BETTER PROFITABILITY THROUGH HIGHER EMPLOYEE ENGAGEMENT IN THE KNOWLEDGE WORKER AGE

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Abstract

The concept of Employee Engagement is rapidly gaining popularity and use and it is also increasingly being examined in the corporate world. There is the believe, that a company with higher engaged employees will create higher profits, and many consultancy and research firms see employee engagement as a powerful source of competitive advantage for corporations. Business leaders and researchers sought to proof the direct connection of employee engagement and profitability within a commercial organization in the new knowledge worker age and what to do to achieve a higher employee engagement. A recent Gallup engagement study showed that only 13% of all employees are engaged with their work. This is an even bigger challenge for knowledge worker companies in today's world of innovation and the "war for talent", because the only asset they possess are their employees.

Key words: employee engagement, knowledge age worker, profitability, intangible and non-financial values.

JEL classification: M50, M16

INTRODUCTION

Without question, knowledge age workers are the primary engine of the twenty-first century technology innovation. Although, knowledge is the basis of every organization, some companies utilize knowledge to a greater extent; they formulate technologies, conduct research and discover applications. Hence, the management also plays a vital role in utilizing the efforts of these employees (Zelles, 2010c). With traditional production epicenters being geographically compartmentalized to developing regions and global higher education rates soaring, the number of knowledge age workers in developed nations is steadily rising (Tymon & Stumpf, 2003). Thus, with the increasingly competitive landscape of the knowledge worker industry, it behooves all knowledge-based firms to ensure that they are receiving the absolute most out of their chosen human resources.

The intellectual and cognitive nature of the core conceptual foundations underlying the idea of employee engagement fits perfectly into the structure of knowledge age business. This is important because many of today's high potential businesses are knowledge-based firms. Innovation and the ability to apply technological process is key for future success. Firms cannot force their employees to innovate; rather they can only create environments that promote innovative behavior. Considering the technological advances of the last few decades, it becomes clear that innovation has driven profitability in the recent economic upturn. In fact, the Global Competitiveness Report 2010–2011 considers innovation as one of the 12 pillars to differentiate and compare between country economies. "The final pillar of competitiveness is technological innovation. ... In the long run, standards of living can be enhanced only by technological innovation. Innovation is particularly important for economies as they approach the frontiers of knowledge and the possibility of integrating and adapting exogenous technologies tends to disappear" (World Economic Forum, 2011). Employee engagement is believed to foster innovation because engaged workers are encouraged to share their ideas with their employers. As a result, truly engaged knowledge age workers will produce much more that those who are disregarded or "disengaged" (Harter, Schmidt, Killham & Agrawal, 2009).

There are several key questions at the heart of this publication and all of them focus on the relationship between employee engagement and profitability in the knowledge worker age. It will focus on how the different components of employee engagement are linked to employee engagement and also how employee engagement is linked to different financial and non-financial values. Disengaged employees approximately cost an amount between \$270 and \$343 billion, in the United States because of their lower productivity (Gallup, 2008). This is about two percent of the US GDP and shows, that lack of engagement is creating a financial drain on industries.

EMPLOYEE ENGAGEMENT

Employee Engagement is a positive, fulfilling, work-related state of mind that is characterized by vigor, dedication, and absorption. Rather than a momentary and specific state, employee engagement refers to a more persistent and pervasive affective-cognitive state that is not focused on any particular object, event, individual, or behavior.

HYPOTHESIS

The business impact of employee engagement in knowledge worker companies is underresearched and unless it can be demonstrated to positively impact profits, employee engagement will not reach wide acceptance in upper management. This paper will examine the relationship between employee engagement and company profitability and other specific intangible indicators. By distinctively elucidating each of these various relationships, this article will provide an illustration of the relationship between employee engagement and the measures of profitability and intangible non-financial values.

- *Is employee engagement correlated to profitability at knowledge age worker companies?* Hypothesis A: It is possible to prove a correlation between employee engagement and profitability in knowledge worker age companies.
- What are other the main intangible and non-financial values, which contribute to employee engagement and is there a correlation between them?

Hypothesis B: Knowledge age workers highly value intangible and non-financial values as contributions to employee engagement and there is a correlation between them.

