

Employee Satisfaction Doesn't Mean Profit



2020





Overview

Many HR professionals and business advisors maintain that high levels of employee satisfaction are core to business success and performance. They live and breathe the mantra that ‘happy employees drive business success’ and encourage and direct managers and owners to ‘make employees happier... and your business will succeed’.

We have struggled with this concept for many years, as we have thought that this simplistic view appears inconsistent with both international research and our own Australasian research. We have finally focused our research efforts on determining the significance or otherwise of employee satisfaction on company performance and profit.

The key finding is that employee satisfaction is not the driver of business profit. The research is overwhelming – employee engagement and alignment drives business performance and profit. Employee satisfaction is simply a necessary component of employee engagement – and alignment is actually core to business success.

This white paper is ideal if:

- You are a business owner keen to maximise your business performance and **profitability**
- You are responsible for the people aspects in your business and you want to improve the business outcomes
- You have invested heavily in employee satisfaction initiatives and now want to generate a greater return for the business



Engagement and Alignment drive Business Performance (not Employee Satisfaction)

We need to be clear about what we mean by engagement and alignment.

Employee engagement can be defined as an emotional commitment an employee has to their work and organisation. An engaged employee cares about their work and their role in the organisation – and they will go above and beyond to meet business objectives. Employee happiness or satisfaction in the workplace does not equate to employee engagement. Employees can be happy and satisfied in their role, but not productive. An engaged (and aligned) employee is one who aligns their behaviours and actions in the workplace, to meet their role requirements, as well as wider team and business goals and strategy. An engaged employee wants the organisation to succeed. [AHRI research indicates that 23% of the Australian workforce are engaged.](#)

The inference from the AHRI research is that the remaining 77% of the Australian workforce are either disengaged or actively disengaged. In terms of company performance and profit this also suggests that businesses are potentially paying 77% of their workforce to be present, and at worst, to actively work against the interests of the business. These are labour costs that are not sustainable for any business.

Our own research of Australasian businesses over the last 10 years shows that employee satisfaction results are skewed more positively than business performance or employer satisfaction results, and are less relevant or aligned when businesses are not performing to expectations or not achieving their business goals.

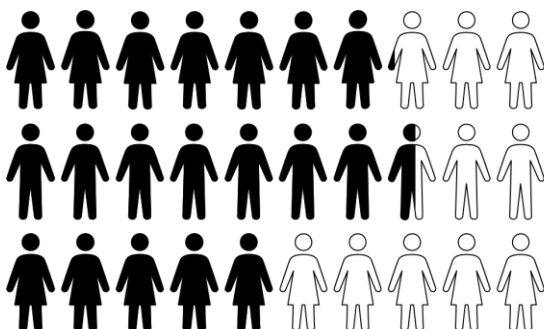


The research suggests that business owners may not actually be communicating effectively with employees when businesses are low or average performing. The risk in these circumstances is that employees will be enjoying working with their work mates, potentially at the expense of being focussed on what could deliver the best performance results for the business.

When businesses become high performing, employee satisfaction appears to marginally lag the company alignment and performance numbers.

International Research

[Research released by Harvard Business School](#) identified the importance of employee engagement, while also finding that less than 50% of companies actually measured engagement against performance.



