



A Tale of Two Variables: Exploring Engagement and Its Curious Relationship With Compensation

David D. Rowlee, PhD Managing Director & Practice Leader

2018 High Performance
Employer Summit

Competing as a Destination Employer



Gallagher

Insurance | Risk Management | Consulting



What is Engagement?

2018

High Performance
Employer Summit

Competing as a Destination Employer



Gallagher

Insurance | Risk Management | Consulting

The Power of Engagement



Gallagher

Insurance | Risk Management | Consulting

Employee engagement predicts outcomes...

- market penetration
- revenue & profit margin
- shrinkage (*esp., waste/spoilage/theft*)
- community image & reputation
- awards & rankings
- union participation
- productivity & efficiency
- absenteeism & turnover
- on-the-job injuries
- on-time work/delivery
- customer satisfaction
- customer loyalty
- customer safety
- brand awareness
- social media tone
- social media penetration



ONLY if it is measured properly

2018 High Performance
Employer Summit

Competing as a Destination Employer

The Evolution of a Metric



Engagement is a pronounced state of enthusiasm characterized by effort, pride, and passion which fosters a mutually committed relationship between employees and organizations resulting in the enduring pursuit of organizational and personal goals.

The New Consensus



Gallagher

Insurance | Risk Management | Consulting

The State of Engagement

Recent studies have shown a decline in employee engagement—particularly in the United States and many European nations.



