



The Employee Loyalty Index

The growing gap
between loyalty
and leadership
that employers
cannot ignore.

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1.

Introducing the Employee Loyalty Index

Employee loyalty is always a hot topic in HR, impinging directly on the bottom line through employee retention and turnover rates.

Yet it is difficult for any employer to truly know what makes employees want to stay with an organisation. The reasons vary between industries and age groups and are affected by economic conditions and changes in personal circumstances that are beyond any employer's control. Attitudes change according to educational attainment, employment status, personality and age. The pandemic will certainly have affected how employees and their employers view loyalty, making any examination of the subject even more relevant.

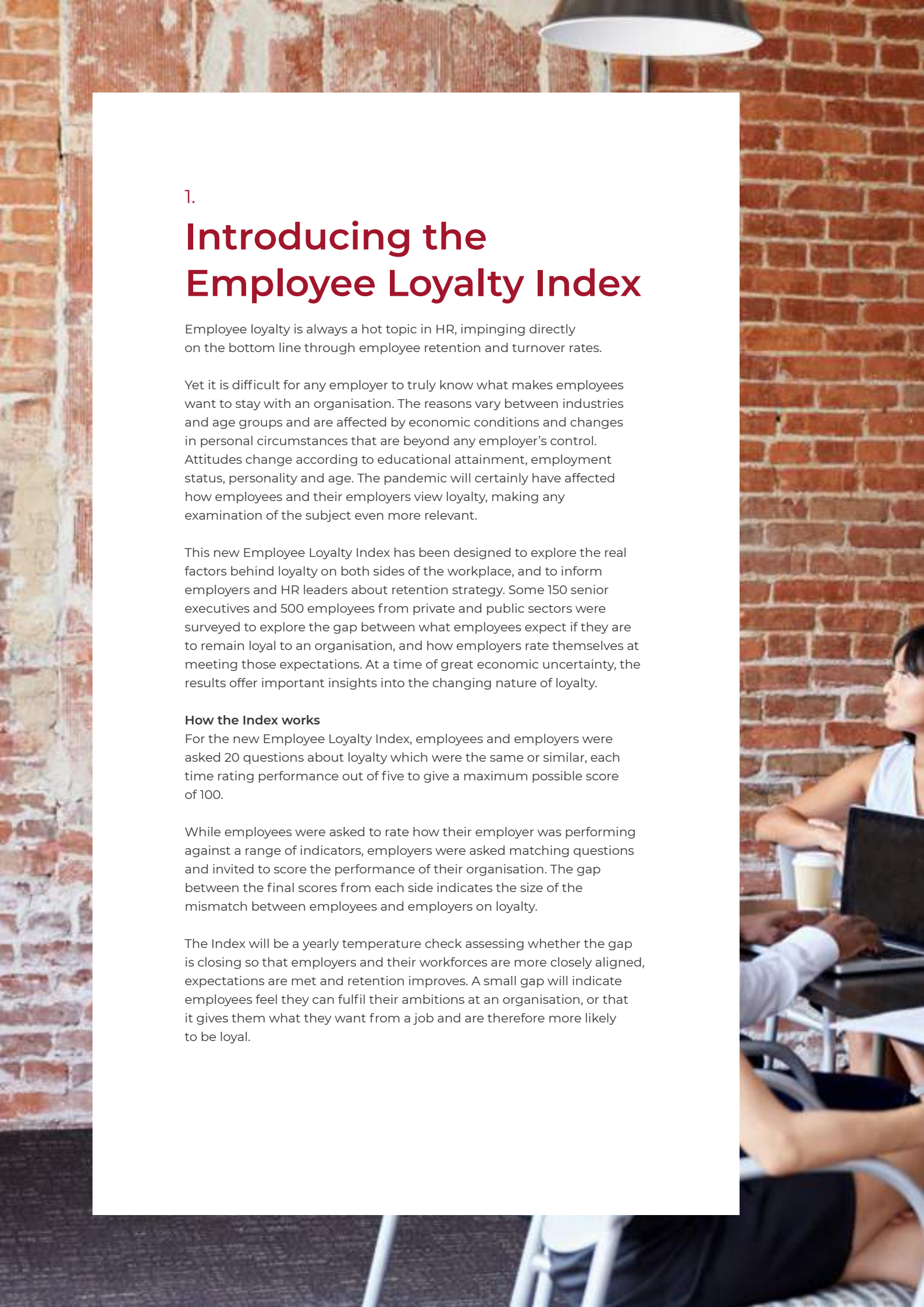
This new Employee Loyalty Index has been designed to explore the real factors behind loyalty on both sides of the workplace, and to inform employers and HR leaders about retention strategy. Some 150 senior executives and 500 employees from private and public sectors were surveyed to explore the gap between what employees expect if they are to remain loyal to an organisation, and how employers rate themselves at meeting those expectations. At a time of great economic uncertainty, the results offer important insights into the changing nature of loyalty.

