

# 1 Engaging Your Talent Is a Business Imperative

**K**risten was running early. She felt upbeat, and not just from the skinny latte warming her cup holder. Until recently, her job had been a dull, unsatisfying slog. But today, not even the traffic clogging her commute on this cloudy and chilly morning could break her excitement about getting to work.

It had been ten months since she first made the decision to pursue that new position, and even though it was a lateral move with no pay increase, she found that it invigorated her in ways she never could have expected. At first she figured it was just the newness of the role that had her so energized. But the more time passed, the more she realized that she owed much of it to her new supervisor.

He was so different from anyone who had ever managed her before. He listened. He got to know her. He seemed to take a genuine interest in her success. When coaching her, he used specific examples that helped her envision what skilled performance looked like. In so doing, he earned her trust, which helped diminish the anxiety of

learning a new job, asking for help, or voicing her opinion. She no longer feared being criticized or demeaned if she didn't immediately grasp a new task. It all felt so much more *constructive*. She was optimistic about her future, and it showed in her effort and enthusiasm.

Of course it's not exactly revolutionary to say that leaders play a pivotal role in energizing and keeping valued workers like Kristen. That's why it's so strange to learn that most organizations aren't doing enough to leverage the influence their leaders have on their employees. We will get to the data in a moment, but for now, let's put it this way: Where you work, how many engaged and energized people like Kristen are there? Equally important, what would it mean to your organization if more leaders were like Kristen's supervisor? What would that do for morale? For productivity? For your ability to meet defined outcomes? For your chances to innovate? For your bottom line?

When it comes to keeping and engaging high-performing employees, it's no longer enough to leave the responsibility in the hands of the HR department, as well-intended as they may be. The misconception is that employee engagement is a human resources "thing." But in truth, retention and engagement are *business* strategies with clear business outcomes. Of course, engagement and retention are supported by HR in many and varied ways, but ultimately these strategies and outcomes must be owned by the operations leaders in your organization. An engaged workforce positively impacts the customer experience, which improves employee/customer relationships, and, in turn, generates more revenue.

It runs deeper than that, as well. According to Debbie Weaver, a human resources representative from Stillwater Mining Company based in Billings, Montana, engaged employees are also *safer* employees. Stillwater mines palladium as their primary product, with platinum running in second place. With hundreds of employees working irregular shifts inside hundreds of miles of subterranean tunnels, the company tends to see its share of employee turnover. Part of that owes to the notion that it's difficult enough finding people willing to work

11.5-hour days for four consecutive days before four days off. Then throw in the idea that these same people must next take a shift where it's five nights on, followed by five nights off. Rotating hours aren't for everybody, and the pliable sleep schedule tends to bring engagement issues bubbling to the surface.

“Engaged employees are more productive,” she said. “The higher our levels of engagement, the better our production numbers. But for us, the biggest thing we have seen is that there is a direct correlation between engaged employees and how they view safety.” Every metric made available to Stillwater showed that their more engaged employees believed safety was a priority for the company, and for their leaders. That top-down view of the importance of safety has driven home a safer and more engaged environment, which has, in turn, allowed the company to take steps toward decreasing turnover rates.

Imagine a truck set to drive down into a palladium mine. That truck has a brake light out. While driving the roads above the surface, that might seem like a minor issue, but if you have an accident inside a mine, the stakes tend to rise considerably. An engaged employee is more likely to recognize that brake light issue and immediately report it to the driver and to a supervisor who can do something about it. Meanwhile, someone who simply shows up to “do his job” might not care enough to help avert potential disaster. The *business* difference between the two can be immeasurable—it's the difference between all the lost productivity during an accident, plus the cost of repairing the truck and replacing the damaged load versus avoiding the disaster before it even happens.

The same holds true for everything a company can value. Engaged employees deliver better business results across the board. Think about the last time you walked into a retail store that was full of employees who didn't seem to have any real interest in helping you learn about the product and answer your questions. Did you buy that day or just head out and order on Amazon instead? Conversely, how much more willing have you been in the past to buy from an

employee who is genuinely engaged with her job and intent on answering your questions? John F. Kennedy once said that “a rising tide lifts all boats.” As you increase engagement, every business measure rises with it.