&

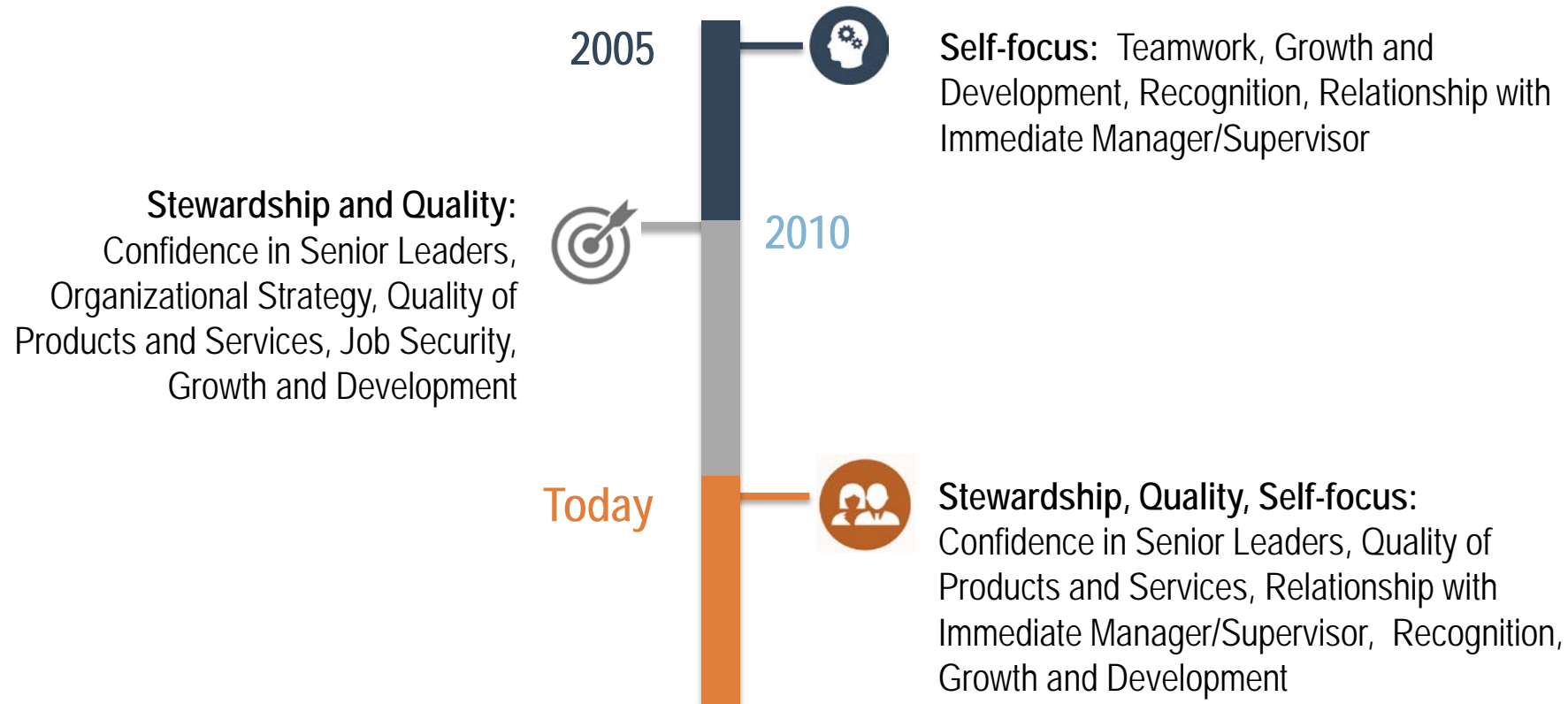
The Prevailing View

Measuring and managing the wrong or incomplete set of engagement drivers is mostly to blame.

2018 High Performance
Employer Summit

Competing as a Destination Employer

The Dynamic Nature of Drivers



Our Engagement Model



Gallagher

Insurance | Risk Management | Consulting



2018 High Performance
Employer Summit

Competing as a Destination Employer



Exploring the Link Between Compensation & Engagement— Case Study 1

2018

High Performance
Employer Summit

Competing as a Destination Employer



Gallagher

Insurance | Risk Management | Consulting

Common Positions About Compensation

Pay does not drive employee engagement: "If it's engagement that you're interested in, it may be unnecessary to ask about pay on your next engagement survey." (Holcombe, 2017)

"Rather than focus on pay on your next engagement survey, consider going deeper into topics like professional development, supervisor relationships, communication from leadership, or positive working conditions." (Holcombe, 2017)

The role of pay in building engagement is very minimal
[noted by Deloitte, Gallup and many other human capital consultancies]

Pay is considered by most research/researchers as a "hygiene" factor rather than an "engagement factor"—a basic satisfier rather than an engagement stimulant

SHRM notes "Compensation" as a "Top Ten" factor that builds satisfaction—it does not list "Compensation" as a contributing factor to engagement
[Source: SHRM 2011 Employee Job and Satisfaction Survey]

Common Positions About Compensation

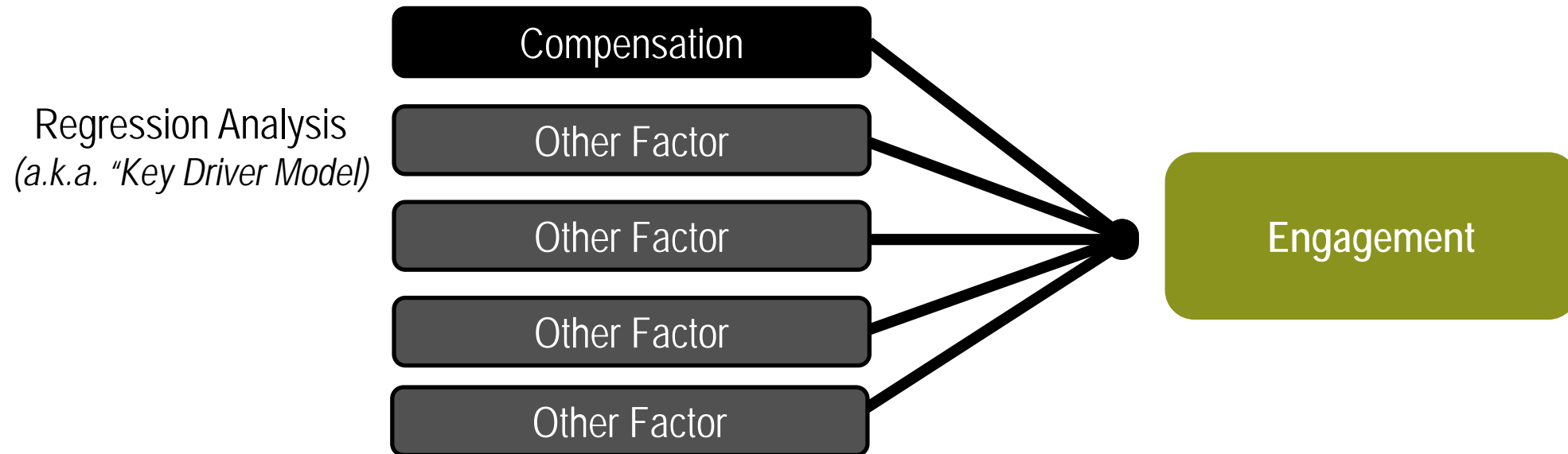
A vast body of literature tells us NOT to select pay as area of focus if the goal is to build engagement.... **Right?**



