ENGAGED EMPLOYEES EQUAL ENGAGED CUSTOMERS

BY BILL HOFFMAN AND TERESA TSCHIDA

TO IMPROVE CUSTOMER SERVICE, BANKS MUST DEVELOP AND NURTURE ENTHUSIASTIC, LOYAL EMPLOYEES.

SYNOPSIS | Financial services companies want customers to feel as if they belong, since loyal customers are more resistant to competitors' offers and bring more business to the bank. But developing the customer service required to engender that sense of loyalty requires committed, enthusiastic employees. And creating an environment of employee engagement requires that managers understand that employees, like all human beings, respond to emotional as much as logical decision drivers — what has been termed the "emotional economy," according to researchers at the Gallup Organization. Such an understanding is the key to developing strategies to create and nurture an engaged workforce.

"I BELONG HERE."

This statement could be part of every bank's brand promise. Every banking executive wants their target customer to feel this when they walk into a branch, go online, or phone the call center. Customers who feel they belong with their bank are less responsive to a competitor's offering, are less price/fee-conscious, and give more of their wallet share to the bank.

Encouraging a sense of belonging among customers is a worthy aspiration for any bank. It should also be part of every bank's promise to its employees. One wonders, however, if most bank executives place as much emphasis on employee engagement. Do employees feel that there is no better workplace? Are they able to do their best work without barriers? Would they say, "I belong here."?

The Gallup Organization's research shows that banks will never reach optimum customer engagement levels without first engaging their employees. Engaged employees are a leading indicator of business outcomes, including customer engagement, and are the keys to a differentiated and defensible competitive advantage (see chart, "Disengaged Employees Depress Performance").

THE EMOTIONAL ECONOMY

Our research with customers and employees shows an emerging economic era in which emotional experiences are the foundation for economic growth. This shift moves beyond the 4Ps of product, price, place and promotion — and even beyond process. Danny Kahneman, a Nobel Prize winner in economics and Gallup senior scientist, has

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written that *most* of our economic decisions are based on the irrational, i.e., our emotions.

Consider the customer who applies for a home equity loan to build a movie room in his basement. Some of the drivers of that decision will no doubt be the current level of interest rates, repayment terms and the increased value of his home due to the improvement project. But by applying Kahneman's research here, we should also realize that a considerable amount of the customer's mental energy is devoted to how it will *feel* to host the neighborhood Super Bowl party in this magnificent new movie room. Customers in general have an increased willingness and desire to pay for an emotional experience.

The same principle applies to employees. We find that employees are the same emotional beings at work as they are as consumers in the marketplace. Employees want to feel emotionally connected to their workplace.

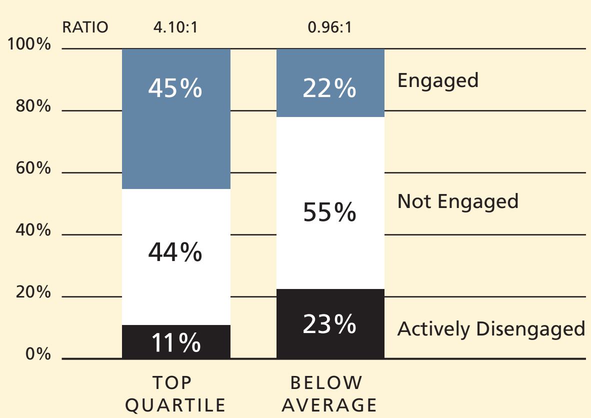
Many banks try to improve employee satisfaction with pay and benefits. While such rational satisfaction levers are important, they don't lead to improved business outcomes. Employee engagement expands satisfaction to encompass the emotional attachment of the employee to the company and is a much better predictor of outcomes such as productivity, profitability, customer engagement, turnover, absenteeism and loss. Employees want to bring their whole selves to work, and when they do, the bank benefits.

In the most comprehensive study available on the subject, Gallup research reveals that the companies most adept at engaging their employees are significantly outperforming companies that are not. In fact, the earnings per share (EPS) growth rate of top quartile companies (relative to industry peers) was 2.6 times that of the below-average organizations (see chart, "Engaged Employees Drive Higher Performance").