How the Index works

For the new Employee Loyalty Index, employees and employers were asked 20 questions about loyalty which were the same or similar, each time rating performance out of five to give a maximum possible score of 100.

While employees were asked to rate how their employer was performing against a range of indicators, employers were asked matching questions and invited to score the performance of their organisation. The gap between the final scores from each side indicates the size of the mismatch between employees and employers on loyalty.

The Index will be a yearly temperature check assessing whether the gap is closing so that employers and their workforces are more closely aligned, expectations are met and retention improves. A small gap will indicate employees feel they can fulfil their ambitions at an organisation, or that it gives them what they want from a job and are therefore more likely to be loyal.



2.

Executive summary

Productivity is critical and for most organisations it depends on having the right number of employees and ensuring they are motivated. In other words, the number of people recruited by the HR team compared with the number of employees the company loses to resignations. This is a balance every business tries to get right on a daily basis.

Yet as we see in this research, being successful at striking this balance is as much about the employer being loyal to the employee, as the other way round. Employers emerge from these findings as too likely to pat themselves on the back about how they keep the workforce loyal. In reality, the findings show significant differences between employers and employees on subjects such as pay, bonuses, the effect of teamwork and what makes someone feel fulfilled in their job.

This difference arises because, generally, HR departments and employers might not have access to data or insights about why people leave. They have to go and ask for it.

After reading these findings, any organisation should question how transparent its HR management information is in relation to all the factors affecting loyalty. Do you really get to the bottom of why people leave? How open is your business to knowing what qualifications and skills are needed for your employees to progress? How much understanding do you have of individuals and how fulfilled they are? This is much more than a nice-to-have item. Earlier this year, for example, a French court awarded €40,000 compensation to the employee of a luxury perfume manufacturer because he had so little to do it affected his mental health and amounted to harassment.

The HR function in an organisation will only be effective in the modern, digital world, if it embraces technology to understand and manage flight risk at a high level of detail. To improve loyalty and increase productivity, HR needs greater insight, stripping away a layer of bureaucracy so it can connect senior business leaders to the people they employ.



3.

Key findings

Overall, the Index shows a substantial and serious gap on loyalty between employers and employees. Employers rate themselves much higher at generating and boosting loyalty compared with the way employees see it.

The research also reveals that:

A third of employees look for a new job every month. While many factors come into play when employees search for a new role, it's likely, given the current climate, they might be more motivated by financial incentives than before to support themselves through an uncertain period, which might not be feasible for the employer. However, creating a culture of trust in this instance is likely to be just as important as financial remuneration.

- Non-financial factors, such as flexible working, aspects of everyday workplace culture and a sense of fulfilment from teamwork are significantly underestimated by employers
- By a narrow majority, most employers know they must do more to improve employee loyalty
- Nine-in-ten bosses believe technology makes for a good organisational culture

