

# Employee Engagement

“Employee engagement” can mean a lot of things to a lot of people, including job satisfaction, personal investment in the business, willingness to go the extra mile, helping drive improvement [or recommending the company as a great place to work](#). Having an engaged workforce can help to reduce turnover, increase productivity, promote better customer service, and enable creative problem-solving at your business. In addition, employee engagement supports discretionary effort—[going the extra mile](#). Furthermore, [better employee engagement is tied to increased customer engagement](#), which in turn helps to boost customer loyalty and retention—all of which reinforce your bottom line.

At small businesses, small changes and a commitment to employees can make a big impact on engagement. A number of factors determine how engaged employees feel, and the importance of each can vary from one business to another. Here, we’ve distilled key tactics to improve engagement, create a strong company culture, and boost your bottom line.

## The Business Case

### What is the impact on my bottom line?

Active employee engagement provides a variety of benefits for your business, such as:

#### Reduced turnover

Employee turnover can be a financial burden to your business. For workers earning less than \$50,000 annually, [the typical cost of turnover is 16-20% of an employee’s annual salary](#). The estimated cost to replace a \$10-per-hour retail employee [is approximately \\$3,300](#). Successfully engaging employees means they’re more likely to stay at—and grow with—your business. Lower turnover helps to reduce the costs of training and hiring. In addition, high retention rates can also help your business grow more quickly because highly-engaged employees tend to refer their friends to open positions. To understand the factors contributing to the real “total cost” of losing an employee, check out [Employee Retention Now a Big Issue: Why the Tide has Turned](#).

## Cost of Turnover Tool

UpSkill America and The Aspen Institute's Workforce Strategies Initiative partnered to create a more tailored approach for businesses to calculate the cost of turnover. Their [Cost of Turnover Tool](#) walks businesses through the steps to calculate the cost of turnover for their business. The tool is designed to help businesses understand the impact of turnover on the bottom line by taking in both direct and indirect costs of turnover. Direct costs of turnover include:

- Separation costs to part with an employee (e.g. separation pay, staff time to process separation)
- Daily vacancy costs to cover the open role on staff (e.g. overtime for another employee)
- Recruitment and screening costs to hire a new employee
- Orientation and onboarding costs for a new employee

Indirect costs attributable to turnover can include:

- Shrink costs such as reduced profit from administrative and scanning errors
- Safety costs due to increased legal and compliance costs from worker and customer injuries
- Lost sales from reduced customer service, increased stockout, and similar challenges from understaffing

The tool comes in two formats: a worksheet that allows you to collect the information you need, and a Microsoft Excel version that will do the math for you. The goal of the tool is to help businesses better understand how churn impacts their bottom lines.

## Financial resilience

SJF Ventures' [Employees Matter](#) report profiled 24 companies of varying sizes and industries that focus on employee engagement. The report is full of tips and advice for different kinds of engagement strategies, and how each affected the business' growth. Their research also showed that businesses who actively engaged their employees—through transparency with the business' financial health and with strong communication—[tended to better weather the ups and downs of the market](#).

## High customer service and satisfaction

More engaged employees tend to provide better customer service because they find meaning in their work and understand how their performance impacts the success of the business. Strong customer service can have a positive impact on sales, as well as company reputation.

### *Engagement's effect on key business outcomes*

When compared with business units in the bottom quartile of engagement, those in the top quartile realize improvements in the following areas:

Source: [State of the American Workplace](#), Gallup

## How to Get Started

### Achieving employee buy-in takes more than employee engagement

It's important to note that creating a culture of employee buy-in at your business is influenced by factors beyond the steps you take to actively engage your employees. Many of the areas covered in depth elsewhere in this toolkit are also big factors in how your employees feel toward you and your business. For example, if you're able to offer good health and retirement benefits and opportunities for internal promotion—or if employees know you're working hard to try to offer those things.

Some of the areas business owners should consider in the context of their employee engagement efforts include:

**Benefits**—providing employees with comprehensive benefits (health insurance, retirement accounts, discounts, meals, etc.) reduces potential physical and financial barriers to their ability to work, helping them to focus their efforts at work and therefore be more engaged.

**Thoughtful Hiring**—carefully selecting employees based on not just skillset, but also long-term fit with your company's culture, is key to creating a team of engaged workers.

**Training and Internal Promotion**—investing in employees early on by providing training in hard skills (such as IT) and soft skills (such as customer service), communicating the company’s core values, and giving regular coaching and constructive feedback creates an environment where employees can grow over time and feel a sense of how their work each day contributes to the success of the whole company.

**Operating with “Slack”**—Your employees need to have time to problem solve and drive improvements. If they are always behind because of lack of staffing, continuous improvement and engagement are more difficult to foster.

**Employee Ownership**—[research suggests](#) that providing employees a means of ownership (via stock options, ESOPs, profit sharing, cooperative structure, and more) helps to increase productivity, retention, and workforce satisfaction.