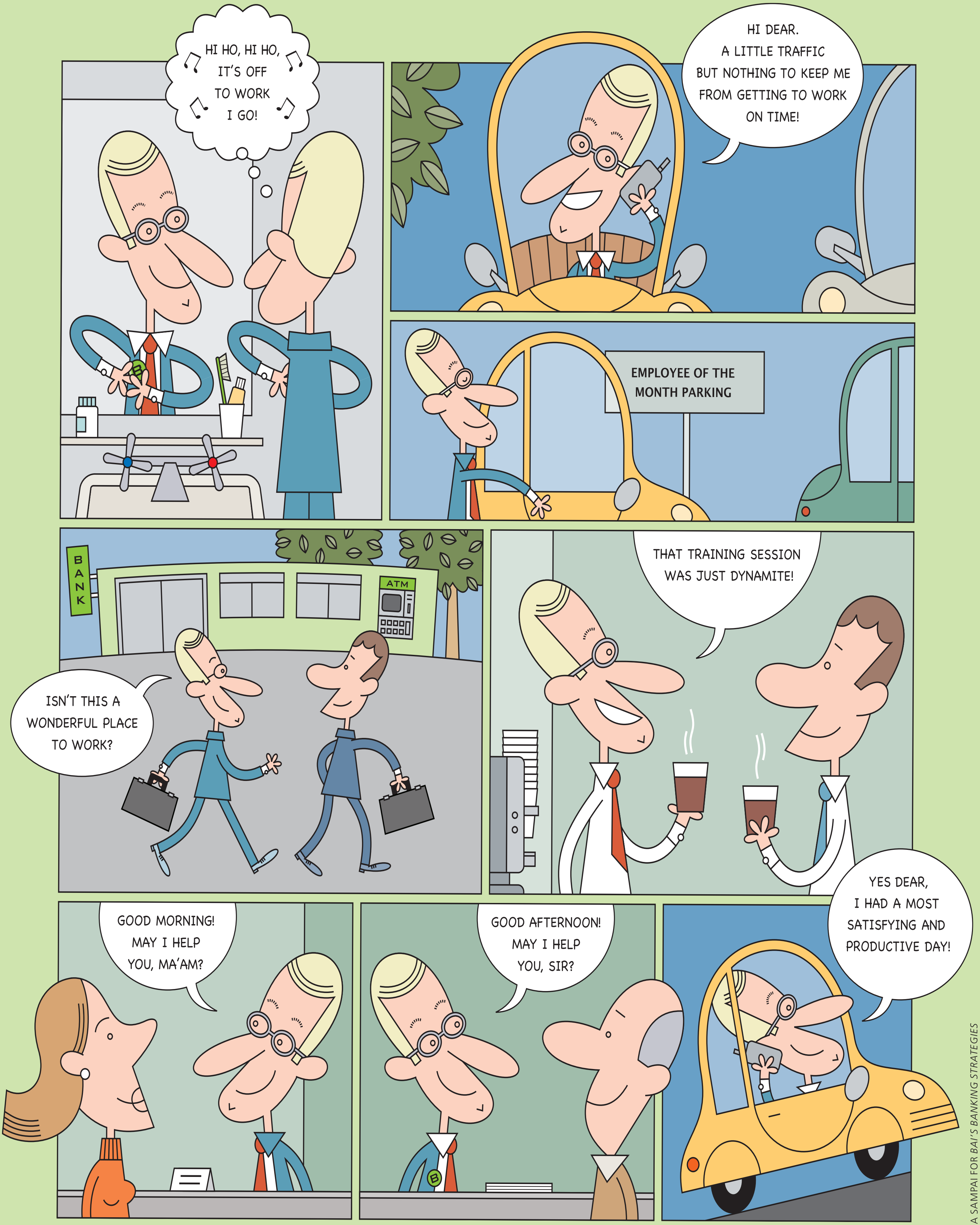
This study examined 332 client organizations (4.5 million respondents) of which one-fourth were Fortune 500 companies. Top-quartile employee engagement organizations, as measured by Gallup's 2005 employment engagement survey, exhibited an upward trend in EPS, exceeding their industry equivalents by 18% between 2004 and 2005, a net difference of 15.6 percentage points from the baseline. Below-average employee engagement organizations — the bottom half of Gallup's employee engagement database — were 2.9% below their industry equivalents

DISENGAGED EMPLOYEES DEPRESS PERFORMANCE

A comparison of publicly traded companies in the top 25% of Gallup's database with those in the lower 50% of the engagement database shows top performers have a ratio of 4.1-to-1 engaged employees to actively disengaged employees. Below-average companies have less actively engaged employees.