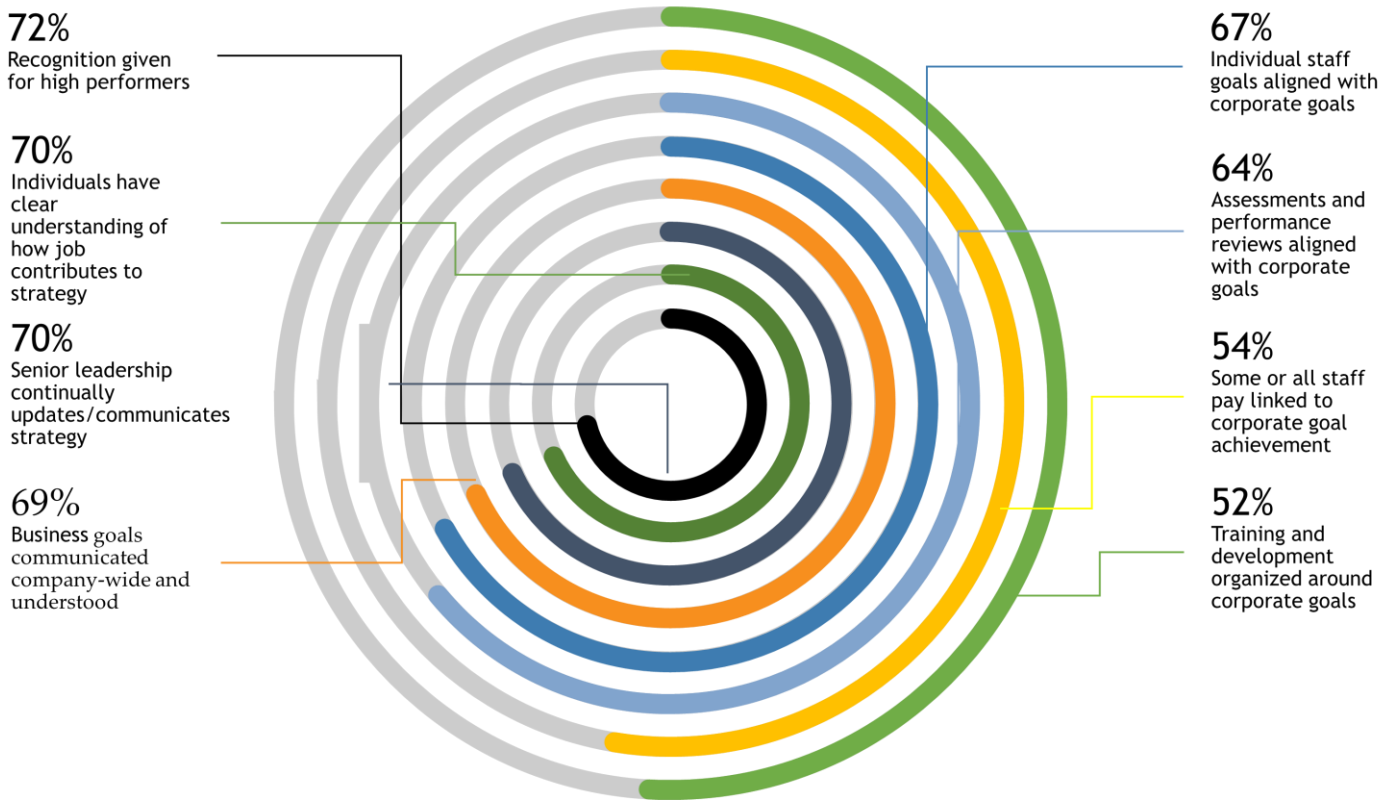
71% understood the importance of employee engagement

76% said most employees are not highly engaged

Less than 50% of companies measure employee engagement against business performance



Once you accept that employee engagement (rather than satisfaction) counts, you need to understand what to actually count. This research also identified the following most impactful engagement drivers that businesses need to focus on to improve business performance:



You now have a better idea on employee engagement and alignment, and their drivers.

[Research by MIT/Sloan Management Review](#)

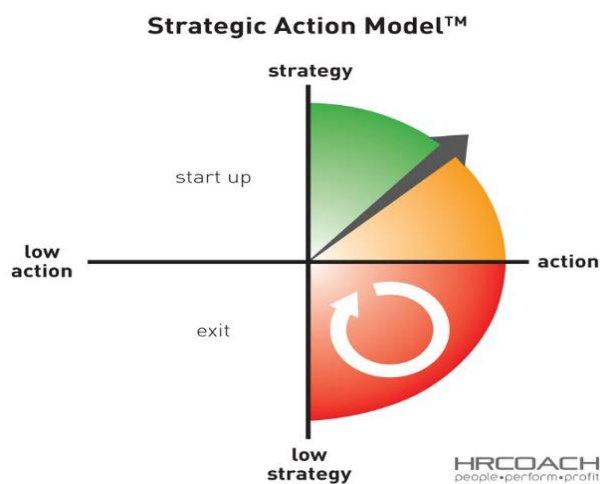
identified 5 dimensions that all count towards securing or maintaining high levels of engagement and alignment within a business. Employee satisfaction contributed only 25% of these results. The other 75% of engagement results relate to alignment and performance measures, which have often been overlooked or not measured by businesses.



How engagement ties to performance

Repeated studies over the past 10 years have shown that the business performance of organizations in the highest quartile of employee engagement scores outpace that of competitors. High employee engagement correlates with higher average revenue growth, net profit margin, customer satisfaction and earnings per share.