“When your staff feels engaged, they take ownership for the organization,” says Donna Fayko, director of the department of social services in North Carolina’s Rowan County. “That ownership shows up in the quality of service they provide to customers, which obviously is a huge part of any organization’s success.”

By now, it should be no secret: We believe that the effort to engage and retain talent must move out to the front lines. It must rest squarely in the hands of leaders like you. We have seen it time and time again: When leaders hold themselves accountable for energizing their most talented employees, every aspect of the organization improves. Great leaders are, beyond a doubt, the most effective strategy for enhancing organizational success. The more talent you keep and engage, the better you perform across the board.

So how do you keep and engage your best workers? Some might suggest competitive pay, comprehensive benefits, flexible work schedules, and even team-building programs. While these measures are indeed helpful, they are not enough on their own. The effort takes great leaders. It takes leaders with a well-honed skill in building a climate of engagement and retention—a climate that speaks to employees in a way that encourages them to get connected and do their best. These leaders are an organization’s best defense against turnover, poor performance, and a host of other workplace ills. They are the not-so-secret weapons in keeping valued contributors actively engaged and in hanging on to them longer.

For all these reasons, we posit a simple premise for this book: If you want to improve your organization, the process starts and ends with your leaders. Again, this stance is not necessarily revolutionary. Many books extol the impact of leaders. What makes the strategies we

offer in the coming pages different is that they stand on sixteen years of data compiled from thousands of companies of all backgrounds and goals and in any industry you can think of. Thanks to this data, we have assembled a strategy for shaping people in management positions into leaders that have the exact same kind of impact on their employees' careers, as Kristen's did on hers. The results speak for themselves. Every organization that has embraced and executed these strategies has seen significant improvement in all measures. We look forward to unlocking this same potential for yours.

## The True Cost of Turnover

Keeping and engaging talent is such a valuable organizational tool for many reasons, but one of the most often overlooked is that staff turnover is so costly. Not only does keeping your best employees ensure that your teams are more productive, innovative, engaged, and just plain good at what they do, it also improves the bottom line dramatically. Cutting the cost of turnover puts more dollars back into the budget, improves return on investment, and allows you to focus more energy and capital on more productive interventions.

Your organization likely already expends time and resources on determining where it can control and minimize cost in an effort to increase profits. Thus, the fact that so few organizations make this same effort to identify and minimize the cost of employee turnover is surprising. In fact, many major industries such as retail, fast-food restaurants, call centers, and construction simply assume high turnover is an inevitable part of the business. Maybe the reason is because so many leaders have come to accept the unfortunate idea that high turnover is something they can't control. They accept that, when the market is loose, finding and training employees is less expensive, and that in competitive markets, skilled and talented job seekers are scarcer, which often raises costs. That does not have to be the case. An organization that commits to keeping and engaging more of their

talent can avoid fishing in these turbulent waters, and more importantly, cut the huge costs associated with replacing key employees.

Of course the points we mention above don't apply to *everyone*. Many organizations do take the steps necessary. They compile the data on the direct costs of turnover and use it to their advantage. In their view, the effort is so simple and straightforward that it doesn't make sense to ignore it. So they identify and calculate the expenses associated with recruiting; interviewing; training; purchasing new equipment, tools, and uniforms; and so on. Well-run organizations also identify the costs of efforts like exit interviews, expenses like separation pay, and increases in unemployment tax, the payroll that must be allocated to temporary help or overtime, the time and money that goes into orientation processes, and more. But what too many organizations fail to account for are the (often hidden) indirect costs as well.

Think about the last time a valued member of your team retired or left for another job. What happened in the aftermath? The short answer is that you lost productivity, time, and a great deal more money than you may realize. When a key member of your staff leaves, productivity almost always suffers as you try to transition from a talented and knowledgeable employee to one who is still learning the ropes. Then you have the financial impact of lost revenue from lower sales when a seasoned salesperson resigns. Your organization also experiences the inevitable drop in customer service and overall customer experience, which threatens loyalty and a customer's willingness to recommend the business to friends and family.