DATA ANALYSIS

One of the basic ways to determine correlation is by use of the Pearson correlation coefficient. This statistic measures the linear dependence between two different variables. The Pearson correlation coefficient is always a number between -1 and +1. A -1 indicates that the two different variables are completely negatively correlated, so that if one variable occurs the other variable does not. A 0 indicates that the two variables are not correlated, so that the existence of one variable has no predictive value in the existence of the other variable. A +1 indicates that the two variables are completely positively correlated, so that the existence of one variables are completely positively correlated, so that the existence of one variable means that the other variable will occur, as well. An independent variable (the intervention) is a condition implemented by the researcher to test if it will create change and improvement. This could be a program, method, system, or other action. A dependent variable is what may change as a result of the independent variable or intervention. A dependent variable could be a behavior, outcome, or other condition.

While the desire to increase profits presents the primary dependent variable in all firms, the level of employee engagement will account for the independent variable. The analysis will examine the relationship between employee engagement and profitability and other specific intangable indicators such as job satisfaction, employee happyness, absenteeism, inspiration and proudness. By distinctively elucidating each of these explicit relationships, this article will provide a comprehensive illustration of the benefits of employee engagement as a significant factor of long term profitability of enterprises.

RESEARCH METHODOLGY AND DATA COLLECTION

The surveys and analysis happened at information technology firms and they are all involved in the same specific subset of development, publication, and sales of applications for smartphones. All firms were founded within the last ten years by founders who are currently in their 20s or 30s and the companis are all profitable. The employee surveys were conducted tonline and hree times, every 6 month over a period of 18 month in an online format. An online format increased user convenience and allowed for greater participation rates as most knowledge workers can be found in technologically based industries and thus they do most of their work on computers. This forum also allows for a consistent and adjustable format as well as greater ease in the data analysis process (Foster-Thompson & Surface, 2007).



Additionally, being that one of the key aspects of this research process is the ability to provide rapid feedback and recommendations to firms, this format is certainly the most ideal (Foster-Thompson & Surface, 2007).

The survey asked the employees to rank their answers on a scale of zero to six. A score of zero indicated never, while a score of six indicated always. The numbers in between increased from never to always. With this scale and numerical equivalents, the survey respondents did not have to guess about the appropriate response. The survey respondents could quantify their work experiences (Peters, 2006). 0 ... indicates never

- 1 ... indicated almost never and was defined by a few times a year or less.
- 2 ... indicated rarely and was defined as once a month or less.
- 3... was sometimes and was defined by a few times a month.
- 4 ... indicated often and referred to once a week.
- 5 ... indicated very often and was defined as a few times a week.
- 6 ... referred to something that occurred every day

For the research, the ground work of the Utrecht Work Engagement Scale (UWES) was selected, because it is free for use for non-commercial scientific research (Schaufeli & Bakker, 2003). The survey consisted of sixteen statements, which were meant to assess how the individual felt about work and the work environment. The test itself is statistically robust and proven and has been developed to include the three constituting aspects of work engagement: vigor, dedication, and absorption.

Vigor is assessed by the following 6 items that refer to high levels of energy and resilience, the willingness to invest effort, not being easily fatigued, and persistence in the face of difficulties.

- 1. At my work, I feel bursting with energy
- 2. At my job, I feel strong and vigorous
- 3. When I get up in the morning, I feel like going to work
- 4. I can continue working for very long periods at a time
- 5. At my job, I am very resilient, mentally
- 6. At my work I always persevere, even when things do not go well

Those who score high on vigor usually have much energy, zest and stamina when working, whereas those who score low on vigor have less energy, zest and stamina as far as their work is concerned.

Dedication is assessed by five items that refer to deriving a sense of significance from one's work, feeling enthusiastic and proud about one's job, and feeling inspired and challenged by it.

- 1. I find the work that I do full of meaning and purpose
- 2. I am enthusiastic about my job
- 3. My job inspires me
- 4. I am proud on the work that I do
- 5. To me, my job is challenging

Those who score high on dedication strongly identify with their work because it is experienced as meaningful, inspiring, and challenging. Besides, they usually feel enthusiastic and proud about their work. Those who score low do not identify with their work because they do not experience it to be meaningful, inspiring, or challenging; they feel neither enthusiastic nor proud about their work.

Absorption is measured by six items that refer to being totally and happily immersed in one's work and having difficulties detaching oneself from it so that time passes quickly and one forgets everything else that is around.

- 1. Time flies when I'm working
- 2. When I am working, I forget everything else around me
- 3. I feel happy when I am working intensely
- 4. I am immersed in my work
- 5. I get carried away when I'm working

SURVEY RESULTS

All analysed companies are information technology firms and they are all involved in the same specific subset of the computing industry: development, publication, and sales of applications for

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smartphones. The sample size of all combined employees is offering a substantial survey population. Averaged over the number of employees, the net profit for the employees' firms was \$935,839 and the three companies' expected a growth over the next years of 15%, while the turnover rate in 2012 was 2% and the profit per unit sold was \$15.

