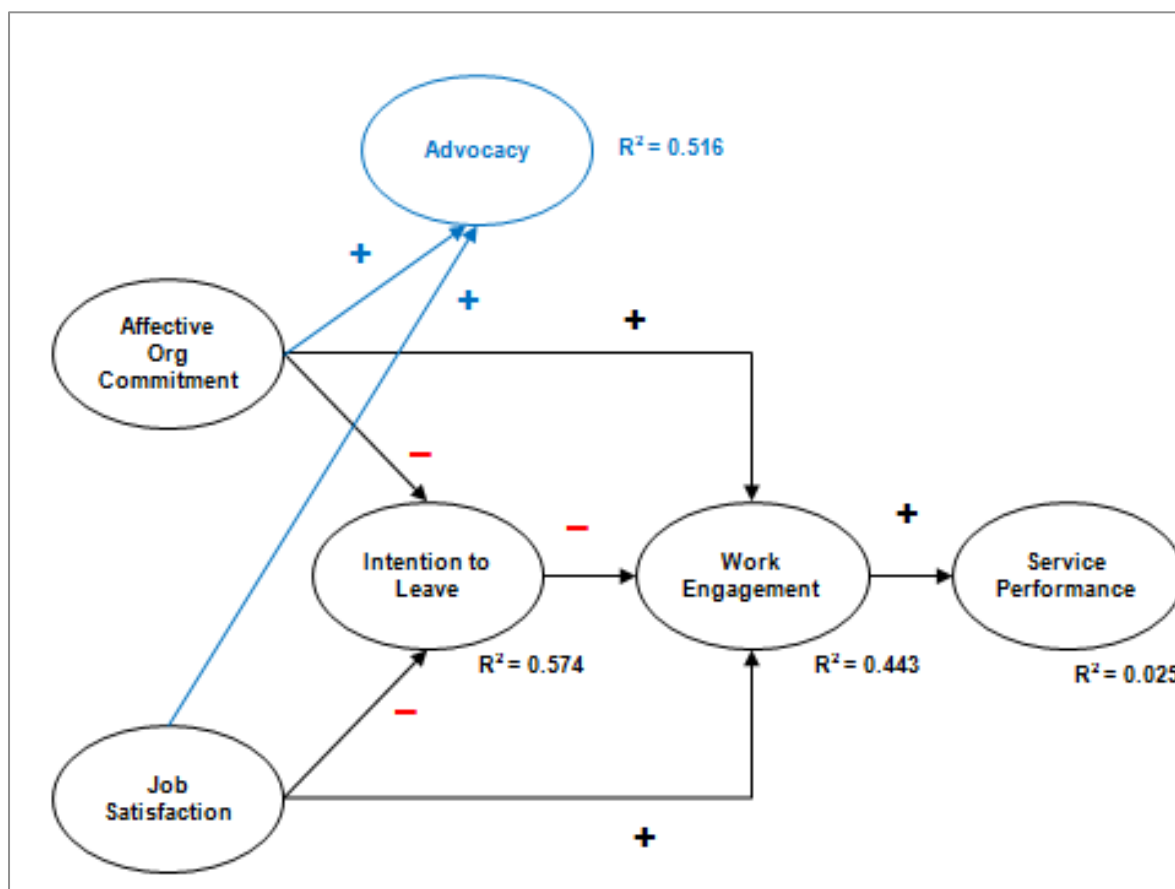


Figure 3: Relationships among the Key Outcomes of Service Climate

### ***Service Climate and Frontline Employees' Service Performance***

We did not find a significant effect of service climate on frontline employees' service performance. Specifically, there is no difference in the levels of service performance between the branches that have favourable service climate and their counterparts that have less favourable climate for service. The absence of this effect is inconsistent with existing academic research and the findings from our past research. It is possible that this absence is unique to the childcare industry. Alternatively, it might be a result of how we collected employees' performance data. As mentioned previously, the nursery nurses' performance was rated by their managers/supervisors. These performance scores might contain a rather high level of measurement error because different managers/supervisors had different rating styles (harsh or lenient). Their judgements can also be influenced by selective perceptions or biased by their overall impressions of the person being rated. If we had been permitted to collect parents' ratings of each nurse's performance, the finding in relation to this effect might have been different. The reasons mentioned above may also explain why the influence of the other variables (affective commitment, job satisfaction, work engagement, intention to leave, and advocacy) on frontline employees' service performance was found to be very small (only 2.5% of the variability in performance is explained by the other variables).