Usually, morale takes a hit, too. A working relationship shares at least that one key similarity to any other personal relationship: When someone you care about and/or count on leaves, you tend to miss them. That is true of the departed employee's coworkers and any customer he may have interacted with as well. According to our research, stress levels rise, team performance declines, service quality suffers, and everyone finds themselves having to spend at least some

measure of time picking up the pieces of team morale and organizational culture.

When assessing indirect costs of employee turnover, also consider the lost revenue from the open position. We must think about the total number of workdays the new hire will need before she reaches total effectiveness. That ramp-up time, commonly known as time-to-productivity, can be remarkably costly. Then, attrition of other jobs might result from that frontline employee's departure. You can see the ripple effect at play here.

All this takes a toll on the bottom line, a toll that most organizations fail to account for. Our national research suggests that only 23% of organizations are aware of the direct cost of attrition of frontline employees, and fewer still, 10%, know the indirect costs, which are typically even higher. So what is the true cost of turnover? The answer may surprise you. The data we have collected shows that the average direct cost of losing a valued individual contributor is nearly \$17,000. The added indirect cost is just over \$26,000, bringing the total replacement cost to \$43,000. It is important to keep in mind that these are just averages. For your organization, the number could be higher or lower. For example, in a cost-of-turnover study of forty-two contact centers, both in house and outsourced, the average cost of losing an experienced agent is \$8,780. As a general rule of thumb, the true cost of replacing an experienced frontline employee is one-half to one times their annual compensation. For a frontline leader or manager, the cost doubles to one to two times their annual compensation or more.

This is why it is so important to estimate both the direct and indirect costs of employee turnover as a gauge not only of financial impact but also of morale, team performance, and so on. Knowing this cost is not only the first step in the effort to reduce such costs and improve profits, but also the first step in justifying the investment in high-quality leadership and other tactics that effectively engage and keep your best employees.

### *Interconnected Spheres*

Patti McEwen is a career HR manager who worked for a wide variety of companies like Frito-Lay, Atari, and DHL before arriving in her current role with Sheridan Healthcare. Given that this was her first time working in healthcare, she found herself having to adapt quickly to the particular rigors of a physician practice management company. The similarities to what she observed in her former roles were clear, but the variability from practice to practice served as a unique challenge. Her role went from figuring out how to engage roles and teams within a single corporate sphere to learning how to engage interconnected but largely unrelated spheres of specialty physician practices.

Sheridan has contracts with hospitals all over the country, creating the relationship between healthcare providers and physician groups that provide specialty services like anesthesia, neonatology, and radiology under the Sheridan umbrella. The company has six thousand employees, two thousand of whom are doctors, two thousand of whom are nurses, and two thousand of whom are medical support staff. All six thousand of these employees fall into one of hundreds of different specialty physician practices that serve one (or more) of dozens of hospitals and clinics all over the country. With an organization like that, it's obviously difficult to know exactly what engages this varied group of employees and adheres them to the overarching culture of Sheridan.

“We decided that our best strategy would be to conduct a survey with the physicians that lead each practice,” McEwen told us. “Our goal was to identify what engaged our

physicians the most, and also what really motivated them to stay with Sheridan.” So McEwen worked with TalentKeepers to implement a survey to highlight the factors at play. “The highest scores for engagement were the location, camaraderie, and the people they worked with,” McEwen explained. “But the one that stood out to us was the leadership component. It was less important for the physicians to feel like they had great leadership from the more remote leaders at the corporate level. They didn’t feel as connected to or motivated by the corporate side as we would have liked.”

This proved to be a bit of a disappointment for McEwen and her team, but not surprising because the physician groups Sheridan engages with were typically working as their own autonomous practices before joining the Sheridan family. They related more directly to where and to whom they went to work with every day than they did with the organization that supported them from the top down. After the initial training period ended, it was often difficult to maintain that connection between parent organization and daily practice.