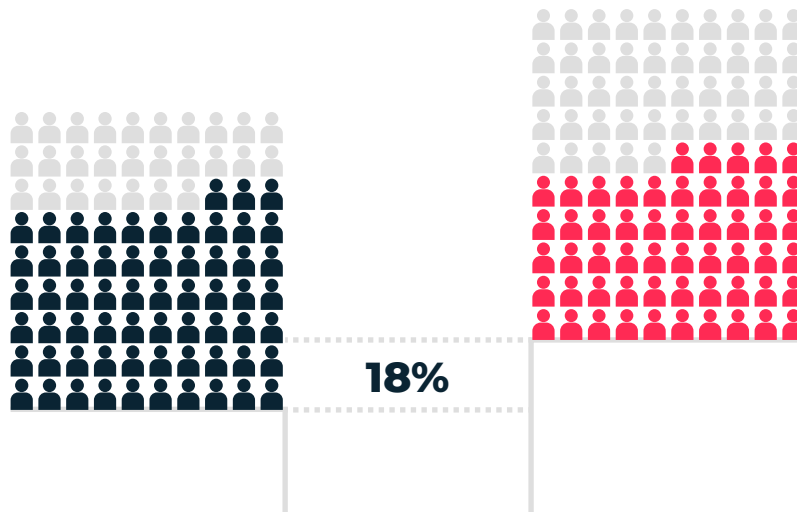


4.

What does the boss know about loyalty?

The overall Index reveals that employers have a much higher opinion of their own performance at generating and maintaining employee loyalty than employees do.

The employers award themselves (and their organisations) 73 points out of a possible 100. Employees, by contrast, only award their employers 55 points out of 100 for what they do to keep employees loyal. In percentage terms, this means there is an 18% gap.



This may not seem huge, but aside from the estimated 20% salary cost to replace employees who leave, there is the wider adverse impact on an organisation's performance, skills-base, team cohesion and customer retention. Customers notice when their contacts in a business leave or there is a constant change in the people they deal with – and they don't like it.

An organisation that scores poorly for loyalty will miss out on employees who are more prepared to invest time and mental effort in their work and less likely to leave due to some temporary set-back. Regardless of market or sector, poor performance on employee loyalty will always drag down sales, and productivity, reduce new business wins and customer retention.

But where does the gap come from? The Index and the accompanying research explored attitudes to loyalty and how employers can increase the willingness of employees to remain working for their organisations.

5.

It's all about the money

One of the key findings is that employers rate themselves more highly than employees on using monetary rewards to maintain loyalty.

The employers' rating of their own performance on the use of individual bonuses for hitting targets is 27% higher than they receive from employees.

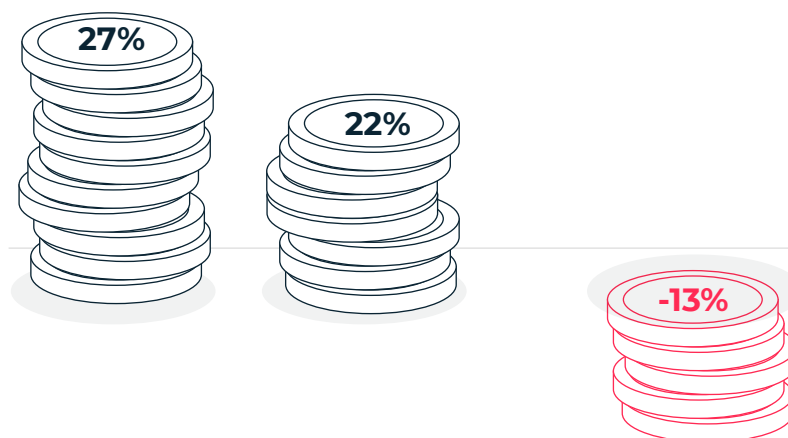
The same gap exists on their use of above-inflation pay rises to recognise individual excellence. There is also a 22% gap on the more general adjustment of pay and rewards to keep individuals loyal.

In this research, employers generally rate bonuses and above-inflation awards less highly as loyalty tools. Some 42% of bosses believe bonuses and above-inflation pay awards are the best ways to recognise and reward individuals they want to keep, considerably less than the 55% of employees.

On pay, the difference in outlook is even starker. Only 38% of bosses believe competitive pay scales make employees feel more loyal. This contrasts with 55% of employees.

Pay and financial rewards are certainly a sensitive issue, but not the only motivator for employees to remain loyal. The CIPD 2015 report, [Show Me the Money, the Behavioural Science of Reward](#), highlights that other forms of reward or benefits such as company cars and healthcare play a role.

The CIPD report also acknowledged an "ingrained sense of fairness" in employees when addressing pay and progression, which may be why many workers in this research are rather negative about how bonuses are used. Sensitivities around fairness are also probably why there is a difference of 24% on how well organisations set C-suite pay at levels that employees find acceptable.

