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# Employee Engagement Public Reporting Standards Recommended by Gallup

A Single-Item Measure of Organizational Engagement

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# Employee Engagement Public Reporting Standards

The Global Reporting Initiative (GRI) was created in 1997 to establish criteria to hold organizations accountable for responsible environmental business practices. Guidelines for socially conscious investors have recently and commonly been referred to as environmental, social and governance (ESG) criteria. Boards and organizational leaders have a multifaceted motivation to report on ESG guidelines.

Meta-analyses of over 2,000 empirical studies suggest consistent relationships between ESG responsibility and financial performance across time and geographies (Friede et al., 2015). Gallup has found that the new workforce highly regards an organization's purpose when choosing where to work. This is especially true for millennial and Gen Z employees.

**What happens inside organizations now spreads very quickly through social media. An organization's real purpose and culture become its employment brand very quickly. An organization's reputation through corporate social responsibility also impacts the organization's financial performance (Orlitzsky et al., 2003).**

Several organizations have initiated efforts aimed at ESG standard-setting, including the World Economic Forum (WEF), the Sustainability Accounting Standards Board (SASB), and many others. In September 2020, the WEF published a report with input from CEOs of 120 companies, in collaboration with the big-four accounting firms (Deloitte, EY, KPMG and PwC). The report outlines a path for creating consistent metrics and reporting for sustainable value creation. Based on four pillars — *principles of governance, planet, people and prosperity* — the report presents 21 "core" metrics and 34 "expanded" metrics across the four pillar categories.

More broadly, The National Association of Corporate Directors (NACD) has taken steps to change the definition of a "successful" organization from one that focuses primarily on wealth creation to one that focuses on sustainable investing or stakeholder capitalism — where the culture of the organization is thought of as an asset that drives ethics, integrity and impact on the world.

Gallup has spent more than 80 years studying the will of the people in a variety of contexts, from global wellbeing to employee perceptions. We have found that, while the wellbeing of workers is an important, altruistic component of most ESG frameworks, the workers also often know about issues related to ethics, compliance and safety well before leaders do, making the gathering of employee input particularly valuable. Therefore, having validated metrics across organizations is vital to establish credible reporting and robust benchmarks. Gallup has a database of 42 million employee surveys across thousands of organizations that can serve as a source for informing ESG *people* standards. These include employee perceptions of areas directly related to ESG:

- ethics and compliance
- diversity, equity and inclusion
- wellbeing
- impact on environment
- employee development
- employee engagement

The *people* pillar of ESG has not been fully developed — particularly as it pertains to employee perceptions of organizational-culture elements — yet some organizations are already posting their employee engagement results. Since the approach to reporting employee engagement is not consistent across organizations, this document is intended to summarize various options for measurement standardization and the associated strengths and weaknesses of each option.

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## Scientific Literature

The scientific literature on job attitudes has evolved significantly in recent decades, including the large-scale synthesis of hundreds of studies on job satisfaction, job involvement, organizational commitment, job affect and employee engagement. While the disparate approaches to conceptualizing and measuring employee engagement have been debated (Macey and Schneider, 2008; Harter and Schmidt, 2008; Shuck, 2011), *three meta-analytic, peer reviewed studies, each by independent authors, provide substantial evidence that a higher-order, compound definition of employee engagement is the single best predictor of performance* (Harrison et al., 2006; Mackay et al. 2017; Harter et al., 2020). This idea has been proven at both the individual (Harrison, et al. 2006; Mackay et al., 2017) and business-unit levels of study (Harter et al., 2020). The compound construct (Newman et al., 2016) can be informed by various measures of job attitudes, such as job satisfaction, organizational commitment, job involvement and job affect. Research has shown high redundancies in many job-attitude constructs (Harter and Schmidt, 2008; Le, et al., 2010; Shafer and DeGeest, 2016), particularly when job attitudes are measured for overall companies where individual items have very high reliability because they include the aggregated impressions of often thousands of workers.

## Employee Engagement Measurement in Practice

Despite differences in the theory and measurement of employee engagement from various sources in business and academia, there are areas of commonality.