“The survey showed us that most of our physician leaders were effective at the local level in terms of driving engagement, but less effective at providing Sheridan leadership related to our corporate programs and initiatives. They operated in their own smaller spheres, in other words.” The opportunity, as McEwen saw it, was to connect these spheres with Sheridan. “It’s one thing to say, ‘We’re changing your timekeeping system tomorrow and you have to follow a whole new workflow,’ and a much better thing to be able to tell them how, when, and why this is happening, and how it will benefit them. That was a big gap for us to have to bridge.”

*(continued)*

### *Interconnected Spheres (cont'd)*

What McEwen and her team figured out is that the leader is critically important to the initiative. “Our leaders have four roles to play,” she said. “The medical role they’re obviously good at. It’s what they have studied, trained, and worked for over the course of many years. Quality of care is obviously their top goal on this front. Second, at the local level, they have to manage their staff (doctors and nurses) and the Sheridan staff that handles the administrative and HR side. The third key role is to manage the financial success of the practice. The fourth piece is leadership and interaction with the hospital or clinic site and the leadership staff at that particular facility. In other words, the success of this leader is huge for the business and for Sheridan because that leader is the face of everything we do.”

Given all these factors, finding physicians who can manage all of this is often challenging. They must lead a successful practice and serve as the face of Sheridan at the local level. For Sheridan, finding, promoting, and engaging such leaders is a clear market advantage.

## **Leadership as a Market Advantage**

For over eighteen years, we have worked for a company that essentially created the employee retention market. During that time, we have encountered a glaring fact that still surprises us. Out of the thousands of organizations we have worked with on engagement and retention strategies, we continue to find that leaders—particularly frontline leaders—remain the most underutilized resource.

In the 2018 edition of *Workplace America*,<sup>1</sup> the longest continuously running national study of employee engagement and retention trends, we found that 44% of all US companies reported that “leadership strategies” would have the greatest impact on improving retention. So we know that many companies at least value the impact their leaders can make. That the number is only 44% is a little startling, but at least a somewhat significant percentage of people recognize the importance of what we are dealing with here.<sup>2</sup>

The same 2018 research confirmed that importance. Improved leadership strategies have the single greatest impact on engagement. On every team—no matter the level, the organization, or the industry—*leaders* set the tone. They choose what information to share. They interpret company rules and how to apply them. They reinforce and coach. They are the face of the company to their employees. So why aren’t more organizations leveraging their leaders in a more significant way? Why is it that the top two obstacles to meeting business goals are (1) lack of employee longevity and loyalty, and (2) lack of adequate leadership?<sup>3</sup>

Hello! These two results are linked. They are also well understood. Yet so few companies are doing anything about them. According to our *Workplace America* research, a mere 31% of all organizations reported that they required leaders and their team members to conduct quarterly one-on-one meetings to discuss engagement topics. In stark contrast are best-in-class organizations, where 70% require these meetings at least quarterly. A shocking 19% of non-best-in-class organizations *never* asked leaders to meet formally with employees in an effort to boost their engagement and encourage them to stay.

As part of the study, we assessed nearly every incentive that could boost the performance of frontline employees. Raising pay, offering better benefits, providing additional job-specific training, and on and on—leader effectiveness trumped them all. In spite of that, more than half of all organizations (54%) do not allocate the necessary resources for leadership development in the area of engagement and retention.

You don't want to be like them. In this changing organizational climate, with high turnover as we transition from the baby boomer to the millennial generation, we are looking at a new and extremely valuable trend: Organizations that leverage their leaders to engage and retain employees achieve a significant advantage. When it comes to talent, this is the new market inefficiency. And this market inefficiency, like any others, offers plenty of opportunity for those who take action.

## **Introducing the Leader Engagement Index**

In an effort to uncover the reasons that employees underperform, are less engaged, or even decide to leave, companies often invest the time and resources it takes to determine the best ways to improve morale, productivity, and employee satisfaction. What savvy companies have learned is that the source for many of the best ideas and tactics is hiding in plain sight: the employees themselves. To find these best ideas and tactics, they ask the people who work for them every day.