Averaged over the number of employees, the customer satisfaction score was 9 (range from 1 - 10). Finally, the average number of absences per employee was 1.75.

The overall employee engagement score increased from 4.29 at the beginning of the project to 4.59 at the end with the third survey.

Following are the combined results of the third and final employee engagement survey round on a weighted averaged over the number of employees:

- Statement number one was, "At my work, I feel bursting with energy." The overall average response to that statement was 4.29.
- Statement number two was, "I find the work that I do full of meaning and purpose". The average response to that statement was 5.13.
- Statement number three was, "Time flies when I am working".
- The average response to that statement was 4.07.
- Statement number four was, "At my job, I feel strong and vigorous". The average response to that statement was 4.20.
- Statement number five was, "I am enthusiastic about my job". The average response to that statement was 4.60.
- Statement number six was, "When I am working, I forget about everything else around me". The average response to that statement was 2.71.
- Statement number seven was, "My job inspires me". The average response to that statement was 5.32.
- Statement number eight was, "When I get up in the morning, I feel like going to work".
- The average response to that statement was 5.02.
- Statement number nine was, "I feel happy when I am working intensely".
- The average response to that statement was 4.77.
- Statement number ten was, "I am proud of the work that I do".
- The average response to that statement was 5.06.
- Statement number eleven was, "I am immersed in my work".
- The average response to that statement was 4.70.
- Statement number twelve was, "I can continue working for very long periods of time". The average response to that statement was 4.53.
- Statement number thirteen was, "To me, my job is challenging".
- The average response to that statement was 4.99.
- Statement number fourteen was, "I get carried away when I am working". The average response to that statement was 4.73.
- Statement number fifteen was, "At my job, I am very resilient, mentally". The average response to that statement was 4.93.
- Statement number sixteen was, "It is difficult to detach myself from my job". The average response to that statement was 3.96.

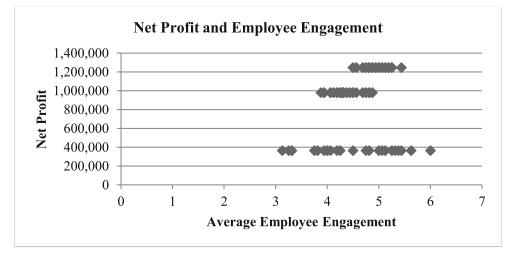
DISCUSSION

The main goal was to prove, that higher employee engagement is positively influencing the profitability of a company and that there is a correlation between employee engagement and profitability.

<u>Hypothesis A:</u> It is possible to prove a correlation between employee engagement and profitability in knowledge worker age companies.

While the desire to increase profits presents the primary dependent variable in all firms, the level of employee engagement will account for the independent variable. The reliability of the instrument on the combined responses of all three firms was proven. The data proves a relationship between employee engagement and the traditional measures of profitability. The Pearson correlation coefficient between average employee engagement and net profit is 0.29. What this indicates is that employee engagement

is positively correlated with net profit. Moreover, the strength of the correlation is sufficiently high to disregard it being an arbitrary result. Generally, p value of 0.05 or less would be rejected as arbitrary, but the strength of the correlation is greater than that. However, the correlation is not a direct 1:1 correlation. More engaged employees do not necessarily lead to a greater net profit. This makes sense because many other factors impact profit including the product that is being sold, company debt, the profit margin on the item, and demand for the service or item. Even high levels of employee engagement cannot change these other factors. However, the correlation is sufficiently high to suggest that increasing employee engagement has a positive impact on net profit.





<u>Hypothesis B:</u> Knowledge age workers highly value intangible and non-financial values as contributions to employee engagement and there is a correlation between them.

While companies in more traditional industries may be able to enhance productivity through tactics like technological advancements and equipment expenditures, knowledge age firms must rely on the capacities of their labor forces to create future profitability. Employees are assets and when employees are producing an intellectual work product, their value as assets is greater than the actual labor that they provide. The employee engagement index for the combined results were finally used to calculate the Pearson correlation of employee engagement with various dimensions to isolate the intangible values with the highest impact to employee engagement in the knowledge worker age at the surveyed firms.