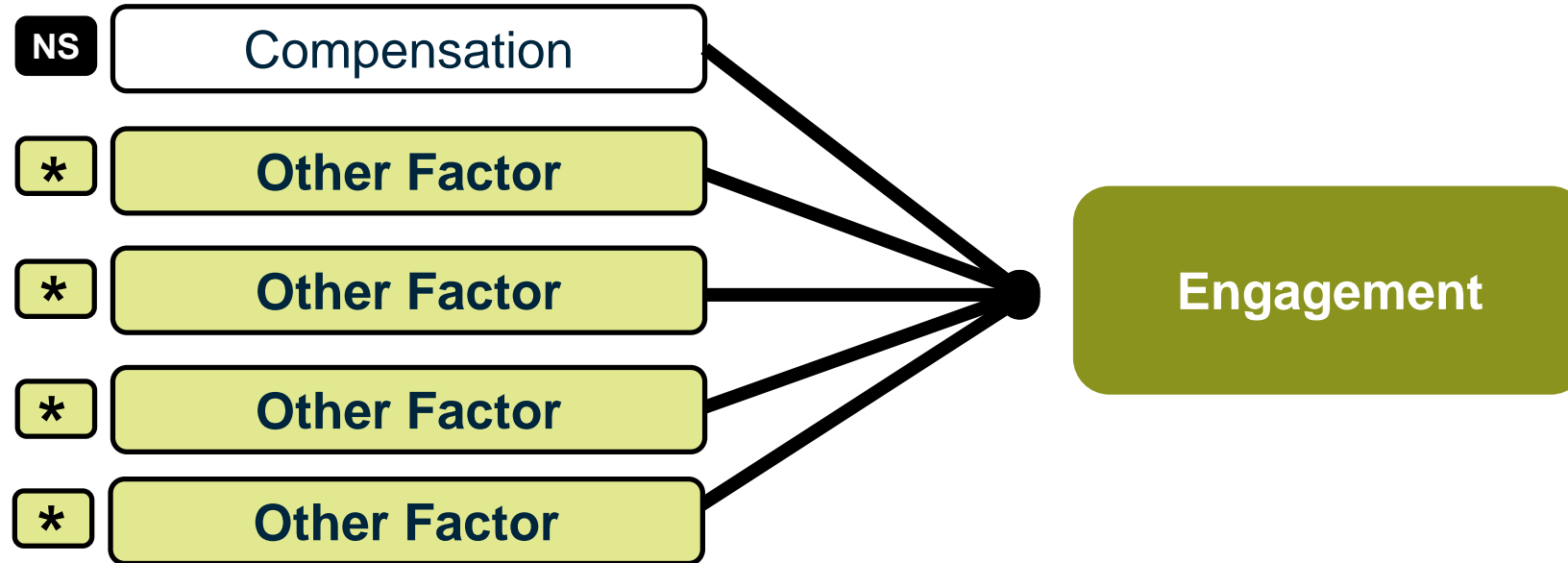
Our most recent findings suggest that researchers may have been thinking about the relationship between pay and engagement in the wrong way.