Source: The Gallup Organization



CRISTINA SAMPAI FOR *BAI'S BANKING STRATEGIES* at baseline and 3.1% above their industry equivalents in 2004-2005, a net difference of six percentage points from the baseline. There clearly is profound value in winning in the emotional economy.

The notion of employee engagement has long been relegated by business executives to the category of "soft" and "touchy-feely" issues. Given that reputation, the last group you would expect to embrace the notion is Wall Street analysts. And yet, Wall Street is interested in the value an engaged workforce brings to an organization and companies are sharing employee engagement metrics along with generally accepted accounting principle data. For example, Wells Fargo & Co. chief financial officer Howard Atkins said while discussing the bank's fourth quarter 2006 earnings, "In 2006, the ratio of engaged to actively disengaged team members in regional banking rose to 7.1-to-1, from 5.8-to-1 in 2005, and the ratio was more than three times the U.S. average of 1.9-to-1."

A review of the Gallup database in financial services companies shows that 62% of banking workers are not engaged with their employers. Digging deeper, 13% of these employees are actively disengaged and act as a poison to the ecosystem of the bank. This makes it very difficult for even the best customer-service strategy or process-improvement effort to be effectively put into operation in the branch network.

On the flip side, effectively tapping in to this discretionary employee effort will unleash strategies and process improvement efforts in a way no Six Sigma project ever could.

WHAT DO WORLD-CLASS COMPANIES DO?

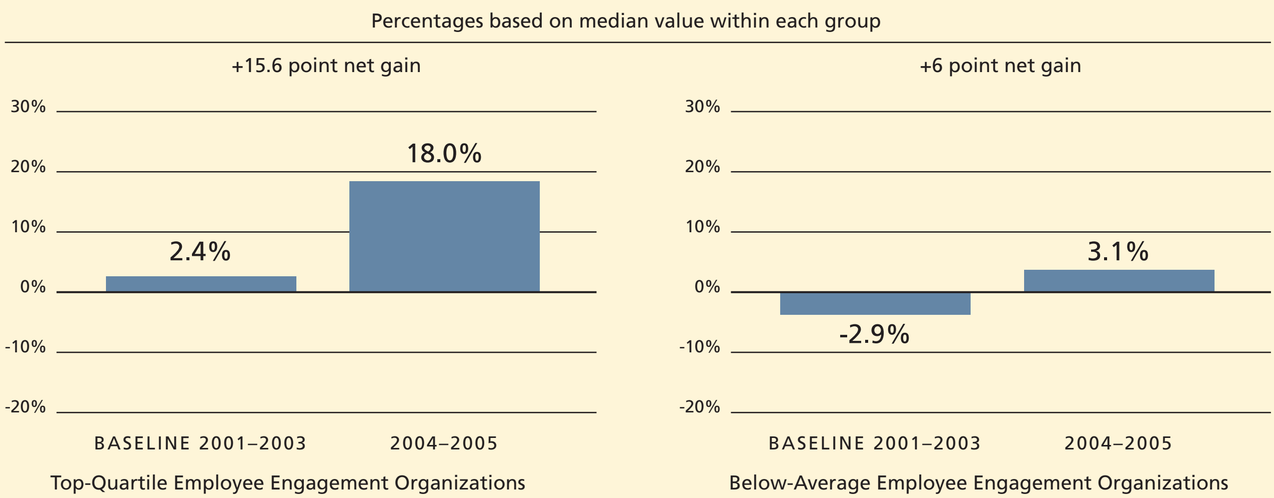
Fortunately, there are actionable ways to build employee engagement. World-class companies are creating environments where employees are proud to say they belong. Some techniques for developing such an environment include:

MEASURE EMPLOYEE ENGAGEMENT AT LOCAL LEVELS, WHERE EMPLOYEES WORK.