HR Coach has been researching the significance of alignment for business performance and profitability since 2003. Our strategic action model, underpins our ongoing methodology and assessment tools and focusses specifically on the need for businesses to ensure that their ongoing activity and energy is aligned to their strategy.



We have measured over 850 Australasian businesses against this model since 2008 and consistently found that over 50% of businesses have alignment rates below 67%. This means that half of the businesses in Australasia are potentially spending a third of their labour budget for a nil or negative return. I.e. If they could improve their employee engagement / alignment rates it would flow directly to their bottom line.

When margins are tight, market competition is fierce and employee loyalty is challenging, the time is right to focus on improving the engagement and alignment of the workforce in every business. It is the only way in these times to ensure improved performance and profitability – as people are both the 'engine room' and a significant cost to every business.

If you want to stay or become a high performing business, you need to measure the right things.

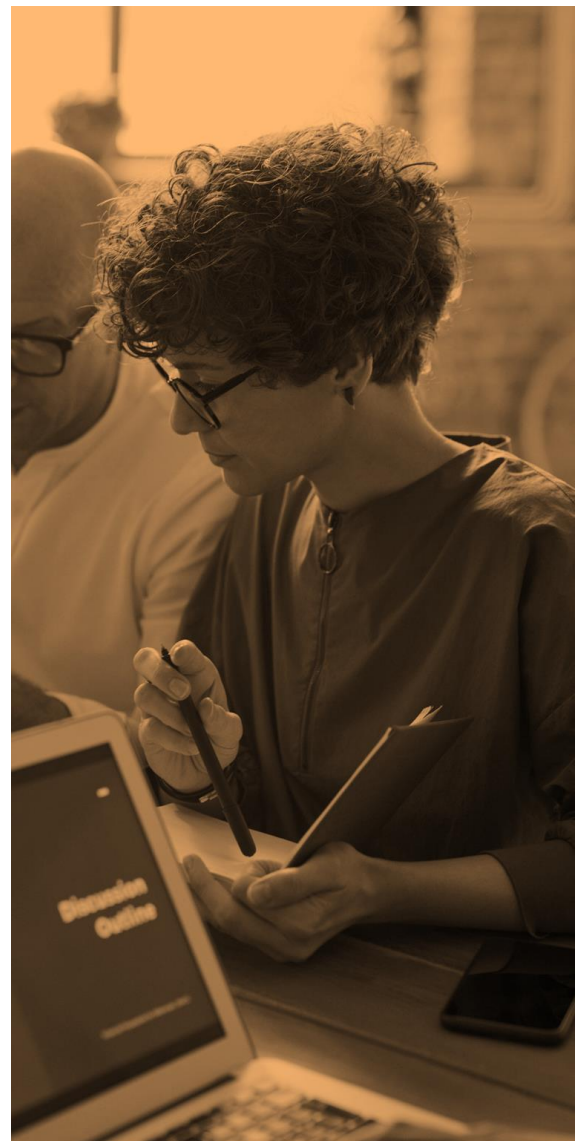
Employee satisfaction counts for 25% of your business's performance, but it is not enough – and if that is your only focus it is unlikely to maximise your profit performance. Of course, many businesses are not even measuring employee satisfaction – so these businesses really have a great opportunity to measure and focus on the items that will genuinely make a difference to both their business and their future profit.

The evidence is overwhelming. Business owners really need to be thinking about measuring engagement and alignment (and culture), as these are core to understanding where their business is, and what the potential for improvement could mean for the business. They also need to implement positive engagement and alignment strategies, tactics and activities into their business to close any gaps and strengthen areas of success on an ongoing basis. These initiatives could take some time to materially impact the business, particularly as they need to be led by the leaders, managers and supervisors in the business.

Measure Where You Are

The starting point has to be measure where you already are. Ensure that your measurement process is anonymous (otherwise employees may not respond honestly, which makes the results meaningless) and that you are measuring Employee Alignment, Employee Commitment/Loyalty, Employee Satisfaction and Employee Performance. Your assessment tool needs to be valid and reliable and should be benchmarked against other businesses in your country (you are all competing for the same labour, so you need to see how your business actually compares to others).

It is brave for employees to say how they feel and propose solutions for improvement. It is also a brave business owner who accepts that feedback and leads and embraces change to improve their business performance. These days it is impossible for a business owner to know everything about everything, and getting input from people who are more familiar with specific tasks and processes can only lead to business improvement. Update all employees on the survey results and work with them to build and implement an annual HR Plan to address any key items for improvement that surface.