## Five Ways to Engage your Employees

### 1. Create a culture of mutual respect and trust

When employees feel respected and trusted, they are [more loyal to their employer](#) and more invested in their work. When employees feel a sense of loyalty and respect, they’re more likely to stay at your business long-term, have a dependable attendance record, provide high-quality customer service, and recruit their friends to join the company. Creating a culture built around these values can be especially important at a small business, and can save you a lot of headaches around common workforce challenges like absenteeism and turnover.

There are a variety of ways to create a culture of trust and respect at your company:

- **Enable an open dialogue between employees and management/ownership.** [Companies that report high levels of employee engagement](#) often allow employees to speak with management or the owner(s) whenever they want to. Providing an open opportunity for your employees to communicate challenges, ask questions, or seek advice from you or your managers demonstrates mutual respect. Creating this open culture around communication can also help you learn about and understand problems (as well as opportunities!) directly from front-line workers, and it makes employees feel supported by the business as a whole.
- **Encourage employee participation.** Most employees want to feel empowered to make decisions and have a degree of ownership in the work they do. Productivity and engagement increase when employees have a say in how they perform their roles. Actively

and regularly asking for employee input on ways to improve efficiency and [job design](#)—and making sure that input is really heard—can go a long way in motivating and empowering employees. You can also provide employees the chance to lead projects, take on responsibilities outside their primary role, or learn new skills with the support of you and the business. Fostering a culture of ownership at your organization [helps employees to feel depended on and valued](#). To learn more about how this can work in practice, check out Entrepreneur’s [Build a Culture of Ownership at Your Company](#).

- **Recognize employee success.** According to a Gallup study, companies that do a good job when it comes to employee recognition [have 19% less turnover](#) than those who don’t. Below are a few simple ways you can provide recognition:
  - **Focus on Progress.** [Studies show](#) that employees feel more motivation in their work when they know they’re making some kind of progress—large or small. Helping your employees to understand how their work is valuable and contributing to the progress of a project or the growth of your business can make a large impact on employee happiness and engagement.
  - **Shine a Light on Employees.** Employee recognition can be anything from on-the-spot acknowledgement of a job well done, a thank you in a team meeting, or a shout out in a group email. You can even ask your employees how they would want to be recognized for their contributions.
  - **Celebrate as a Group.** Success can also be celebrated on a team or company-wide basis for reaching small or large milestones. These celebrations (such as discounts, meals, events, employee recognition programs, etc.) [help foster the philosophy that team success builds business success](#).
- **Establish a trusting, flexible work environment.** Create an environment in which employees feel that they’re trusted to get the job done—ideally without having close supervision or stringent reporting on their work. Standardizing routine tasks, but empowering employees to solve customer problems and identify opportunities for improvement will build trust and engagement. Additional perks such as flexible working hours, paid leave, vacation, and the opportunity to telecommute on occasion also help to reduce employee stress, decrease the frequency of absenteeism and tardiness, and communicate a culture of respect.

For more guidance on the importance and financial value of a strong company culture, check out:

- Entrepreneur’s [It Really Pays to Have a Rich Company Culture](#)
- Harvard Business Review’s [Don’t Let Your Company Culture Just Happen](#)
- Intuit’s [6 Ways To Build a Great Corporate Culture for Your Small Business](#)

## 2. Identify key success metrics—and connect them to employees' roles

Sharing the critical metrics necessary for the financial success of your business with employees helps to create broad-based involvement and a sense of ownership for employees.

- As a first step, it's helpful to pinpoint the key numbers/metrics that are drivers of profitability at your organization if you don't already have them figured out. Examples include annual sales, costs of production, and customer satisfaction ratings. [The Operational Performance section of The Good Jobs Scorecard](#) also provides helpful metrics from which you can pick and choose.
- After identifying those numbers, the next step is setting goals or targets for those figures—and sharing them with all staff.
  - Depending on your business and staff, it may be helpful to educate employees on how to read balance sheets and income statements. [The Keys to Designing a Great Business Literacy Program](#) offers actionable tips for how to equip employees to be valuable participants in the process.
- Once workers understand the metrics you use, the targets you're aiming for, and the key drivers of success, it's important to regularly communicate progress toward the goals to everyone. Communicating these numbers with all staff in regular company meetings, email updates, or via a scoreboard in a widely visible location creates an environment of accountability and helps to provide targeted motivation toward specific goals.

*The key to effective engagement around metrics is helping employees understand how their own individual roles and responsibilities impact these numbers. When employees can see how their day-to-day actions can influence the overall mission and business results, it creates a sense of motivation and meaning in the work. Better yet, business owners can give employees a stake in the outcome by providing incentives such as [bonuses for meeting specific targets](#) or profit-sharing opportunities.*

One leadership approach that emphasizes this idea is Open Book Management. This framework is guided by three basic points:

- **Know and Teach the Rules.** Employees should be provided with measures of the business' success and educated on how to understand those numbers.
- **Follow the Action and Keep Score.** Employees should follow progress on the key numbers and take action to improve performance as necessary.
- **Provide a Stake in the Outcome.** Employees should have a direct stake in the organization's success (e.g., equity, employee stock ownership, or profit sharing).