Many times, employee opinions are gathered at an enterprise level and results are aggregated and shared. If the averages improve, then everyone celebrates that the workplace experience has improved. The mathematical calculation of averaging, however, takes the extremes out. It fails to uncover where real improvement needs to happen.

ENGAGED EMPLOYEES DRIVE HIGHER PERFORMANCE

When the publicly traded companies in the top 25% of Gallup's database on employee engagement are compared to those in the bottom half, earnings per share (EPS) growth is much higher for the former. EPS growth is shown for each category between the baseline years of 2001-2003 and 2004-2005.



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It also fails to uncover where best practices are occurring.

More valuable is the ability to view the vastly different cultures that exist across the organization. Beyond the branch network, we find this great variation in support groups, corporate offices and call centers. Employees experience their employer in their local work groups. They experience this variation, not the average. Their view of the employer is through a local-team lens.

DO A DEEP DIVE ON THE VARIATION TO FULLY UNDERSTAND.

The first step to improving engagement is to understand where variation exists. Which teams are healthy? Which ones are unhealthy? Which teams are average? Which teams are emotionally engaged?

The variation in corporate culture can be charted on a bell curve (see chart, "Bell Curve of Employee Engagement"), with employee engagement scores ranging from the very low, on the left, to very high on the right. Creating such a chart allows senior management to plot performance for each workgroup and focuses attention on why the experiences of the poorly engaged teams are so different from those of the highly engaged teams. Managers can then recommend tactics to boost engagement.

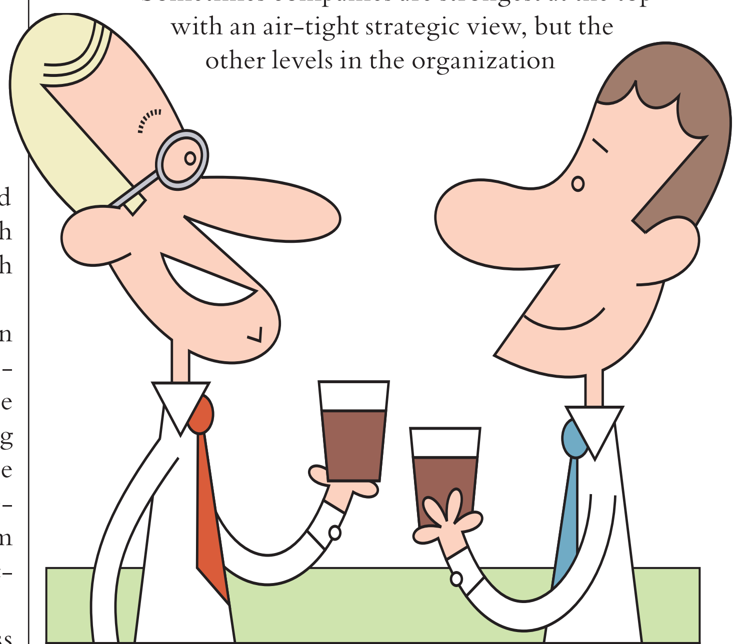
The way teams are managed in terms of process and protocol is worth scrutiny. To some degree, banking requires standard operating procedures (SOP) and audit guidelines. Yet some managers are able to foster creativity and fun, while achieving the right audit rating. Coaching a team around standard operating procedures is vastly different than coaching for emotional engagement. The best managers know that SOP compliance can be mandated, but the way the team feels about the workplace can only be influenced and inspired.

CASCADE ACCOUNTABILITY AND ACTION TO REDUCE VARIABILITY AND MOVE THE BELL CURVE TO THE RIGHT.

While the local manager is the acting CEO of the local team, she likely doesn't have the necessary power to remove every barrier getting in the way of engagement. She needs support from her manager and executives. With such a strong emphasis on local measurement, it may seem that only local manager action is needed. World-class engagement companies know the local manager needs help from others in the organization to make real, and lasting, changes.

