Assessing the efficacy of Learning and Organization Development Interventions: A Constructive Approach (Part 2)
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Prelude

This is Part – 2 of a four-part Research Study on assessing the efficacy of Learning and Organization Development interventions. In Part – 1, we presented a review of the existing literature in the area of evaluation of learning and development interventions. In the current section, we introduce the contemporary concept of employee engagement as a very significant intermediate output of Learning interventions. Further, this section examines the linkage between learning and organizational development and its impact on employee engagement as well as performance and positive business outcomes.

2.0 Introduction

Employee engagement has emerged as one of the most popular terms, not only in the HR community, but also among other senior executives and board members. CEOs and CFOs are embracing evidence-based analysis showing how people-based strategies that improve employee engagement clearly impact bottom-line results (Boudreau & Jesuthasan, 2011) (Gruman & Saks, 2010) (Schaufeli & Salanova, 2007) (Harter, Schmidt, & Hayes, 2002). Emerging research is indicating that people truly are an organization’s most valuable asset with engagement as the key lever to maximizing shareholder value.

Despite its popularity, however, there remains a dearth of peer reviewed academic literature on the subject. The literature also does not provide a clear definition of employee (Shuck & Wollard, 2010) (Markos & Sridevi, 2010). Nevertheless, various case studies and results from the practitioner world and research organizations have established that there is a strong linkage between employee engagement, performance and business impact. The present study explains the concept of employee engagement and its importance for today’s business organizations in order to achieve sustainable business performance. The study also explores the role of Human Resource Development interventions in enhancing the levels of employee engagement in contemporary organizations.

2.1 Employee Engagement

The term employee engagement first appeared in an Academy of Management Journal article, “Psychological Conditions of Personal Engagement and Disengagement at Work” (Kahn, 1990). Kahn
defined personal engagement as “the simultaneous employment and expression of a person’s ‘preferred self’ in task behaviors that promote connections to work and to others, personal presence, and active full role performances” (p. 700). According to Kahn the domains of meaningfulness, safety, and availability were important to understand the phenomenon of engaged at work. Meaningfulness was defined as the positive “sense of return on investments of self in role performance” (p. 705). Safety was defined as the ability to show one’s self “without fear or negative consequences to self image, status, or career” (p. 705). Availability was defined as the “sense of possessing the physical, emotional, and psychological resources necessary” (p. 705) for the completion of work.

According to the earliest practitioner’s reference, employee engagement was defined as an “individual’s involvement and satisfaction with as well as enthusiasm for work” (Harter, Schmidt, and Hayes (2002).

Kahn’s conceptualization of personal engagement was one of the early literatures on engagement till Maslach, Schaufeli, and Leiter (2001) pointed that employee engagement was the positive antithesis to burnout and defined employee engagement as “a persistent positive affective state characterized by high levels of activation and pleasure” (p. 417). Together, Kahn (1990) and Maslach et al. (2001) provided the two earliest theoretical frameworks for understanding employee engagement (Saks, 2006).

2.2 Significance of Employee Engagement

Research indicates that Employee Engagement is the key to organization's success and competitiveness. Many scholars have claimed that engagement is pivotal for contemporary organizations given the kind of challenges they face (Schaufeli and Salanova, 2007) and they argue that organizations can gain a competitive advantage through employee engagement (Macey et al., 2009). Macey et al. (2009) researched a sample of 65 firms in different industries and found that the organizations scoring within the top 25% on an engagement index had a greater return on assets (ROA), profitability, and more than double the shareholder value compared to the bottom 25%. Employee engagement has also seen as a key driver of individual attitudes, behavior, and performance as well as organizational performance, productivity, retention, financial performance, and even shareholder return (Bates, 2004; Baumruk, 2004; Harter, Schmidt, & Hayes, 2002; Richman, 2006). High levels of employee engagement lead to employees who are more productive, profitable, safer, healthier, less likely to turnover, less likely to be absent, and more willing to engage in discretionary efforts (Buchanan, 2004; Fleming & Asplund, 2007; The Gallup Organization, 2001; Wagner & Harter, 2006).

