

THE WORLD OF RETAIL: A 2012 WORKTRENDS REPORT

HOW EMPLOYEE ENGAGEMENT CAN HELP THE REGISTERS RING



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Over the last several years, many retailers fell prey to the economic downturn, resulting in mass layoffs, widespread job insecurity and an increase in employee theft and shoplifting, otherwise known as shrinkage. A drop in retail employee engagement accompanied the drop in sales. This report uses data from the latest WorkTrends™ survey to explore the current state of employee engagement within the retail sector. The report discusses links between employee engagement and important organizational outcomes, and suggests improving retail employee engagement. Key findings include:

- Employees in the retail industry demonstrate the lowest employee engagement index scores of all industries
- Employee engagement is especially low for retail employees in customer-facing positions
- Different countries have noticeable differences in retail employee engagement index scores, perhaps due to varying expectations of customer service within different cultures
- Retail employees who are engaged rate their organization's performance about twice as high as unengaged employees
- Employees with below average employee engagement scores are much more likely to have plans to turn over than those with above average scores

INTRODUCTION

Since the economic downturn began in 2007, the world of retail has been shaken. The severe contraction in consumer spending around the world has triggered a consolidation across the retail spectrum, impacting brand name retailers such as Circuit City and Mervyn's. The most recent big-box retailer to fall was the U.S.-based bookseller Borders, which is closing down more than 350 retail stores. In the UK, fashion retailer Jane Norman went out of business, as did home furniture retailer Habitat, and several others. For the survivors, costs have been cut and growth plans have been put on hold as retailers try to forecast whether the end of 2011, and the 12 months of 2012, will be robust or lukewarm at best. Staffing has been slim, but on the positive side many businesses have streamlined their inventory management and improved process efficiencies, from the cash register to the warehouse.

Furthermore, industry reports suggest retail shrinkage—employee theft and shoplifting—is on the rise. Several situations might explain increased shrinkage, including security staff cut backs. However, others have attributed it to low pay, poor benefits and a perception among employees that their companies simply do not care about them.

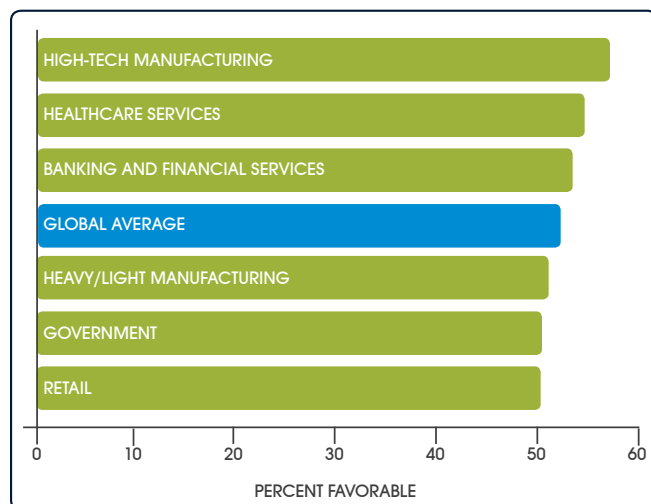
Given this background, perhaps it's not surprising that in the latest WorkTrends survey, employee engagement in the retail sector dropped even further in 2011; the

ABOUT KHPI

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employee engagement index score for retail employees registers only 51 percent. This puts retail at the bottom of the employee engagement list compared to other major industries (see Figure 1). We know the retail industry faces a perennial struggle with employee engagement given the nature of part of its workforce: part-time, lower-skilled and seasonal employees. However, does that mean it's not worth trying to address low employee engagement in the industry?

FIGURE 1: EMPLOYEE ENGAGEMENT BY INDUSTRY



On the contrary—there are many reasons why employee engagement matters, including the way employee engagement has been linked to positive organizational outcomes, such as higher employee retention, greater customer satisfaction and improved financial performance.¹ Furthermore, the WorkTrends data show employees with lower scores on engagement are much more likely to consider leaving their organization. This has clear cost implications in terms of replacing staff.

Using data from the extensive WorkTrends survey, this report explores the links between the engagement of retail employees, and employee turnover along with perceptions of customer satisfaction.