Most definitions of employee engagement describe both cognitive and emotional aspects of attitudes toward work. Nearly all definitions include elements of employees' involvement, enthusiasm for work and commitment to their organization. A review of job-attitude measures by Newman et al. (2016) suggests employee engagement is a compound of job satisfaction, organizational commitment, job involvement and job affect.

**Nearly all would agree that engaged employees are more attentive and vigilant. They look out for the needs of their coworkers and the overall organization because they personally "own" the result of their work and that of the organization.**

Organizations have used a variety of approaches to measure employee engagement. Developed in the late 1990s, first published using a random sample of U.S. workers starting in 2000, and later using a global sample, Gallup created the Employee Engagement Index. Using a proprietary methodology, Gallup reported the percentage of engaged, not engaged and actively disengaged employees and continues to track those measures across working populations and organizations. Other survey and consulting organizations have followed and designed their own indexes. Different methods for measuring employee engagement can have equivalent reliability and validity, but it is incumbent on designers of the measures to demonstrate properties of reliability and validity. Measures of employee engagement vary depending on the approach taken to the selection of items included in the measures and in how the percentage of engaged employees is defined. There are generally two types of employee engagement index item-measurement approaches:

- 1 The first type of item-measurement approach** is a formative measure of engagement that includes generalizable antecedent variables or conditions of high engagement that predict performance outcomes. Gallup's Q<sup>12</sup> assessment is an example of a formative measure that captures generalizable elements that managers can act on to create change.
- 2 The second type of item-measurement approach** is a reflective measure that combines various outcome attitudes, such as employees' likelihood to recommend the company, intentions to stay with the company, self-reported states of satisfaction, vigor, dedication and absorption in work.

It is important to note that these two methods can be shown to have highly convergent properties. That is, formative measures, such as Gallup's Q<sup>12</sup>, have been shown to have very high convergent validities with outcome attitude measures (Harter et al., 2020).

There are also two different methods for *defining the percentage of engaged employees*:

- 1 **The first method** uses an empirical approach to set cutoffs for engagement categories that align with performance data; these approaches are often proprietary.
- 2 **The second method** uses an arbitrary “% favorable” approach that combines ratings of “4” and “5” on a five-point scale.

The strength of the empirical approach to defining the percentage of engaged employees is that it presents a higher bar to which organizations can aspire to obtain very high levels of performance — including retention rates, productivity, safety, customer service and profitability. As we will demonstrate below, different criteria for determining the percentage of engaged employees produces very different performance results.

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### **Gallup’s Recommendations for Public Reporting**

Gallup recommends that organizations focus on excellence in their public reporting. Whatever employee engagement metrics an organization chooses to report, we recommend transparency so that organizations and investors accurately know the state of the organization’s culture. Specifically, we recommend transparency in the following areas:

- 1) the items used in defining “% engaged”
- 2) the method for determining the percentage of engaged employees from the item data — whether an empirical approach, percentage favorable or other approach
- 3) the method of data collection and response rate; a census survey with a minimum of 70% participation rate is best practice — ideally, an 85% or higher response rate, which Gallup finds is very achievable
- 4) comparison to a global database of organizations — ideally, the percentile in which the organization falls within the overall database or industry
- 5) strong evidence of reliability and validity of the measurement method used

As noted above, there are a variety of approaches to item measurement that can yield reliable and valid information. Gallup recommends a single approach that can be used across all organizations, regardless of the measurement platform or organizational consulting arrangement. While the percentage of engaged employees determined via the empirical approach will link more strongly to performance outcomes, some of the empirical approaches — like Gallup’s — are proprietary. The proprietary approaches can be used to guide leadership in creating change within organizations. But consistency in public reporting is more likely with a nonproprietary measurement method. For transparency, the method should give organizations the flexibility to report a high-bar engagement percentage, as well as a minimum requirement.

Over the past 25 years, Gallup has collected data on more than 42 million employees across thousands of organizations on the following organizational-engagement item:

On a 5-point scale, where “5” is extremely satisfied and “1” is extremely dissatisfied, how satisfied are you with your organization as a place to work?

