The Economist

Business.view

Disengagement party

Staff-motivation schemes may not be so recession-proof

Mar 31st 2009

IN THE past few years there has been much talk in boardrooms about how best to create an "engaged workforce". The idea is that by making employees feel they are highly valued, managers can boost workers' morale, encourage them to go beyond the call of duty in satisfying customers' needs and turn them into vocal advocates for their employers. "Best Places to Work" rankings and a host of other studies have regaled readers time and again with tales of how this or that company has succeeded in creating a unique environment in which work is no longer a four-letter word.

However, many of these initiatives were launched when growth, profits and employment were booming. That arguably made it relatively easy for bosses to develop the kinds of things that delight staff, including generous benefits and perks, extensive training and development programmes, and rich bonuses for beating targets. Might the global downturn—and the brutal corporate belt-tightening that is accompanying it—set back many of these efforts?

There are some signs it is doing just that. Take the results of a survey by Quantum Workplace, an American firm that runs employee-engagement surveys (http://www.quantumworkplace.com/web/getengaged.html) for more than 4,000 organisations each year. To test whether efforts to boost workers' commitment were withstanding the

recession, Quantum identified 210 companies whose workforces had responded to its surveys in the autumn of both 2007 and 2008. It found that 134 of those firms, or 64% of the total, had lower engagement scores in the second period than in the first. It said this was the first significant decline it had seen for many years.

A pay rise would also be nice
Shutterstock

This will come as a disappointment to some advocates of employee-engagement initiatives, who were convinced such efforts would be pretty much immune to the economic cycle. Such a belief was based on the assumption that people want much more out of a job than just money and other tangible benefits—or "extrinsic" incentives, in economists' jargon. So in workplaces where employee-motivation schemes had been successfully implanted, cutting or freezing pay and conditions ought to have only a limited impact on job satisfaction.

There are two reasons why such hopes may be dashed in the downturn. The first is that it has been particularly brutal. Thanks to a toxic combination of the housing slump and a credit crunch, it has not just increased fears about job security but also battered the value of workers' homes and pensions. As a result, compensation and other tangible rewards, such as health-care benefits, have taken on much greater importance in overall job satisfaction than might otherwise have been the case. The firms that continued to improve their engagement scores in the Quantum survey had, among other things, considerably better ratings for the quality of their health-care benefits than the laggards in the study.

The other problem with the argument is that it assumes managers will continue many of the intangible practices that helped to build goodwill when the economy was flying. Yet some of these seem to have become victims of the downturn. Take, for example, the push to let rank-and-file workers know more about a firm's performance. One common complaint of employees at firms whose engagement scores slipped was that senior managers were communicating less frequently than before about their companies' fortunes, and were being more mealy-mouthed when they did so.

It might be tempting to dismiss the whole question of employee motivation as a distraction given the difficulties facing most businesses. Yet declines in engagement levels should set alarm bells ringing in boardrooms because there is some evidence that firms with highly engaged workforces tend to outperform stragglers. Towers Perrin, a consulting firm, found (http://www.towersperrin.com/gap/index.htm) that between 2002 and 2006 companies with excellent records in motivating staff generated an average annual return over the period that was 9.3 percentage points higher than that of the companies in the S&P 500 stockmarket index.

Investment banks and other financial-services firms might want to pay special attention to the way their employees are feeling. The public trashing of bankers' reputations by both politicians and the media has undoubtedly dented the industry's image, even in the eyes of its own members. And the row over Croesus-like incentives, such as the huge bonuses paid by American International Group (AIG), a collapsed insurer, has only made matters worse.

Part of the industry's problem is that it let extrinsic rewards run out of control, and didn't pay enough attention to other things that would have built a motivated workforce that might have been less prone to excesses. "Some might argue that members of my profession have been overpaid, and I wouldn't

disagree," wrote Jake DeSantis, a former employee of AIG, in his resignation letter, which was published in the *New York Times* last week. The International Institute of Finance, a banks' lobby group, said in a report (http://www.iif.com/press/press+101.php) on March 30th that its members acknowledged this problem and were trying to mend their ways but were struggling to identify sensible ways to reform compensation. Those organisations that can strike a better balance between the loot and the other stuff that makes employees love their firms will be the ones that emerge victorious from the economic malaise.