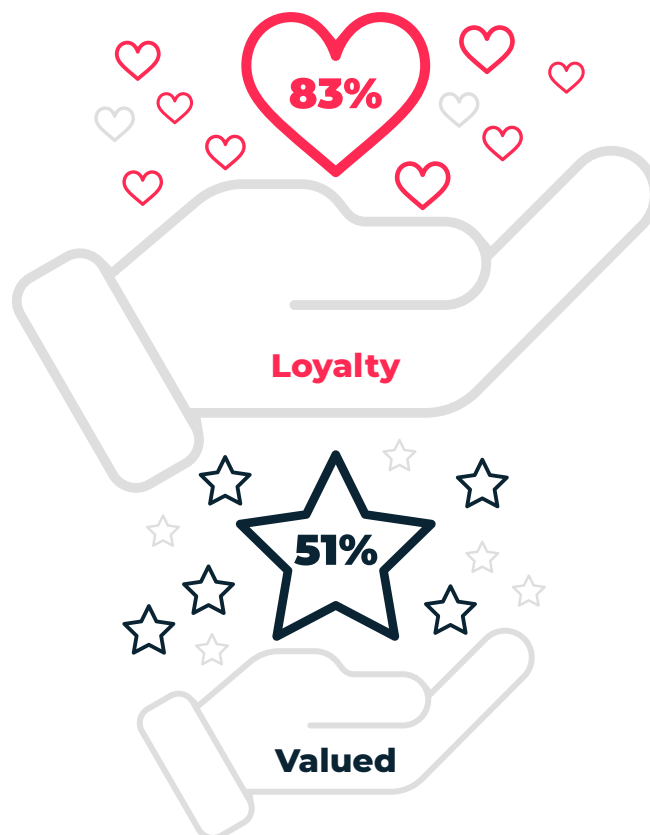


6.

Loyalty and attrition – should I stay or should I go?

The findings reveal the great majority of employees (83%) regard themselves as loyal. This seems high, but recruitment website Monster believes average employee turnover in the UK in normal times is 15%, with the proviso that there is substantial variation in different industries. ONS figures show, for example, that a third (33%) of employees working in retail, wholesale and vehicle repair changed employer between January 2017 and December 2018.

Yet although more than eight-in-ten employees see themselves as loyal, only half (51%) believe their leadership team cares about retaining them. The other half of the average workforce doesn't know if their employer really cares whether they stay or go, which doesn't exactly build loyalty.



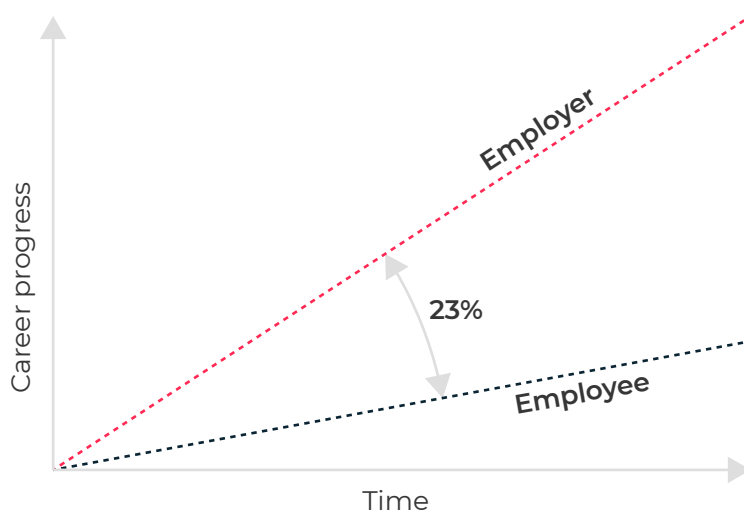
7.

Career opportunities – do they knock at your door?

Another important area where views differ concerns career progression. While many employers say they offer significant routes to promotion and career development within their organisations, employees frequently have a different experience.

- There's a gap of almost a quarter between employers and employees on providing clear career plans for employees. Employers give themselves ratings for this that are 23% higher than they receive from employees
- Employers also rate themselves 20% higher on the use of regular meetings to check on the career progress and training requirements of individual employees

Although employers believe they are well-advanced in offering great career prospects to ambitious employees, they may need to conduct a rapid audit to ensure they are meeting expectations. There is only one sure way for managers to know what employees want in the contemporary workplace, and that is through regular, one-to-one check-ins. Once managers and HR understand individual employees and have the right solution to track their progress, they can put in place defined career paths, personal development plans and recognitions that offer fulfilment and rewards to retain the services of valued employees.