### 3. Workplace Productive Energy

To gain a better understanding of conditions that are conducive to the creation of superior customer experience, we decided to measure workplace energy in addition to service climate. Workplace energy is a new concept in the field of organisational behaviour. It refers to the energy collectively experienced by individuals in the workplace (We used the concept and the questionnaire developed by Michael Cole, Heike Bruch, and Bernd Vogel<sup>1</sup>). This collective energy has three dimensions:

1. Affective energy — shared feelings and emotional arousal at work (e.g., excited, inspired, enthusiastic, etc.)
2. Cognitive energy — shared mental alertness that drives intellectually constructive thinking and problem solving
3. Behavioural energy — the pace, intensity, and volume of productive activities and purposeful behaviours, investment of physical effort and resources

Since it involves physical activities, behavioural energy is more observable than the other two dimensions. The method of measuring service climate also applies to workplace energy. In other words, since it is a shared experience, workplace energy is measured by aggregating multiple employees' perceptions.

#### 3.1. Examining the Effects of Workplace Productive Energy

In this study, we found that the way in which workplace energy influenced frontline employees was through the patterns of affective, cognitive, and behavioural energies. Specifically, a cluster analysis suggests that the nursery branches can be divided into three groups, as shown in Figure 4:

- Group 1: The levels of affective energy of these branches are low relative to cognitive and behavioural energies.
- Group 2: These branches are only cognitively energised.
- Group 3: The levels of behavioural energy of these branches are low relative to cognitive and affective energies.

Whereas work engagement increases frontline employees' service performance in Group 1 and 2, it decreases frontline employees' service performance in Group 3. This phenomenon highlights the importance of behavioural energy in highly-stimulated workplaces—Group 1 and 3. In Group 1, although the collective excitement and enthusiasm is relatively low, employees are stimulated to think and act. The emphasis is on tasks, results, and efficiency. In Group 3, the branches are cognitively and affectively charged, without behavioural energy to match. Employees in this kind of environment are stimulated to think, to find ways to solve problems. They are also excited and enthusiastic. However, they are not equally roused to engage in the doing, the purposeful action taking.

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<sup>1</sup> Cole, M. S., Bruch, H., & Vogel, B. (2012). Energy at work: A measurement validation and linkage to unit effectiveness. *Journal of Organizational Behavior*, 33, 445-467.