Employee engagement is the result of a unique bond that produces remarkable financial results for companies. According to Gallup research, the business units in the top quartile of engagement have 12% higher customer advocacy, 18% higher productivity, and 12% higher profitability than bottom-quartile business units (Robison, 2009). On the one hand, if the increased employee engagement results in higher
return the decline in engagement leads to significant loss of productivity. The bottom quartile of business units have 51% more inventory shrinkage, 31% to 51% more employee turnover, and 62% more accidents than business units in the top quartile (Robison, 2009).

There have been multiple case studies that show a strong relationship between employee engagement and various performance outcomes. Three of these case studies are presented below:

**Case 1: Engagement Drives Revenue at New Century Mortgage (Tritch, 2003)**

New Century Financial Corporation is one of the United State’s leading specialty mortgage lenders. In October 2001, New Century engaged Gallup to measure employee engagement and, more importantly, to generate results-oriented dialogue between employees and managers about specific areas of high and low engagement. Q12, so named because the process starts with a 12-question survey by Gallup, was launched when New Century had 1,394 employees; 86% of the workforce voluntarily completed the Q12 questionnaire.

New Century’s second Q12 administration occurred in May 2002, with 78% of its 1,766 employees participating, and a third administration took place in April 2003, involving 89% of its 2,476 employees. Each time, after the Q12 results were in, managers and employees met to review the findings and come up with new strategies to improve engagement. After the each administration of Q12, managers and employees devised and executed plans to improve engagement while the company tracked the revenue generated by account executives and loan officers across various divisions. Over the course of three Q12 administrations, New Century and Gallup amassed enough data to show that engagement doesn’t merely correlate to better bottom-line results - it actually drives them.

When New Century’s first Q12 results were tallied, 35% of employees indicated they were engaged. By the third Q12 administration in April 2003, the percentage of engaged employees had risen to 46% of the workforce. By the third Q12 administration, 31% more of New Century employees were engaged than had been just 18 months earlier. The rise in the engagement was followed with the rise in revenue, analysis showed that the branches where engagement increased consistently over the period of three administrations performed markedly better than the branches where scores declined. Per person revenue grew more than six times faster.
Case 2: Employee Engagement results in Increased Revenue and Profits at a Caterpillar Dealer (Robison, 2006)

Founded by John Fabick in 1917, Fabick CAT now had more than 600 employees in 12 locations - each considered a company in its own right - with headquarters in Fenton, Missouri. Fabick CAT sold, rented, and repaired Caterpillar construction equipment.

In 2002, Gallup was hired to administer its 12-item employee engagement survey, the Q12, at Fabick CAT and to train the managers to facilitate engagement. The results were not good, only 16% of Fabick CAT's employees were engaged, or fully committed to their work. Business leaders understand that the first engagement assessment reflects a baseline measurement and that subsequent administrations indicate change. Unfortunately, Fabick CAT's results weren't any better the second time -- the percentage of engaged employees in 2003 was still stuck at 16%. Fabick paid a lot of attention to what highly effective managers were doing and realized that their success boiled down to communication. "Communication is key -- one workgroup at a time, one location at a time," says Fabick. By the third Q12 administration, the percentage of engaged employees had increased to 33% -- a significant change. After third administration Fabick realized that to continue the positive enhancement of employee engagement at Fabick CAT, they still had more to do. It was time to start putting "the right people in the right jobs," then help them maximize their performance through strengths-based development. In 2004, Fabick started a systematic investment to develop the talents and strengths of its parts, service, sales, and operations managers. The managers were provided with comprehensive training on how to manage to increase engagement. Organization started using Gallup-developed interviews to select new people and managers who had the right talents to succeed in their roles. Over the course of 5 years, Fabick administered Q12, 5 times and the employee engagement scores went up from 16% to 45%.