This item has been included in 10 iterations of meta-analyses, several of which have been published in peer reviewed academic journals. As a single item measure, it has been found to have very high convergent validity with multi-item job attitude scales, such as organizational commitment (.93, .92), job satisfaction (.84) and work engagement (.78). These convergent validities were calculated at the individual level. When aggregated to the organizational level, these high values would be even higher, meaning this single item will provide a strong representation of the higher-order engagement construct reviewed above (Harter et al., 2020). Structural equations modeling revealed the single-item measure loaded .86 on the higher-order engagement construct.

This single organizational-engagement item is highly correlated with team engagement and employees' likelihood to recommend the organization, trust in leadership, pride in the organization and intentions to stay with the organization. For example, of those who are extremely satisfied ("5" on a 1-5 scale), 84% are engaged and 85% strongly recommend their organization. Of those who are "satisfied" ("4" on a 1-5 scale), 40% are engaged and 28% strongly recommend their organization. Of those who are not satisfied (1-3 on a 1-5 scale), 11% or fewer are engaged or strongly recommend their organization.

Finally, this single organizational-engagement item is consistently correlated with numerous performance outcomes (Harter et al., 2002; 2020).

### Average Utility Across Gallup Overall Satisfaction Item Scale Points

The gain/loss is above average, if all employees on a team responded to each scale point.

	Extremely dissatisfied		Extremely satisfied		
Scale point	1	2	3	4	5
<b>Outcome</b>					
Profit	-46.4%	-30.1%	-13.8%	2.4%	18.7%
Productivity	-42.3%	-27.5%	-12.6%	2.2%	17.1%
Turnover	108.6%	70.5%	32.4%	-5.7%	-43.8%
Customer	-22.8%	-14.8%	-6.8%	1.2%	9.2%
Safety (accidents)	131.1%	85.1%	39.1%	-6.9%	-52.9%

Source of data: Gallup Q<sup>12</sup> meta-analysis database, including 82,248 business units across 230 organizations (Harter et al., 2016).

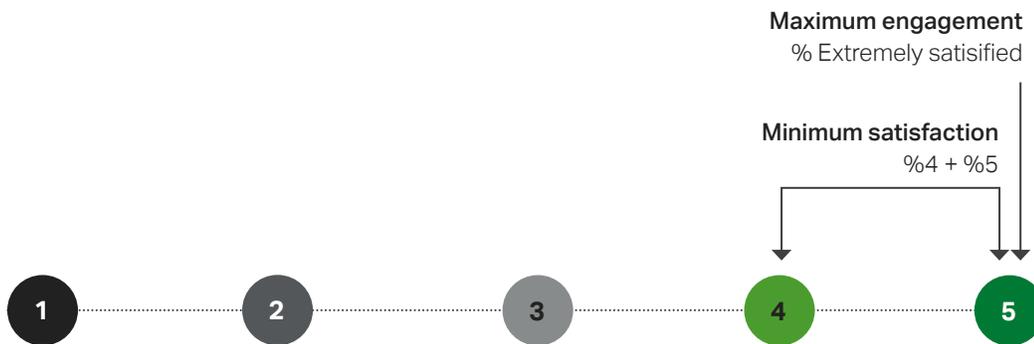
## Minimum vs. High Standards for Reporting

The following table provides standards options for organizational reporting on the single-item metric.

### Employee Engagement Public Reporting Standards

#### Organizational Engagement

On a 5-point scale, where "5" is extremely satisfied and "1" is extremely dissatisfied, how satisfied are you with your organization as a place to work?



## Summary

Gallup recommends extreme transparency in the public reporting of employee engagement metrics. Ideally, organizations will adopt a common metric so they can be compared with one another. Gallup is offering a nonproprietary metric that correlates highly with multi-item metrics of employee engagement and has substantial database comparisons. Gallup will maintain the database and meta-analyses on this item and make them available to all organizations.

Employee engagement measurement and reporting should be just one part of the *people* pillar of the ESG framework. Additional elements should include:

- ethics and compliance
- diversity, equity and inclusion
- wellbeing
- impact on environment
- employee development

Gallup has examined its databases and will provide recommendations for the measurement of these as well.

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