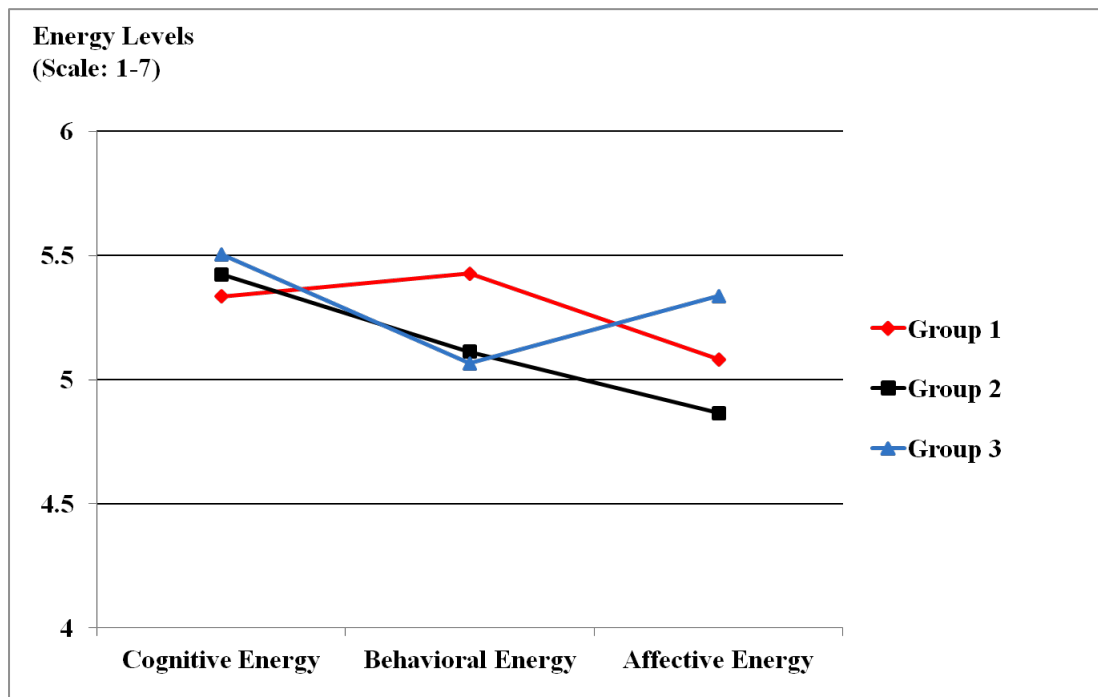


Figure 4: Average Productive Energy Profiles of the Three Test Groups

Even though they are engaged with work, employees in Group 3 are not stimulated to match their doing to their thinking, to go beyond working at a comfortable pace. They may take too much time to complete their tasks, thereby keeping customers waiting or, in the case of child caring, not distributing their time appropriately between children. Therefore, in this kind of environment, work engagement exerts negative influence on employees' service performance.

## 4. Key Managerial Implications

The findings of our research in 2013 suggest that, to retain talented staff, leaders should strive to create and maintain favourable climate for service. Positive climate for service can be achieved from any combination of the actions listed below. However, the actions related to the behaviour of managers/supervisors are likely to bring about the most significant changes. This is because, based on multiple studies we have conducted in this field, the largest difference between positive and negative service climate tends to be in the area of managerial actions and behaviours, both line managers/supervisors and senior management—i.e., servant leadership. This has led us to conclude that positive service climate comes from the top of the organisation. Top management has to develop and communicate their service vision. Then they have to train middle and junior management on how to manage, how to be servant leaders. It is as important to train middle managers and supervisors on how to manage as to train frontline employees on how to deliver service to the customer. The actions that can contribute to the creation of positive service climate are:

- Genuinely care about people at the frontline
- Make time to be “in the field” or “on the floor” with frontline employees
- Treat frontline employees the way you want them to treat customers
- Vary management styles—while leading with authority is important to get things done, employees also need more personal input, feedback, and help
- Recognise and reward good work (praise and give credit, not monetary – rewards really matter)
- Link incentives and rewards to service quality not productivity
- Celebrate service quality achievements as well as productivity achievements
- Encourage employees to socialise together
- Encourage a feeling of working as a team
- Ensure that there are enough staff to serve customers
- Give frontline employees a certain level of (a) authority and flexibility to make decisions and (b) freedom to act independently when they are with customers without having to constantly seek management approval
- Provide frontline employees with the resources that they need to deliver high-quality service, such as IT infrastructure that actually works, product information, procedures for handling complaints, procedures for handling service failures/breakdowns
- Create regular sessions to listen to employees, encourage them to talk about problems that they face when trying to deliver service and to voice their views on how to improve customer experience
- Encourage employees to take initiative to look for better ways to serve the customer
- Train frontline employees on how to listen to the customer, not only on task-specific activities
- Use simulated activities and scenarios in training
- Identify and improve frontline employees’ attitudes towards customers
- Explain the results of customer surveys or research to frontline employees

## 5. Next Steps: Ongoing Research Activities

- Launch an online survey to collect data from a major retail bank (tentatively scheduled for February 2014). The aim is to test the effects of service climate on organisational performance (e.g. profitability, Net Promoter Score, customer satisfaction).
- To deepen our understanding of service climate, we are presenting our research model to a major high street retailer.
- Design a study to expand our research into employee resilience and employee effort.



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