MEASURING EMPLOYEE ENGAGEMENT

The data presented in this report were gathered through the Kenexa® High Performance Institute's annual WorkTrends survey, which measures employee opinions about a variety of workplace factors. In 2011, Kenexa surveyed 30,000 full-time employees working for organizations with more than 100 employees. The employees worked in all skill levels and jobs in the world's biggest economies, including Brazil, Canada, China, Germany, India, Japan, the United Kingdom, the United States and 19 other countries.

We define employee engagement as “The extent to which employees are motivated to contribute to organizational success, and are willing to apply discretionary effort to accomplishing tasks important to the achievement of organizational goals.” Employee engagement is assessed through the Employee Engagement Index (EEI), consisting of the following items:

- I am proud to tell people I work for my organization
- Overall, I am extremely satisfied with my organization as a place to work
- I would gladly refer a good friend or family member to my organization for employment
- I rarely think about looking for a new job with another organization

Responses fall on a standard five-point Likert rating scale, ranging from strongly disagree to strongly agree. Respondents' scores on the four EEI items are averaged to create an overall engagement index score.

In general, employee engagement is an important leadership lever for influencing a number of organizational outcomes. Some of the top drivers of employee engagement include believing one has a promising future with the organization, having confidence in senior leaders, being excited about work and having support for work-life balance. All of these items can be directly influenced by an organization's leaders.

To examine the link between employee engagement and organizational outcomes, such as customer service, quality, organization competitiveness and overall performance, an overall Performance Outcome Index (POI) score was calculated, combining the following items:

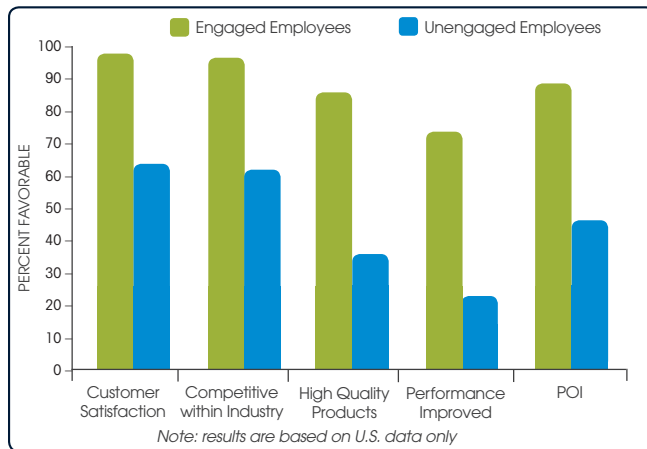
- My organization provides higher quality products and services than other similar organizations
- Overall, customers are very satisfied with the products and services they receive from my organization
- My organization competes well against others in the industry
- My organization's performance has improved during the past year

Retail employees who are engaged rate their organization's performance about twice as high as unengaged employees (see Figure 2). Further, in a sample of 158 organizations, employee engagement proved to be modestly related ($r=.19$) to a widely used financial metric: three-year total shareholder return (TSR).² Not only that, but numerous academic studies including linkage research by Wiley (2006) has demonstrated how employee surveys are leading indicators of organizational performance.

¹Harter, J.K., Schmidt, F.L. & Hayes, T.L. (2002). Business-unit-level relationship between employee satisfaction, employee engagement, and business outcomes: a meta-analysis. *Journal of Applied Psychology*, 87, 268-279

In short, employee engagement matters to retailers' financial success.