Pay has almost exclusively been explored using statistical techniques that DO NOT reveal the more complex relationship between employee engagement and compensation

The Relationship Between Compensation and Engagement



The Relationship Between Compensation and Engagement



Finding: Using typical key driver analytics, pay is rarely a significant driver of employee engagement

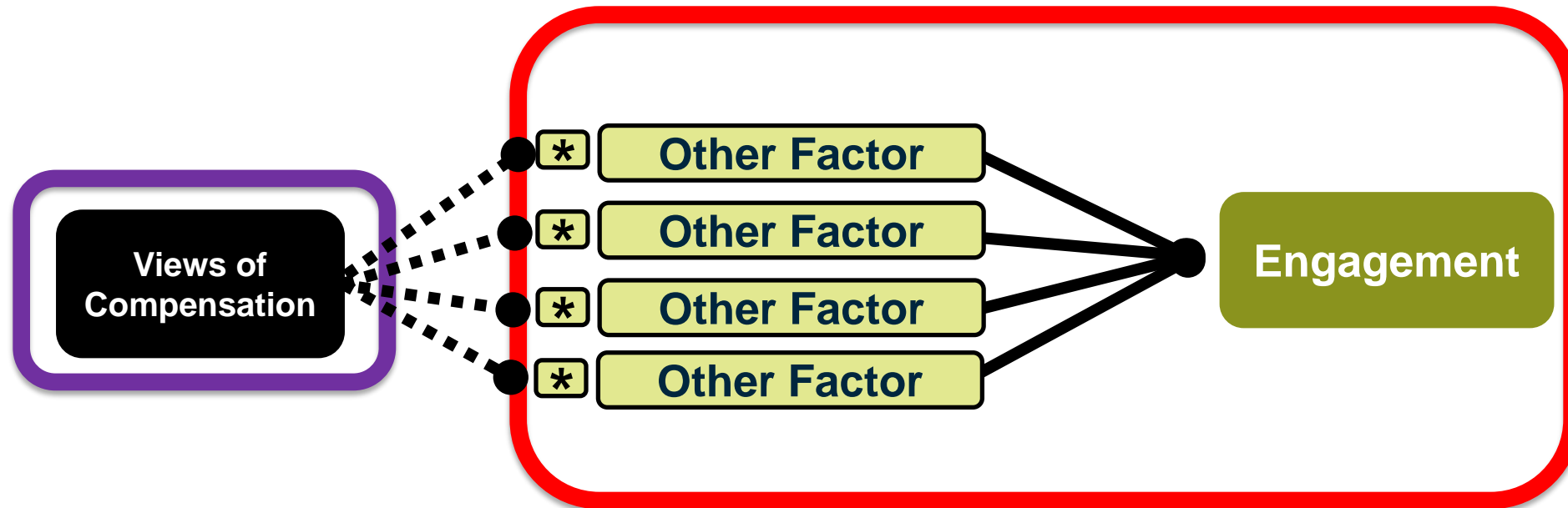
The Relationship Between Compensation and Engagement



Gallagher

Insurance | Risk Management | Consulting

Moderation occurs when the relationship between **these variables**is significantly dependent on this variable