- 1. "To me, my job is challenging" the Pearson correlation coefficient is 0.68. This is the highest correlations between any of the individual measures of employee engagement and the average employee engagement. This is probably one of the biggest differences between knowledge age workers and industrial workers. Knowledge age workers want to be challenged at work and want to be intellectually stimulated.
- 2. "I am immersed in my work" the Pearson correlation coefficient is 0.59. Being immersed in work suggests, that the employees really like their work, otherwise they wouldn't immersed in their work. This is supported by the following dimensions, where employees feel happy, proud and inspired by their work.
- 3. "It is difficult to detach myself from my job" the Pearson correlation coefficient is 0.58. That might reflect the fact that employees are almost constantly available in a digital age, so that they may leave work on time and have no problem actually leaving when they are supposed to do so, but also that they are constantly available to work.
- 4. "I feel happy when I am working intensely" the Pearson correlation coefficient is 0.57. This suggests that employee happiness is highly related to employee engagement and it is important to recognize that job satisfaction impacts multiple dimensions of an employee's life, not simply job satisfaction and job performance.
- 5. "My job inspires me" the Pearson correlation coefficient is 0.56. This suggests, that ensuring that work can be inspiring for employees may be one of the most significant keys to employee engagement numbers.

6. "I am proud of the work that I do" – the Pearson correlation coefficient is 0.52. This suggests that people being able to take pride in their work is a key component to having engaged employees. This should come as no surprise with the concepts of employee engagement, pride in work, job satisfaction, and even overall life satisfaction.

As this publication demonstrates, employee engagement is positively correlated to most measurable aspects of profitability and productivity. In today's knowledge worker world, high performing, great qualified employees are the main assets of a company and every corporation needs to put in high energy to retain these employees, because they easily choose their employer. Power is shifting from the employer to the employee in the knowledge worker age (Zelles, 2010b).

HOW TO IMPACT PROFITABILITY WITH EPLOYEE ENGAGEMENT

This research has helped is to narrow down those elements that contribute to high employee engagement. Following a recommended process on how to manage and improve employee engagement.

- 1. *Make employee engagement an organizational priority.* Employee engagement is a business essential. As such, it deserves to be a solid part of any organization's strategic priorities right alongside the main business priorities. This signals the commitment to employee engagement.
- 2. *Start at the top.* If the most senior teams are not true believers of the power of engagement, it will be an uphill battle for everyone. As there is a direct correlation between profitability and employee engagement the management has an additional tool to improve the company's performance.
- 3. *Know the baseline.* A well-done employee engagement survey provides information that serves as the foundation to a improvement strategy. An organization-wide, systematic survey of employee engagement will help to understand the starting point by telling how engaged the workforce is overall and by work unit. Planning to do the survey regularly (i.e. every 12 to 18 months) using the same core set of items so that one can track the progress over time.
- 4. *Identify the key drivers of employee engagement.* As important as it is to know how engaged the employees are and how they answered each item in the survey. Statistically identifying key drivers of employee engagement provides the focused information needed the drivers tell exactly what has the greatest impact on engagement in the organization.
- 5. *Identify actions that address the key drivers*. The key drivers of employee engagement tell where one need to target improvement efforts to make a real difference to the employees. The advisory team needs to ground the plans and key drivers to make a real difference.
- 6. *Focus on a bold goal.* Just "improving engagement" will not be enough to connect with local business leaders and managers who drive the bottom-up work that must happen to be successful and sustainable. Choose a corresponding metric and date as a target 2-3 years out that is both stretching and will make a significant impact on the business.
- 7. *Dedicate resources to the employee engagement strategy.* Since it is a business priority employee engagement needs the same budget and resource allocation as all other business priorities. Surveys, plans, and improvement actions all require support in the form of time, people and funds.
- 8. *Choose the right champions.* To make sure engagement captures both hearts and minds, activate 'early adopters' who are passionate about not only the concept but also about driving change and influencing others to communicate with local business units.
- 9. *Create an employee engagement advisory team that represents the organization.* Moving from information about key drivers to improvement actions that really work requires a corporate plan and, for large and dispersed organizations, supplemental plans at the local level.
- 10. *Establish clear accountability for success*. Employee engagement has to matter. All of the actions in the employee engagement plan need leadership and clearly assigned accountability.
- 11. *Hold managers accountable.* It's no secret that the relationship between a first-line manager and their associates has the most direct impact on engagement all the research points to this in some way. Focus on the behavior change and require managers to report results on actions they've taken to impact engagement in their teams.