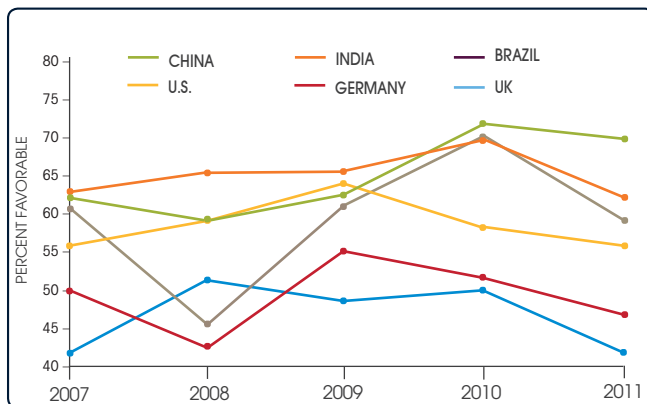
FIGURE 2: EMPLOYEE ENGAGEMENT AND ORGANIZATIONAL PERFORMANCE



FLUCTUATING LEVELS OF EMPLOYEE ENGAGEMENT

Retail employee engagement levels have fluctuated in the past few years. Figure 3 shows the employee engagement levels for retail employees across six countries from 2007 to 2011. Most countries peaked around 2009 or 2010. However, countries tend to differ depending on their continent. European countries had the lowest EEI scores, whereas the two Asian countries tended to have the highest. In 2011, the figures show a particularly stark contrast between China, with an EEI score of 70 percent, and the UK at 43 percent.

FIGURE 3: RETAIL EMPLOYEE ENGAGEMENT BY COUNTRY

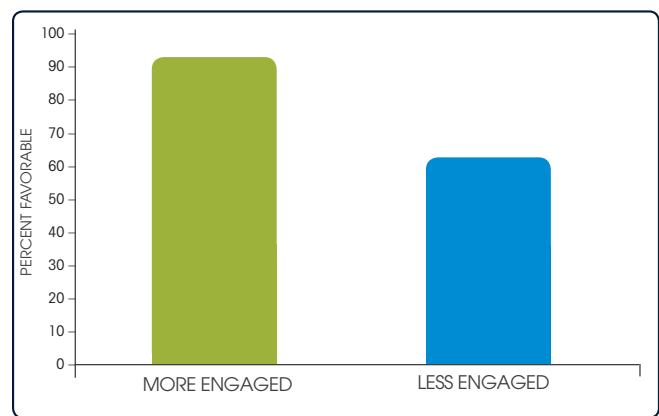


EMPLOYEE ENGAGEMENT AND CUSTOMER SATISFACTION

Senior management and hiring managers know how important engaged employees can be to sales. Their knowledge and commitment can be the difference between happy customers and disgruntled ones. Our research bears this out.

We compared highly engaged retail employees to less engaged employees using customer satisfaction with the products and services (see Figure 4). Nearly all highly engaged employees report their customers are very satisfied, whereas only about 60 percent of less engaged employees report this is the case. This points to a relationship between higher employee engagement scores and higher customer satisfaction, and it could mean increases in employee engagement levels could coincide with corresponding increases in customer satisfaction and, in turn, sales volume.

FIGURE 4: CUSTOMER SATISFACTION BY EMPLOYEE ENGAGEMENT



Additionally, for 16 retail organizations in the WorkTrends 2011 dataset, we aggregated employees' ratings of their own engagement to the organization level, creating an average organization engagement score. Then we correlated organizations' engagement scores with their score on the American Customer Satisfaction Index (ACSI).³ We found a very strong positive relationship between organization engagement scores and ACSI scores: as organization engagement levels increase, ACSI scores also increase. In fact, the top five organizations ranked by their engagement scores are the same top five organizations ranked by their ACSI scores. It is clear employee engagement is linked to customer satisfaction at both individual and organizational levels.

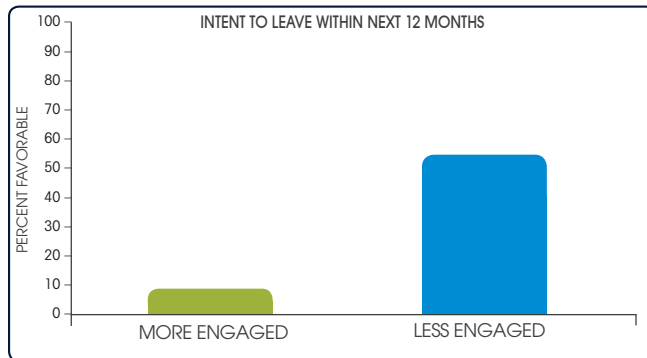
Even if a retail company competes in other ways besides customer satisfaction, low employee engagement is bad for business. Our research demonstrates lower employee engagement levels correspond to both high voluntary turnover rates and lower organizational performance.