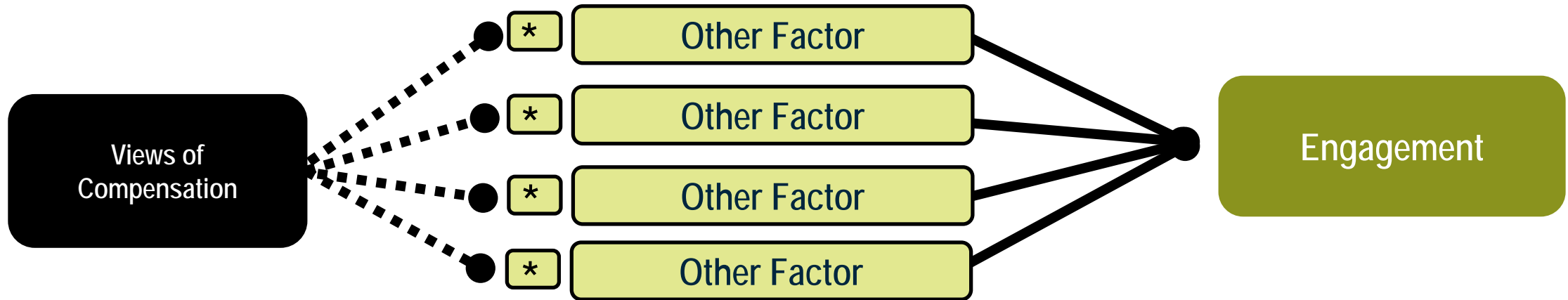


The Relationship Between Compensation and Engagement



Gallagher

Insurance | Risk Management | Consulting



The Relationship Between Compensation and Engagement

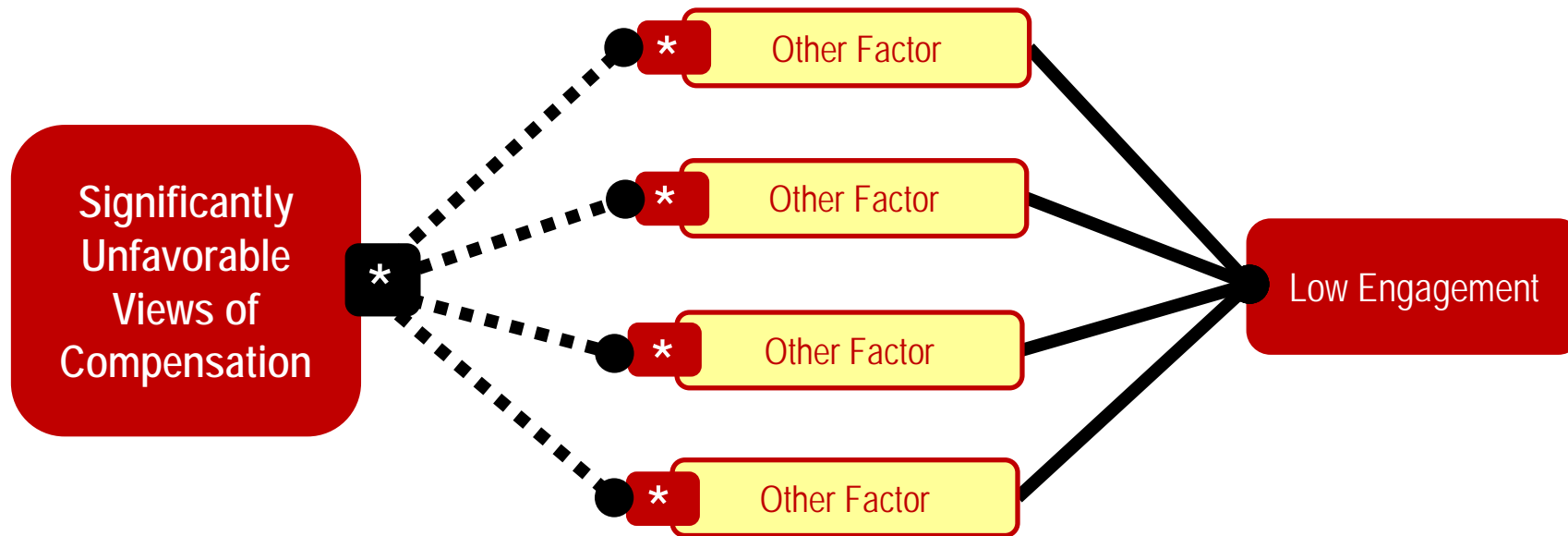


Gallagher

Insurance | Risk Management | Consulting

The results of this analysis revealed that while compensation is not a direct driver of engagement, it has a moderating effect—*powerfully enriching engagement indirectly by directly influencing its key drivers*—this relationship cannot be observed through a traditional key driver analysis.