- 12. *Make employee engagement everyone's business and make it a regular part of doing business.* While the advisory committee plays a special role in creating the improvement plan employee engagement needs to be owned by everyone in the organization. Wherever possible, embed the employee engagement efforts into the regular ways of doing business (i.e., performance reviews) and in things that matter to all employees.
- 13. *Focus on chronic under-performers.* Unfortunately there are managers who won't be engaging no matter how much training and communication provided. If a manager's team scores low on a survey (bottom quartile) for multiple surveys in a row, it's time to get involved and create a personalized engagement action plan. This focused attention helps not only connect the engagement and performance of managers but also sends a strong message about what will and won't be tolerated.
- 14. *Communication*. Every employee needs to understand the importance on employee engagement, what the corporate employee engagement plan is, what the survey results say and what their individual role and accountabilities are for improving engagement. A communication strategy that talks about the employee engagement hopes, challenges and successes is essential.
- 15. *Track progress, celebrate success and learn from challenges.* What gets measured gets done applies as much to employee engagement as to anything else in an organization. As change can be slow therefore one needs to make sure all of the progress is highlighted, celebrated, and built on as the organization is moving forward.

CONCLUSION

While there are a number of factors that contribute to the success or failure of a business, for most businesses success is measured by profit. Moreover, while there are a number of factors that contribute to profitability, employee engagement is increasingly being recognized as one major component of profitability and productivity. Some drivers of employee engagement include an engaged management, giving employees a voice, quick resolution of issues, good work relationships, and an atmosphere that encourages innovation (Zelles, 2010c).

The shift in power means that more and more employers must focus on employee engagement. While the traditional measures of employee engagement may not have always targeted the exact same sub-parts, the construct has appeared consistent. "Employee engagement has been characterized as a distinct and unique construct that consists of cognitive, emotional, and behavioral components associated with individual role performance. Engaged employees often display a deep, positive emotional connection with their work and are likely to display attentiveness and mental absorption in their work. Engaged employees are consistently more productive, profitable, safer, healthier, and less likely to leave their employer" (Zelles, 2010c).

APENDIX

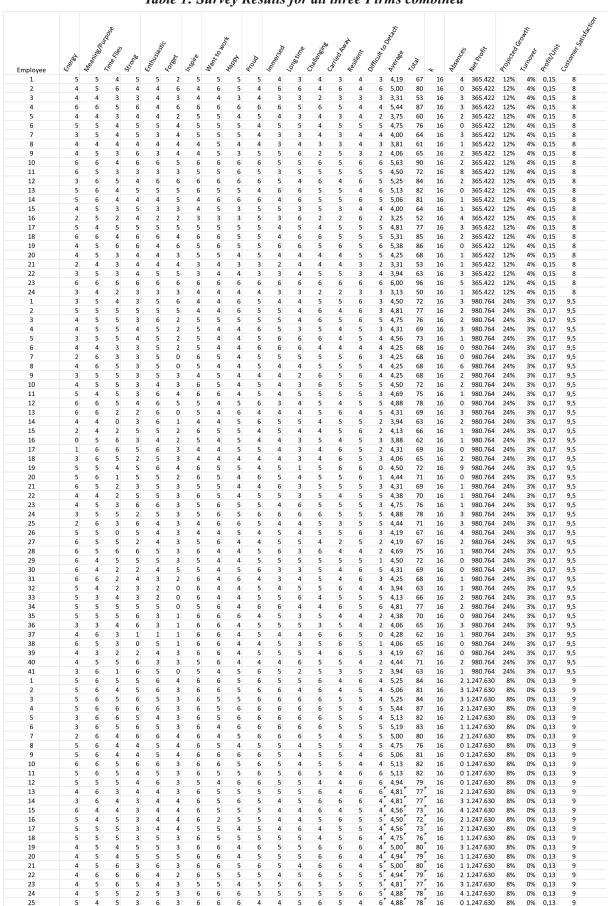
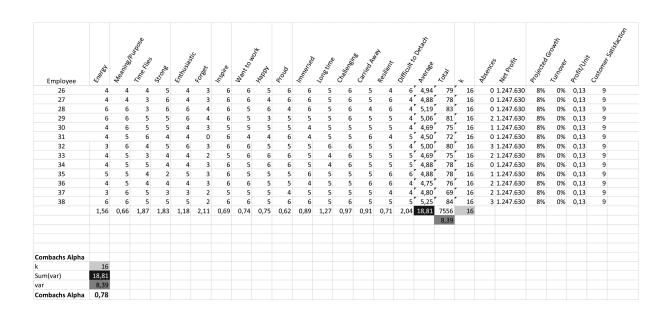


Table 1: Survey Results for all three Firms combined



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