8.

Do you know who I am? Employee loyalty and customers

Most employers and employees agree employee loyalty affects customer loyalty, but there is a substantial difference between the responses from the two sides. Nine-in-ten (90%) employers hold this view compared with 72% of employees.

This is an important indicator. Customers are unhappy when their contacts at a business or organisation change frequently. It's safe to say there is a direct link between happy, loyal employees and happy customers, which is why it is important for any organisation to consider how it treats its customer-facing employees. They need regular recognition for the value of their work and the appropriate training to allow them to complete their tasks with maximum effectiveness and job satisfaction. Employees are also a significant, but often overlooked, source of insight into what customers like and what they don't.

A third (33%) of employers believe employee loyalty impacts customer loyalty very significantly, but only 17% of employees see their loyalty having a very significant effect on customer loyalty.

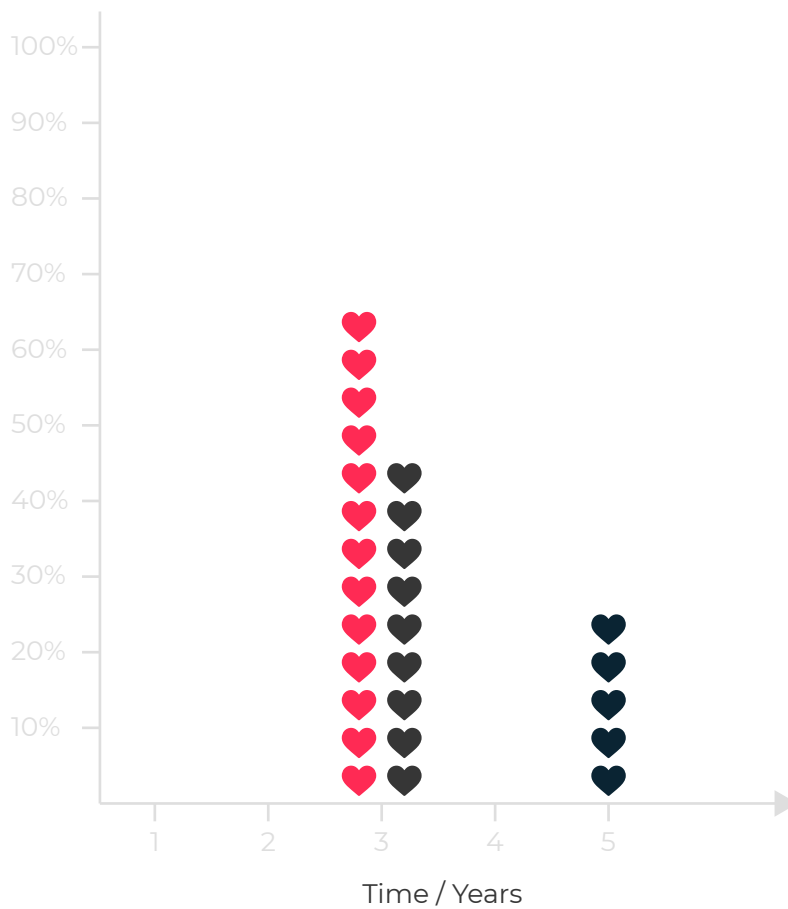
9.

Call yourself loyal?

While most respondents on both sides believe loyalty is about length of service, 88% of employers are of this opinion, compared with only 74% of employees.

For most employers (63%) if you stay three or more years at an organisation you are considered loyal, a view shared by only 46% of employees. 28% of employees believe you should stay with an organisation for more than five years before you can be termed "loyal".