The Relationship Between Compensation and Engagement

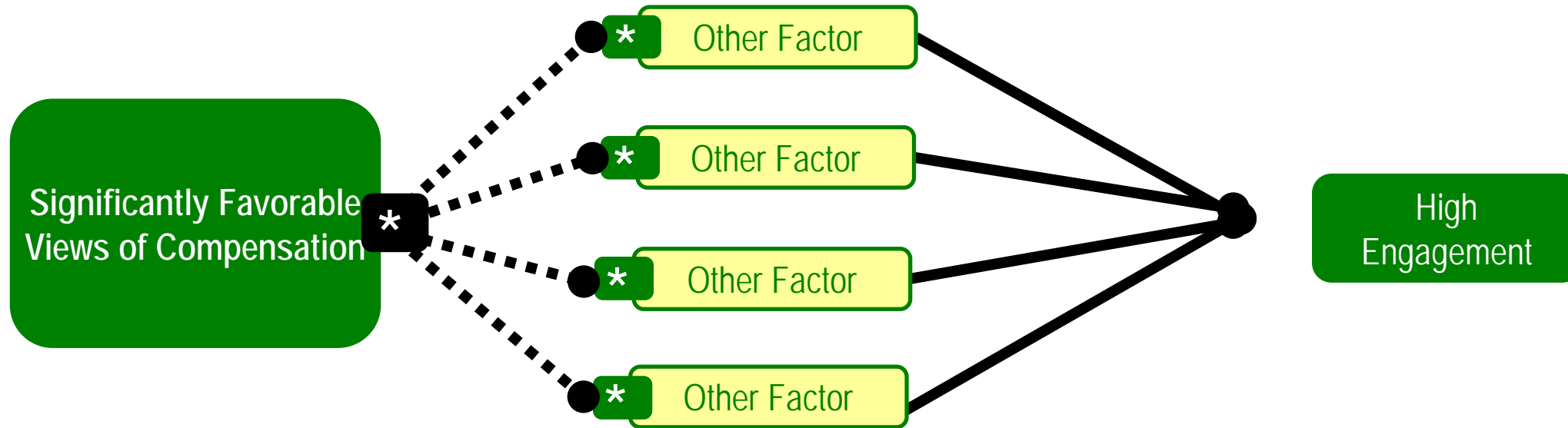


What this interaction means



When employees view compensation unfavorably, it is statistically linked to significantly lower ratings of key drivers which strongly impedes engagement

The Relationship Between Compensation and Engagement



What this interaction means



When employees view compensation favorably, it is statistically linked to significantly higher ratings of key drivers which optimizes engagement

The Relationship Between Compensation and Engagement



Gallagher

Insurance | Risk Management | Consulting



When employees perceive their compensation as **competitive**, it significantly increases the likelihood they will feel more favorable about the drivers of employee engagement—triggering a significant optimization of engagement



When employees perceive their compensation as **non-competitive**, it significantly increases the likelihood they will feel less favorable about the drivers of employee engagement—triggering a significant dampening of engagement



Key drivers of engagement predict engagement....but are more predictive of engagement when views on pay are considered



Our results support a need to shift the view of compensation as a non-factor in building engagement to a foundational trigger that enables engagement to be built more efficiently

Based on a sample of 18 healthcare organizations (hospitals/medical centers) spanning the Midwest U.S. Census Region (2017)

2018 High Performance
Employer Summit

Competing as a Destination Employer



Exploring the Link Between Compensation and Engagement—Case Study 2

2018

High Performance
Employer Summit

Competing as a Destination Employer



Gallagher

Insurance | Risk Management | Consulting

The Relationship Between Compensation and Engagement



Insurance | Risk Management | Consulting

Measuring Pay Perceptions in Surveys

Some researchers have proposed that there is a fear among employees that assigning positive ratings of pay items will prevent the organization from offering pay increases

