

# EMPLOYEE ENGAGEMENT OR BUSINESS RESULTS WHERE SHOULD LEADERS FOCUS FIRST?

## Magenta Insights Paper

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Management literature (and that of many consulting firms) is riddled with the message that engaged staff members deliver better performance.

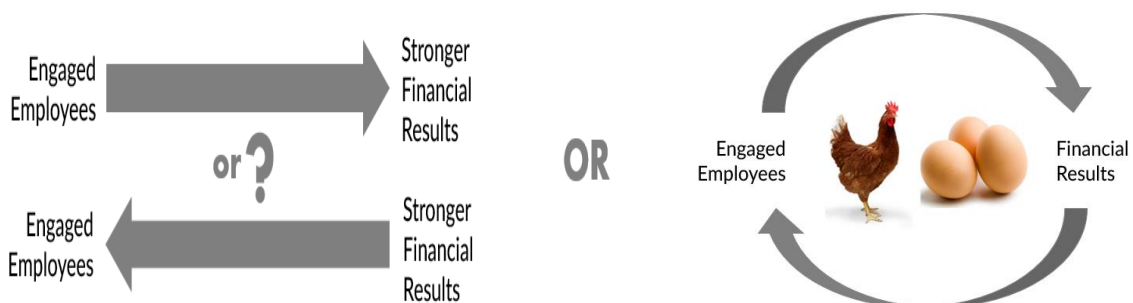
This is an easy message to accept. And it is undoubtedly true. Engaged staff are promoted as being more motivated, persistent, resilient, customer-friendly, and creative. Employers, it is said, will also receive the benefit of greater levels of discretionary effort and loyalty from team members who feel connected in a meaningful way to their employer and to their leaders.

What is less-often explored and exposed, is the scientific evidence that accurately describes the nature of the relationship between engagement levels and business results.

Specifically, it is useful to explore whether this relationship between engagement and results is one directional or circular. Is the relationship causative or correlated – or both.

The one directional viewpoint, which is subtly implied or directly expressed in so much of the management literature, purports that increasing staff engagement will increase your business results, whilst increasing your business results has a neutral impact on employee engagement levels.

Correspondingly, the circular viewpoint proposes that whilst higher levels of staff engagement contribute to stronger business results, the reverse proposition also holds true – stronger business results contribute to higher levels of staff engagement.



Back in 2003 the American Psychological Association published a paper entitled “Which Comes First: Employee Attitudes or Organizational Financial and Market Performance?”

This paper, based on research undertaken at the University of Maryland in the US, provided a scientifically validated assessment of the relationship between employee engagement and business results. Much of the paper's strength is found in the longitudinal nature of its development. The paper was based on data recorded across 35 companies over an eight (8) year period. Employee attitude and organizational performance data were collected and analysed over time, permitting inferences regarding causal priorities between the two.

It found that “models that draw the causal arrows from employee attitudes to performance at the organizational level are at best too simplistic and at worst wrong”.

The researchers investigated the relationship between the harder financial metrics of Earnings per Share (EPS) and Return on Assets (ROA) on the one hand, and a range of employee engagement indicators, including Overall Job Satisfaction, Satisfaction with Security, Satisfaction with Pay etc, on the other.

Their findings were fascinating. They included the conclusions that:

- **Stronger EPS and ROA outcomes were more likely a cause of stronger 'Overall Job Satisfaction' than the reverse.**
- **Similarly, stronger EPS and ROA outcomes were more likely to cause stronger 'Satisfaction with Security' than the reverse (and we know from other research that the presence of 'psychological security' at work is a strong driver of engagement and discretionary effort).**
- **The relationship between EPS, ROA and other satisfaction factors, including 'Satisfaction with Pay', 'Satisfaction with Job Fulfilment', 'Satisfaction with Work Group', and 'Satisfaction with Empowerment' were shown to be more equal, with the causal impact recorded as close to equal in each direction.**

The results suggest that there is no need for a pecking order between the development of employee engagement and the delivery of stronger financial results. Both are crucial.

Also of interest in the APA paper was the authors' acknowledgement of other research findings which point to a very strong causative relationship between high-performance work practices and organizational financial performance.

This paper continues to offer a reminder of the importance of leaders **working actively and concurrently on the three sides of the 'performance ledger'**:

- Driving to deliver the **financial results**; whilst also
- Looking after the factors that drive higher levels of **engagement** to the organisation and its goals amongst the team members; and
- Designing, building and sustaining **high-performance work practices**.

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