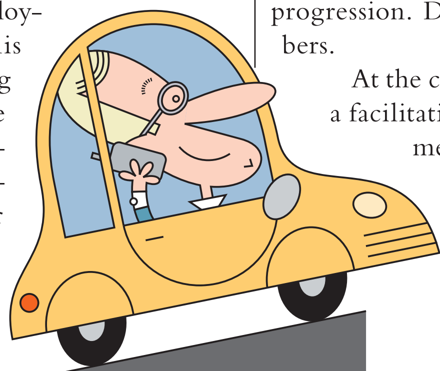
Manager action commitments should be made at every level. Executives, mid-level leaders and local levels should all make public and visible the action commitments that will improve the workplace. Total transparency demonstrates the teamwork at play, showing the organization's commitment to improve.

Sometimes companies are strongest at the top with an air-tight strategic view, but the other levels in the organization



are not executing well with the strategy. Other times, companies are busy at the front lines with hundreds of tactics or disjointed efforts and are not driving any particularly strategic positioning. And other times, the strategy at the top and the execution at the front line seem adequate, but the company cannot get real traction because the middle layer of management is missing. Companies that execute very well know each and every level of management is important to making sustainable change.

Creating a feedback loop can be a great tool for identifying and tracking the barriers employees are experiencing. Creating this feedback loop is a process for raising issues of prioritization. This can be accomplished through many channels, such as Web site suggestion portals, "fireside chats" or senior leader visits. The feedback loop should be able to identify barriers and ideas at each level of the organization — not just front line-focused.



BUILD MANAGER DEVELOPMENT PROGRAMS WITH A FOCUS ON EMOTIONAL CONNECTIONS.

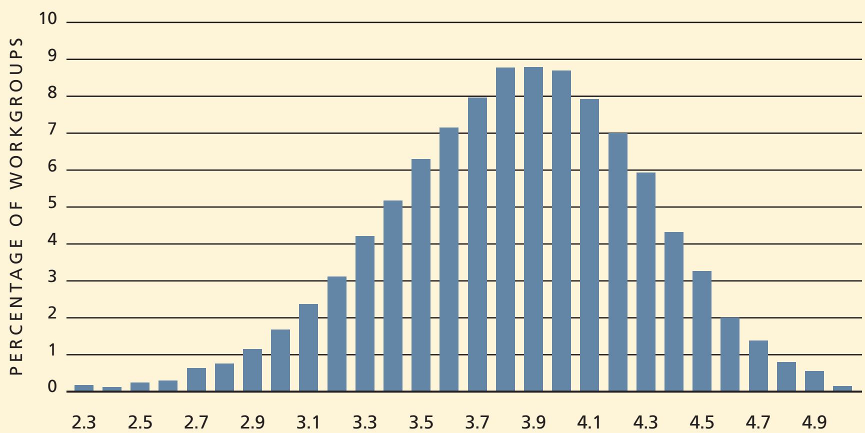
The development program for a new and highly talented manager should be designed to help him or her be successful with the emotional economy. This should be viewed through the framework of a manager's lifecycle, from onboarding, through coaching development, through performance evaluations and ultimately through career progression. Developing "soft-skills" drives hard numbers.

At the core of this development program should be a facilitation of team dialogue. World-class engagement companies realize that teams can never have too much conversation on the drivers of engagement. Managers should be adept at hosting these dialogue sessions with regularity and obtaining full participation. Job aids, such as conversation starters for team meetings to enable their success, are a critical component of the company's support.

Winning in the emotional economy starts with winning the hearts of employees. This requires creating frameworks and cultures where employees feel profoundly connected to the workplace. Those engaged employees will engage customers in return and improve business outcomes. Those employees are the fans who proudly proclaim: "I belong here."

BELL CURVE OF EMPLOYEE ENGAGEMENT

The following graphic shows the range of performance in a typical financial institution. Employee engagement scores are shown on the horizontal axis, with the percentage of local work teams on the vertical. The graph shows the typical bell curve, with most work groups having a score of between 3.8 and 4 and the extremes ranging from a very low 2.3 to a perfect 5. It is likely that those work teams with lower scores have higher turnover, higher absenteeism, larger teller losses and more errors – and inevitably, more customer complaints. Higher-scoring teams are experiencing a very different company, where financial objectives are being met, co-workers are supported and customers feel valued.



Source: The Gallup Organization

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