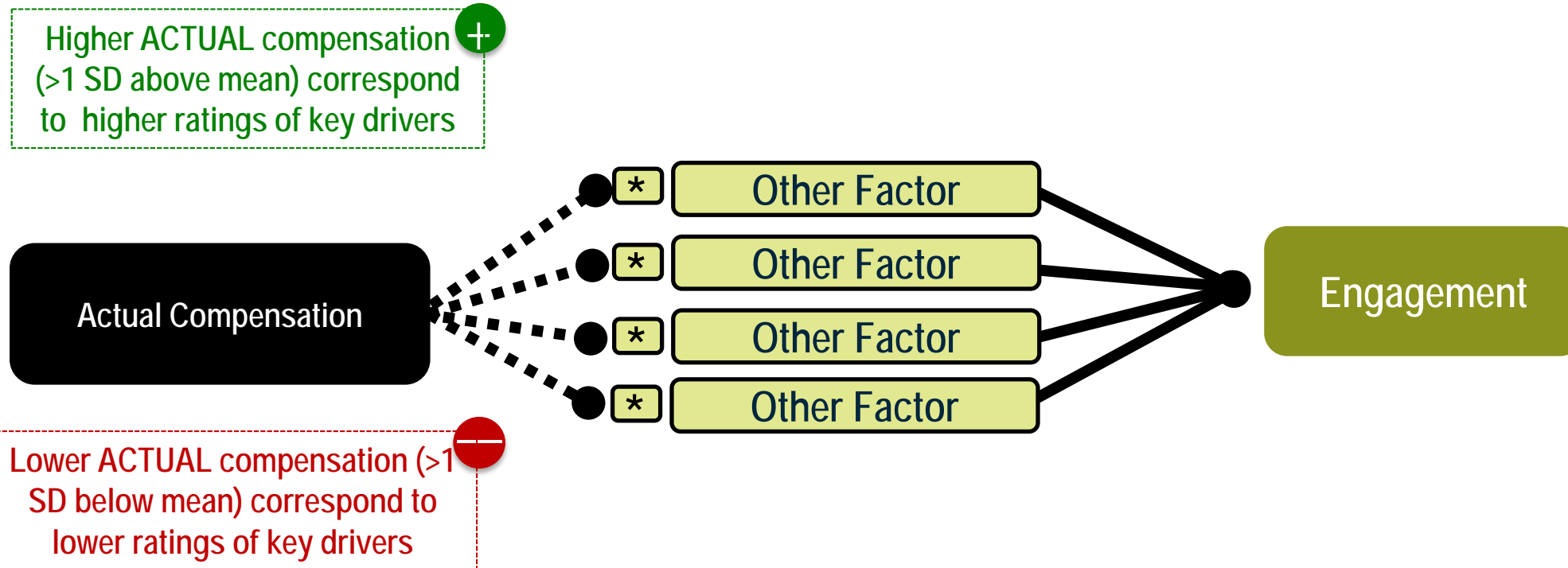
To further test our previous finding we tested a second variation of the moderated model of Compensation and Engagement by using Actual Pay rather than perceived competitiveness of pay

The Relationship Between Compensation and Engagement



Gallagher

Insurance | Risk Management | Consulting



2018 High Performance Employer Summit

Competing as a Destination Employer

The Relationship Between Compensation and Engagement



Insurance | Risk Management | Consulting

A Moderated Model of ACTUAL Compensation and Engagement

Echoing the findings of Case Study 1...