Organizations that choose to formalize their employee survey processes benefit from key insights that help them improve. Many of them work with outside experts to boost survey participation by ensuring confidentiality and to compare themselves to benchmarks with others in the same industry. In addition to these advantages, employee surveys provide the following additional benefits: (1) prove to employees that the organization cares, (2) provide a basis for accountability and action, and (3) offer a sounding board for everyone, no matter their role.

Since our data shows that leaders are the most important factor when it comes to keeping and engaging employees, and since we know that employee surveys are effective on all the fronts listed in the preceding paragraph, one of the most effective strategies an organization can implement is to survey its employees on their opinions about

their leaders. This is why the Leadership Engagement Index (LEI) is such a powerful tool.

Put in its simplest terms, the LEI is a composite of the data gathered from multiple behavioral questions presented to an organization's employees. The results are expressed as the percentage of team members who are currently engaged by their immediate leader. Imagine being able to see how all leaders within your organization vary, from 100% to 0%, on LEI. Imagine the power of comparing the LEI score with team performance (almost always a strong positive correlation) as a way to demonstrate the value of leader engagement on performance. Organizations who successfully do this find that they have a new lever to pull to drive higher performance: the power of highly engaging leaders. Perhaps even more exciting is the ability to show leaders with lower LEI scores the exact behaviors they can modify to increase their LEI, and in turn, their team's performance. Data from the behavioral questions comprising the LEI provide actionable information for all leaders tasked with improving leadership engagement.

With all the frenetic energy buzzing around HR metrics these days, the LEI is the *key* metric tied to employee engagement. Nothing is more valuable when it comes to assessing a leader's effectiveness in motivating and inspiring employees. Thanks to the sixteen years of data we have compiled on hundreds of thousands of leaders, we have extraordinary insight into the behaviors that lead to the most direct and complete understanding of the engagement and effectiveness of any leader. The LEI is the surest means to compare leaders on the most important thing they do: *lead*.

So how does it work? Every leader's employees receive a survey that asks them to rate their leader on statements like these:

My supervisor wants me to be successful.

My supervisor uses specific work examples while coaching me.

My supervisor enables me to achieve the career and professional goals I have set.

My supervisor is usually receptive regarding suggestions from my employees.

My supervisor communicates effectively.

I am satisfied with the recognition I receive from my supervisor for my achievements.

The feedback and coaching my supervisor provides me helps me improve my performance.

My supervisor is someone I can trust.

Once each employee has provided answers to the twenty-two statements similar to the eight listed above, the data gets compiled into a percentage. The higher the percentage, the higher the engagement; the lower the percentage, the lower the engagement. Importantly, we have also found a direct correlation between high Leader Engagement and high performance from the teams they lead. The same is true of low engagement correlating to low performance.

We have generated an extraordinary amount of data from thousands of organizations over the years, and these are the ones that shine the brightest light on job performance. A high LEI score almost always leads to high job performance, specifically in areas related to customer satisfaction. What is more, for cases in which we find high engagement scores on underperforming teams, the data can show us exactly where the shortfalls are happening. In most cases, it means the leader is liked and respected but doesn't hold his teams (or himself) accountable for meeting goals, policies, or procedures. Conversely, a leader with a low engagement score but a high performing team achieving good operational results might be holding her team members accountable for all the right things, but not in a way that the team likes, respects, or appreciates. Although these kinds of situations can benefit the organization in the short term, ideally these leaders will eventually shift toward practices centered on engagement.

This leads to the next great value that LEI provides: The organization can conduct this measure as often as it sees fit. The index is not a static number. It can (and should) be tracked over time. A lower performing leader might achieve better numbers during the next survey, thanks to newly embraced engagement practices. Leaders with a high LEI score one year might find their scores dipping in the next. The scores provide excellent insight not only into senior management but also into the frontline leaders and employees as well. Senior leaders identify which of their managers needs more training or better strategies for engaging their staff. Frontline leaders get to see the specific areas in which their leadership might be lacking. Employees get the sense that their employer cares enough about them and trusts them enough to honestly assess their leaders and serve as the impetus for change.

As you can see, the survey results can be incredibly valuable. They help an organization identify underengaged and unengaging leaders while also finding solutions to make their inconsistent results more consistent. The effort to reshape leadership toward engagement strategies ultimately strengthens the organization from top to bottom.