Conversely, if you are not prepared to share the results with employees and work with them to implement strategies to positively address any areas of concern, we would encourage you not to start. Where owners and/or managers choose not to share all the results with employees and/or decide to develop their own plan in isolation and/or ignore the results because they don't agree with them, any actions are likely to be less effective and any future survey would normally have much poorer results.

Once you have measured where your business is, work with managers, supervisors and employees and build a plan to close out the agreed and prioritized gaps. This HR Plan should form part of your Business Plan, and would normally extend across at least a period of 12 months. Be assured, Rome wasn't built in a day, and building employee engagement and alignment also takes time, structure and process.

Employee Alignment

Involve at least a cross-section of employees in developing your Business Growth Plan. Don't forget to also develop the Vision, Mission and Values for your business, so that everyone knows what page they are supposed to be on. Regularly update employees on the progress against the Business Plan/HR Plan and positively reinforce behaviour that is consistent with the agreed Vision, Mission and Values of the business. Assess Employer Satisfaction with Strategy at least annually, and share those results with the employees in the business.

Employee Commitment/Loyalty

Assess management and employee culture at least annually using a validated, benchmarked and anonymous survey. Our research results are consistent with lots of other international research. Most employees (and Managers) leave a business due to a poor or broken relationship with their immediate supervisor or Manager. High employee turnover (anything above 7% in any year) substantially reduces the profitability of the business, so focus on the Managers who have high employee turnover in their teams. Many managers (and owners) are very good at justifying why people have left, without ever acknowledging that they are likely to be a big part of the reason. Review your resignation rates on an least an annual basis by department and this lag indicator will give you a good idea on where to focus your efforts.

If you want to be proactive in this area, ie. before the employees vote with their feet and leave, measure where people are and use the results to focus and direct specific action to improve management and employee culture. HR Coach Australasia completed research in 2019 specifically on management culture in businesses, and found a significant alignment between management culture, employee culture and business performance. High performing businesses had all three areas aligned and operating at a high level. Low performing businesses had the opposite result.

Where employees do leave, have them complete an exit survey on key measures and graph and report the results on at least an annual basis.

Employee Satisfaction

Assess the level of satisfaction of your employees and managers, on at least an annual basis. For the results to be meaningful and useful the assessment process should be anonymous, valid and reliable, and benchmarked to other businesses in your country. Implement any agreed solutions to improve future results in a transparent/participative process on schedule and to a budget. Pulse check any significant issues/ improvement items on a 6 monthly schedule, to assess whether solutions are actually having a positive impact.

Employee Performance

Implement a regular (at least annual) formal performance coaching process for all employees and managers. Train managers/supervisors/employees on performance coaching processes. Ensure that all participants realise that the process is designed to recognize good work and identify growth or development opportunities so that employees can enhance their career and improve the performance of the business. Use the data from the performance coaching assessments/reports to map business capability and identify areas for business-wide improvement.



WHERE TO FROM HERE?

The research shows that there are 4 key areas that make up Strategic Alignment.

Here are the keys to improving Strategic Alignment:

Strategic Alignment Measures	Solutions that <u>work</u>
Employee Alignment	1 Day Business Growth Workshop. Work with Employee to build a HR Plan. Assess Employer Satisfaction with Strategy at least annually, using STAR Workplace or similar.
Employee Commitment / Loyalty	Assess management and employee culture at least annually using STAR Workplace, or similar. Assess management and employee culture using the Fusion Culture Program, or similar. Complete Career Monitor assessments on your key performers, to get ahead of their disengagement curve Exit Survey all employees who leave the business and review the results.
Employee Satisfaction	Assess employee satisfaction at least annually using STAR Workplace, or similar. Pulse check any issues/iems on a 6 monthly schedule using STAR Pulse, or similar.
Employee Performance	Implement a regular (at least annual) performance coaching process for all employees Train managers/supervisors/employees on performance coaching processes Ensure managers and supervisors have completed Everything DiSC Management, or similar Report Business Capability using the data from the performance coaching assessments and reports.



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Identified what separates high performing businesses from their low flying competitors.



Unlocking the Workplace Generational Code

Identified the similarities and differences between the five generations now at work



5 Effective Conversations

Identified the ways to ensure that every conversation at work is effective