As the global economy slowly emerges from the recession, opportunities for employees will open up elsewhere and businesses could again be forced into stiff competition for talent. This could prove costly for retail organizations with a less engaged workforce. In fact, more than 50 percent of less

²Driving success through employee engagement and performance excellence. A 2009 Kenexa® Research Institute WorkTrends™ Report
³Anderson, E. W. & Fornell, C. (2000). Foundations of the American Customer Satisfaction Index. Total Quality Management, 11, S869-S882

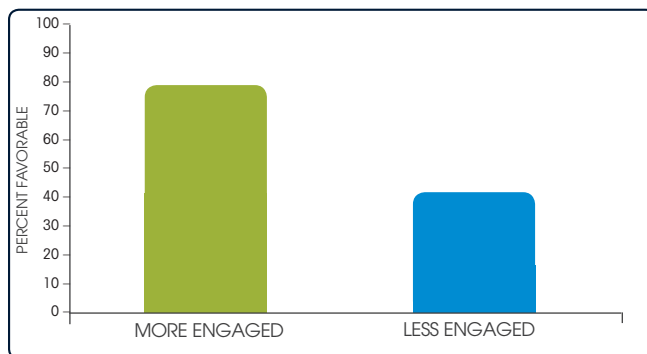
engaged retail employees plan to leave in the coming year, compared to only about 10 percent of their more engaged coworkers (Figure 5).

FIGURE 5: INTENT TO LEAVE BY RETAIL EMPLOYEE ENGAGEMENT



Employee engagement also matters when it comes to employees' perceptions of organizational performance. When retail employees are more engaged, twice as many report their company is performing better than last year (Figure 6). It stands to reason that employee engagement is related to organizational performance through less turnover and better customer service.

FIGURE 6: ORGANIZATIONAL PERFORMANCE BY RETAIL EMPLOYEE ENGAGEMENT



HOW TO IMPROVE ENGAGEMENT

Organizational leaders can take a number of steps to reduce the risk of turnover among retail employees. The top drivers of employee engagement in the retail industry are effective senior leaders, support for work-life balance, fair compensation and an innovative climate.

LEADERSHIP EFFECTIVENESS

Effective leaders are seen as competent, and we assume they can handle the challenges they and the whole organization face. They're not distracted by politicking and infighting. Instead they cooperate and collaborate with others on the leadership team. They inspire confidence in their employees through their actions and their demeanor. They are trustworthy, honest and caring.

WORK-LIFE BALANCE

Organizations need to help their employees balance work and life priorities, not just by offering practical support, such as flexible work schedules, but also by offering emotional support and understanding. Organizations that support work-life balance are more attractive to employees and prospective employees.

FAIR COMPENSATION

More than the amount of compensation, what matters most is the employee's perception of pay fairness. Cultivating this attitude among employees might be as simple as explaining how their pay was determined, showing the link between their pay and their performance, and making sure they understand how to maximize their own compensation.

INNOVATIVE CLIMATE

This might be surprising, because people are less likely to think about innovation in retail. However, it is logical when you think about it in terms of exciting work. Employees like trying new things, sharing their ideas and being listened to. The chance to be innovative both challenges and motivates them to perform at their best.

CONCLUSION

This report draws a number of important conclusions. The retail industry is at high risk for employee turnover and lowered performance, because employees in this sector report the lowest engagement index scores among all industries. Understanding what drives employee engagement illuminates the path leaders can take to bolster employee engagement in their organizations. ■

ABOUT THE WORKTRENDS SURVEY

The 2011 WorkTrends survey provided the insights used in this report. More than 31,000 workers from 28 countries completed online questionnaires about workplace issues, such as managerial and leadership effectiveness, senior management behavior, diversity practices, turnover intentions and job satisfaction. The survey includes 141 items asking employees for their perceptions and opinions about workplace issues, such as managerial effectiveness, senior management behavior, diversity practices, turnover intention and job satisfaction.

The WorkTrends items allow Kenexa clients to compare their own survey responses to those of a larger, more representative population. The WorkTrends survey norms are unique in the survey industry, in that they are truly normative data—they are not derived from other clients, but from a random sample of the working population. In addition, questions identifying high performing organizations have been embedded, allowing clients to compare themselves to those who excel. Clients also can choose to compare themselves with others in their same industry.