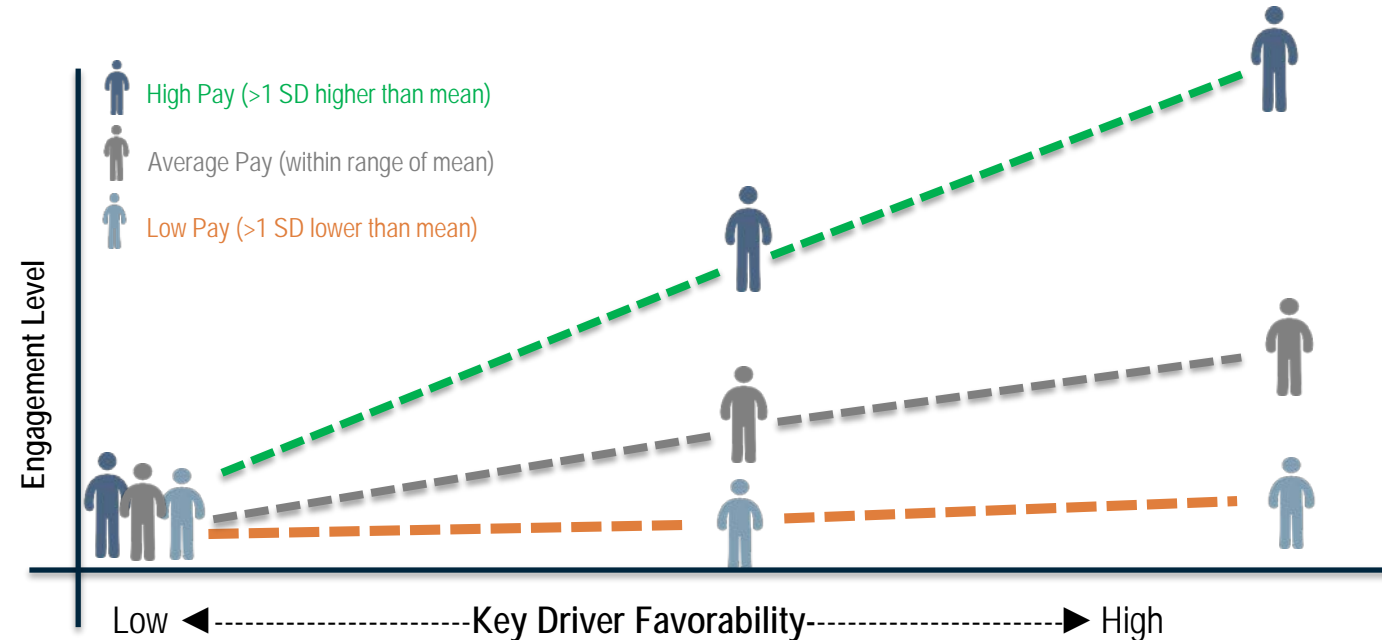
Employees paid **one standard deviation or more** than other employees in their same position category were significantly more likely to assign higher favorability to the drivers of employee engagement—triggering an optimization of engagement



Employees paid **one standard deviation or less** than other employees in their same position category were significantly more likely to assign lower favorability to the drivers of employee engagement—triggering a significant dampening of engagement

The Relationship Between Compensation and Engagement

The higher the amount of actual pay that an employee receives, the greater the impact the key drivers of engagement exert on employee engagement

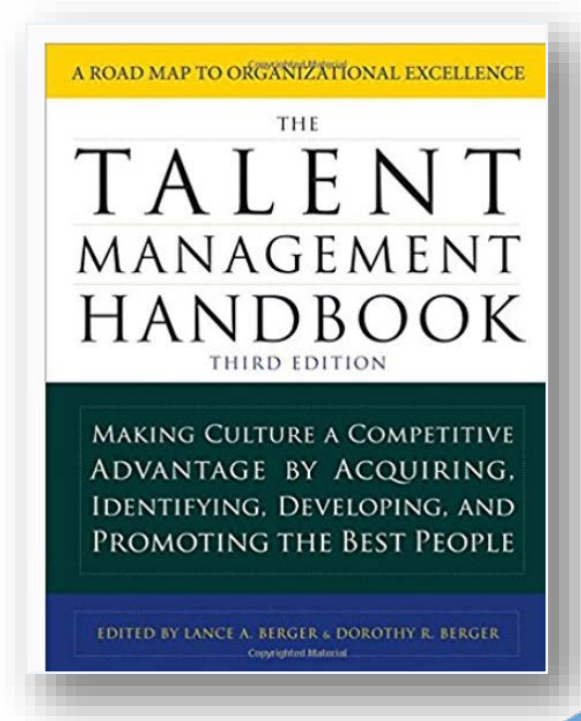


Based on a subset of 22 healthcare organizations (hospitals/medical centers) spanning the Midwest U.S. Census Region (2017)



Overall Summary of The Relationship Between Engagement and Compensation

- ★ The key drivers of engagement are highly predictive of employee engagement....but....are even more predictive of engagement when views on compensation are taken into account
- ★ This research does not mean that typical drivers of engagement (e.g., relationships with supervisors, teamwork, career growth, etc.) are not the most important pathways to building engagement.
- ★ It does heighten the importance of compensation—shifting us from a typical view of *compensation as a less important factor in building engagement* to *compensation as a foundational trigger enabling engagement to be built more efficiently*





David D. Rowlee, PhD Managing
Director & Practice Leader
David_Rowlee@ajg.com

2018 High Performance
Employer Summit
Competing as a Destination Employer



Gallagher

Insurance | Risk Management | Consulting