Fabick CAT invested about $500,000 in Gallup programs. During this time, Fabick CAT's profit increased by 100%, while revenues only increased by 15%. However, according to Fabick the profit and revenue increases showed that the return on investment on from their engagement initiatives was 600%. Fabick CAT invested $500,000 on its people. And people are how Fabick CAT made $3 million back.
Case 3: Linking Employee Engagement to Business Outcome at Lowes (Coco et al, 2011)

In 2007, Lowe’s a U.S.-based home improvement retailer hired spring international an employee research and analytics firm from Philadelphia. The objective was to develop a methodology that can determine the impact of people on financial results. During the process of creating the model the researchers established that there is a direct connection between engagement and customer satisfaction and the linkages to revenue, shrink rates and a number of other areas.

![EXHIBIT 2: LOWE’S FIRST STORE MODEL BLUEPRINT](image)

The above diagram depicts the correlation established at Lowes.

The data analytics work at Lowe’s was used to structure a model that showed manager engagement improved employee engagement and that improved customer engagement that impacted both revenue and expense. An intense training and development program was developed to improve manager engagement and leadership competence. Now Lowe’s had the evidence-based knowledge to show direct linkages between training and corporate financial performance.

The analysis of the above mentioned 3 case studies clearly establishes a linkage between Employee Engagement and the performance outcomes such as Customer Satisfaction, Sales, employee performance, retention and profitability.

There many more similar cases where enhanced employee engagement has lead to favorable business outcomes. According to a UK government study, branches of a leading multinational bank that displayed an increase in levels of employee engagement had a 16% higher profit margin than those, which had a decrease in employee engagement levels (Clarke & MacLeod, 2009). Another study of 64 organizations by Kenexa reveals that the organizations with highly engaged workforce achieve twice the annual net income to those with less engaged workforce (Kenexa, 2008). A similar study by Towers Perrin found that a 5% increase in employee engagement leads to .7% increase in operating margin (Perrins, 2004). In a UK based fortune 500 manufacturing company, the turnover and absenteeism were respectively 14.5% and 8% respectively whereas for highly engaged teams the turnover and absenteeism were 4.1% and 4.8% respectively (Wellins, Bernthal, & Phelps, 2005).

In addition to these case studies, a meta-analysis conducted by The Gallup organization in 2013 also provides us with evidence that there is direct linkage between employee engagement and multiple...
business outcomes. The database for this analysis included 263 research studies across 192 organizations in 49 industries and 34 countries. The analysis covered 49,928 business/work units including 1,390,941 employees. There were two objectives of the analysis, first one being to explore and establish the relationship between employee engagement and the following seven outcomes:

1. Customer loyalty/engagement
2. Profitability
3. Productivity,
4. Employee Turnover
5. Safety and Health (Accidents)
6. Shrinkage (Thefts)
7. Absenteeism

The second objective of the study was to explore whether the correlations between engagement and outcomes will generalize across organizations for all outcomes. That is, the correlations will not vary substantially across organizations, and in particular, there will be few, if any, organizations with zero or negative correlations.

The meta-analysis found that some of the above listed outcomes are a direct result of employee engagement (i.e., employee turnover, customer loyalty, safety, absenteeism, productivity and shrinkage), and other outcomes are indirect or more downstream consequence of intermediary outcomes (i.e., sales and profit) (Schmidt, Harter, Killham, & Asplund, 2012). For the purpose of that study, the business units were divided in to halves; the top half is defined as the average of business units scoring in the highest 50% on the Q12, and business units scoring in the bottom half comprise the lowest 50%. Table 1 illustrates the higher performance of Business units in the top halves over and above those in the bottom half:

Table 1: Performance of business units in top half versus the one in bottom half.

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Success Differential</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher Customer loyalty metrics</td>
<td>56%</td>
</tr>
<tr>
<td>Turnover (Lower probability of turnover)</td>
<td>44%</td>
</tr>
<tr>
<td>Productivity</td>
<td>38%</td>
</tr>
<tr>
<td>Profitability</td>
<td>27%</td>
</tr>
<tr>
<td>Safety and Health (Accidents)</td>
<td>44%</td>
</tr>
<tr>
<td>Absenteeism</td>
<td>56%</td>
</tr>
<tr>
<td>Shrinkage</td>
<td>70%</td>
</tr>
</tbody>
</table>

The study also compared the composite performance of the business units between the two halves, the
ones in the top half had a 113% higher success rate within their own company, and a 170% higher success rate across business units in all companies studied. As per the conclusion of the study there is substantial relationship Employee Engagement and each of the above listed seven performances outcomes and it is highly generalizable across organizations. Therefore, practitioners can focus on employee engagement in a variety of situations with confidence that it will lead to business performance information (Harter et al, 2013).