To learn more about how implementation of Open Book Management can look in practice at a business, read Entrepreneur's [Small Business Guide: What Owners Need to Know About Open-Book Management](#).

### 3. Enable employees to innovate and participate in decision-making

When employees are encouraged to innovate, they're more likely to enjoy their jobs and [feel loyal to their company](#). By providing a setting that encourages innovation and openness to your employees' ideas, you can help them to feel that they have an impact on how the business does.

Whether it's hosting brainstorming sessions or creating an ongoing open dialogue, you can create opportunities for innovation by openly sharing business challenges or new opportunities. [To support employees in offering valuable ideas](#), it's helpful to share your understanding of business challenges, pinpoint root causes, discuss the constraints of current approaches, and clearly articulate the end goal.

Problems may be surfaced and solutions may be generated in many different ways. Daily huddles before a shift to review performance and discuss challenges may help. Another valuable tool is creating [an ideas system](#)— something many industries find helpful.

### 4. Emphasize core values

Communicating your business's unique core values to your employees early and often helps to encourage a culture where employees understand and embody the values. Core values can include a positive attitude, high-quality customer service, open communication— whatever works well for your business and your goals. If you're not sure where to start, check out The Muse's [five-step guide to choosing core values](#).

Consider these ways of engaging employees in the core values of your business:

- **Start the messaging early.** When employees are on-boarded, you can communicate the importance of the values, and even have workers sign a mission and values statement.
- **Reinforce the values.** After onboarding, you can continue to reinforce these values in ongoing trainings, email communications, and visual signage. Inc. also offers [9 Ways to Reinforce and Live Your Company's Core Values Every Day](#).
- **Make it rewarding.** Many businesses have also had success with employee recognition programs where leadership or staff nominate employees on monthly, quarterly, or annual bases who demonstrate the business' core values. Winners then receive an incentive such

as a bonus or an extra day of paid time off.

## 5. Encourage employee growth

As described earlier in the toolkit, supporting your workers through training and professional development is critical to building a productive, engaged workforce. Tactics to help employees grow vary by business, but here are a few ways to make employees feel like they're growing with the company:

- **Set clear goals and expectations.** It's key for you and your managers to set defined—and realistic— performance expectations for your employees. These goal-setting conversations are most effective during initial employee onboarding, during periodic performance reviews, and throughout the year as you see fit.
- **Help employees succeed.** As a business owner, it's helpful to understand what keeps your employees from being more engaged or successful than they already are, such as scheduling, childcare considerations, and transportation considerations, and remove (or lessen) obstacles where possible. In addition to reducing any obstacles that you can, supporting your employees through adequate training and development helps set them up for more productivity and for upward growth.
- **Map out how employees can advance in their careers.** Potential for employee advancement may vary depending on the size of your business. Regardless of size, however, there are many ways to support employee development. If possible, consider providing opportunities for employees to:
  - Communicate with you regularly about their career goals during check-ins or reviews
  - Engage with an expert in the field or participate in a formal mentorship program
  - Take on increasing levels of responsibility—either in their role, or by periodically filling in for higher-level roles
  - Work with and learn from staff in other parts of your business (e.g., different locations, different functions, different seniority levels)
  - Teach other employees how to perform a specific task or responsibility
  - Allow them to take on or participate in special projects
  - Provide feedback on managerial decisions
  - Pursue coursework and outside training programs with tuition reimbursement
  - Attend relevant industry events and conferences
- **Provide one-on-one time between employees and managers.** When owners or managers spend time with employees on a one-on-one basis, [employees feel more engaged](#). If possible, regular check-ins between employees and managers can help to create an



engaged and equitable work environment.

- Forbes' [Secret To Effective One-On-One Meetings with Direct Reports](#) is a helpful resource for managers, as is Harvard Business Review's [How to Make Your One-on-Ones with Employees More Productive](#).

Helpful Resources

## Employee Engagement

While effective employee engagement tactics can vary business by business, it can be helpful to see what innovative tactics other companies use to engage their employees. Learn how:

- Tasty Catering [uses games to create a sense of employee ownership and understanding of financial data](#)
- New Belgium Brewing [creates a high involvement workplace](#)
- New Seasons Market [provides great customer service by putting people first](#).

## Additional Help

### Meet with an expert or get advice from a peer

If you'd like additional guidance, various public and nonprofit services can connect you to advisors with personal experience running a small business, including SBA [Small Business Development Centers](#) and Pacific Community Ventures' free [BusinessAdvising.org](#) platform. It connects small business owners like you from anywhere in the country with experienced pro bono business advisors who can offer ongoing advice on a range of issues, including HR, marketing, IT, operations, and other small business concerns. To find other services in your area, visit the SBA's [Local Assistance page](#).