In the chapters to come, we will be discussing exactly how you can use the LEI to create real results through your leaders across the organization, but for now, let's examine the core principles that the index can instill in your leaders and the people they lead. They are:

*Trust Builder:* Highly engaging leaders build trust between themselves and their team members. A trusting relationship frees employees to be more creative, be more open to coaching and feedback, feel more comfortable offering ideas, and communicate more openly.

*Communicator:* These leaders proactively and thoughtfully share information to keep team members, helping them to be “in the know,” an essential for high performance and retention. They keep team members informed, involved, and fully engaged in their work; and help employees know how important information affects them.

*Esteem Builder:* These great leaders focus on building esteem and pride in their team members. They have an attitude of gratitude; empower individuals to be responsible for their own work; show appreciation for the team member's contributions; provide time for individual attention.

*Flexibility Expert:* An engaged leader is flexible in recognizing, understanding, and adapting to individual needs and views. This leader respects the need for greater flexibility in the workplace, such as offering flexible work schedules or allowing team members to work from home.

*Developer and Coach:* These leaders fuel professional growth by providing training and coaching that allows employees to develop new knowledge and skills. They understand the benefit of targeted behavioral feedback; they help employees uncover and pursue opportunities to use their talents and develop personal competence that contributes to professional growth through varied and challenging work.

*High-Performance Builder:* Engaging leaders will conduct performance-building exercises to reinforce high levels of team member performance. They align performance objectives; recognize and respond to performance opportunities quickly; and push employees to stretch themselves and exceed their expectations, but in a constructive and supportive way.

*Climate Builder:* These leaders create a work environment where individuals form cohesive and collaborative relationships based on team spirit that involves everyone feeling like a part of the group. They encourage creativity, originality, and enthusiasm, and inject energy and fun into the workplace.

*Generation Manager:* Outstanding leaders orchestrate the diverse talents, styles, knowledge, and experiences reflective of the three major generations in the workplace: millennials, generation X, and baby boomers.

*Talent Finder:* Great leaders recruit individuals that fit specific job characteristics. They match individuals with work that showcases most of his or her natural talents; make every effort to add the best person possible; use current top performers as a recruiting resource.

*Retention Expert:* These leaders foster relationships with team members, are aware of changes in their engagement and satisfaction, and take proactive steps to address issues. They understand talents, skills, and abilities of top performers and the cost of replacing a valued contributor; connect people to broader company goals; make team members feel part of something meaningful. These leaders acknowledge that individuals have different abilities, personalities, and aspirations.

These principles all contribute to creating an environment in which employees see the value of their work and a connection between their success and the success of the organization. See Figure 1.1 for

**Case Study**



	Leadership Skills
1 Highest	Trust Builder
2	Communicator
3	Talent Developer and Coach
4	Retention Expert
5	Climate Builder
6	Flexibility Expert
7	High-Performance Builder
8	Esteem Builder
9	Talent Finder
10 Lowest	Generation Manager

**Figure 1.1** Leadership skills most valued by employees.

Source: First Fit Survey, Q4 through to Q1 (N = 16,039).

a rank order of how these leadership skills are valued by employees. The key to creating a culture of engagement is employees recognizing that their performance and contributions genuinely matter to the organization.

Further, these principles are exactly why Kristen finds so much more satisfaction in her job these days. During her morning drive, it all began to crystalize for her. Yes, she thought, there was a lot to like about her new leader. It really came down to the relationship he patiently and deliberately built with her during those early months. Her new supervisor's ability to earn her trust, keep her informed, develop and coach her, and build her self-esteem reignited pent-up energy while diminishing the anxiety of learning new skills, voicing an opinion, asking for help, and growing into her new job. Kristen's story is one of many that prove how, with a focus on leader engagement, *everybody* wins—employees, supervisors, and the organization at large.

## Notes

1. *Workplace America: Employee Engagement and Retention Trends*, TalentKeepers, 2004–2018.
2. *Ibid.*
3. *Workforce 2020: The Looming Talent Crisis*, Oxford Economics, working with technology firm SAP, 2014.