In the light of the above-mentioned empirical data, it can be concluded that employee turnover, customer loyalty, safety, absenteeism, productivity and shrinkage are direct consequences of higher engagement whereas sales and profit are the downstream outcomes. Figure 1 presents this conclusion:

Figure 1: Relationship between Employee Engagement and Business Outcomes

2.3 Role of Learning and Organizational Development in Employee Engagement

As organizations and scholars are paying more attention to employee engagement, the learning and development professionals and scholars are expected to play a role in enhancing the engagement level of employees.

From an employee perspective, learning and development is relevant for providing employees with necessary knowledge and skill resources to perform their tasks. As per Kahn (1990), these resources make them feel available to fully engage in their roles. These resources also make employees feel more secure about their ability to perform their job thereby lowering their anxiety and increasing feelings of availability.

As described by Kahn (1990), individuals are more available when they feel secure, and self-efficacy, hope, optimism and resilience are important dimensions of security. All of these variables can be developed through learning and development interventions. Schaufeli and Salanova (2008) suggest that offering employees training that provide experiences of vocational success, encouragement, and reducing the fear of failure can promote enhancing engagement.
According to a Gallup research in Singapore, learning interventions help in increasing the engagement levels of the employees. However, the impact is not very significant as most of the learning needs and subsequent interventions are based on a deficit-based approach. Focusing on areas of weakness is essentially damage control that aims at eliminating defects and inspires only adequate, not superior performance. The learning and development efforts should be focused on building upon the strength areas of the employees in order to make significant impact on the engagement levels of employees (Gopal, 2005).

In order to examine how learning can play a role in employee engagement, the American Society for Training & Development (ASTD) engaged the Institute for Corporate Productivity (i4cp) for conducting a survey and developing a study. The study was conducted in 2007 and was titled as “Learning’s Role in Employee Engagement.” Two third of the respondents to the survey said that the quality learning and development opportunities positively influence employee engagement and 54% responded that the breadth of these opportunities also enhance engagement. Career development also came out as of the key driver to engagement with 76% of the respondents voting for it (Learning’s Role in Employee Engagement, 2007). The study also recommended that learning a can help creating a engagement culture by ensuring that the organizational leaders, including immediate supervisors/managers, have better skills in the area of engagement improvement.

Therefore, learning and development professionals can play a pivotal role in enhancing engagement by a three-fold approach:

1. Conducting developmental interventions with a focus to increase the knowledge and skills of the employees and hence enhancing their performance leading to higher engagement.
2. Building upon the employee’s strength areas and helping them develop into excellent performers in their respective roles.
3. Enhancing the skill levels of the organizational leaders and immediate supervisors/managers in fostering employee engagement.

**2.4 Conclusion**

Employee engagement is a relatively new concept and there is no consensus about a single and universal definition in the academic literature. However, multiple research studies cited in the present paper provide a very strong case for practicing and fostering engagement in the organizational setting. The research clearly establishes a link between employee engagement, better performance and superior business results leading to sustainable competitive advantage. Therefore, it becomes imperative for Organization Development practitioners to identify ways and means of facilitating higher employee engagement in organizations. The study also proposes ways by which HRD professionals can contribute towards enhancing the employee engagement levels in organizational settings by fostering an engagement culture.
Focusing on strength based learning and development efforts and enhancing the skills of organizational leaders and immediate managers can help in bringing about such a cultural change leading to higher engagement levels of employees. In upcoming series, the researchers will make an attempt at presenting a more contemporary model of evaluating the learning impact that aligns the learning and development efforts in the modern organizations towards enhancing employee engagement levels.
References

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