♥ Employees
♥ Employers



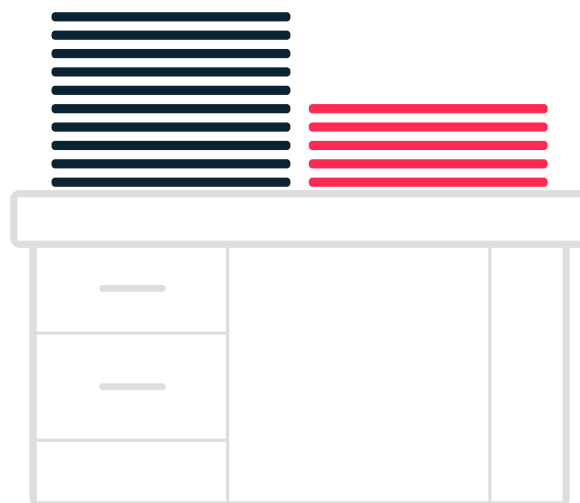
10.

Too much pressure – sharing the workload

Stress and mental pressure in the workplace have always been present but are now more openly discussed aspects of health and wellbeing. They will certainly influence employee retention. Although this research is not specific to the pandemic in 2020, the outbreak and its effects are likely to have influenced some responses. Working from home has without doubt increased the immediacy of mental wellbeing concerns.

The Index found mixed results on how employers address the workload pressure points that can affect psychological wellbeing and have a big effect on loyalty by triggering an employee's departure. There is, for example, a 20% gap between employers and employees on whether steps are taken to ensure workloads are shared fairly. Employers give themselves higher ratings on this count, believing their organisation is effective in ensuring no employees have more than their fair share of work. If loyalty is to be improved, employers need to pay greater attention to how they balance workloads between different teams and individuals.

Employers also give themselves 18% more points than employees give them for bringing in extra resources to help when the workforce is under pressure. Many employees feel more could be done by their employers to help them out. However, there is only a 13% gap on avoidance of long-hours culture, which indicates that across the UK more organisations are making efforts on this front, which is recognised by employees. This is good news as long-hours culture has bedevilled the UK workplace for many years, with adverse effects on employee morale and physical health.



11.

The romance – where employers and employees get on well

The Index revealed several important areas influencing loyalty where employees and their bosses agree that the steps taken by employers are having a positive effect.

- There is only an 8% gap on whether employees go the extra mile to get work finished, which is a key area indicating loyalty and commitment. This is even lower (5%) in organisations with 1,000 or more employees and just 1% in the public sector. While employees are always likely to say they are willing to make a special effort on behalf of their employer, the results nevertheless show motivation is rarely a problem for finishing specific tasks, which boosts productivity and leads to higher levels of customer satisfaction.
- Although employees may have gripes about career progression, the gap in perception on the provision of regular training is 14% - falling to just 6% in the public sector where training has a high priority. This is another positive sign for the UK workplace, indicating how training and an educated workforce are now recognised as essential to the success of individual organisations and businesses in the 21st Century. There is substantial evidence that increased training makes for more skilled, productive and happier employees.
- Employers and employees also share similar views on whether the workforce they are part of is enthusiastic about the organisation. There is just an 11% gap in how the two sides see whether employees are committed to beating the competition or actively boost the organisation's reputation whenever possible. This is another positive result that proves a high level of alignment between employers and employees on their joint effort to sustain competitiveness and maintain overall enthusiasm.



35%
GAP IN
AUTOMATION

12.

What's tech got to do with it?

Employers and employees also differ very markedly on how technology will affect loyalty. Almost nine-in-ten employers (89%) think workplace technology, such as process automation, cutting-edge tools, digital HR or task collaboration software, has a positive impact on loyalty compared with 54% of employees – a difference of 35%.

The two groups also have divergent outlooks on how technology feeds into culture. Almost a third (31%) of employers believe investing in advanced technology is important for creating a good culture in their workplace, compared with just 12% of employees.

The findings show employers are rightly enthusiastic about the role of technology and its growing influence on how people work and collaborate, which is set to increase exponentially. For many employees, however, technology is a loyalty-neutral topic, possibly because they have yet to experience its full potential and fear its consequences for their own roles.

Many employers have already invested in workplace technology, or plan to after the pandemic. To engage their workforces and get them on-side, they must emphasise how technologies will quickly improve the daily work experience and increase their productivity.

Process automation, for example, will relieve many employees of time-consuming drudgery in many administrative tasks, offering greater scope for more creative or higher-value work. Data analytics not only automates reporting, but provides a more accurate basis for decision-making, giving more employees a strategic, rather than purely administrative role.

Digital HR platforms will make interactions between employees and employers easier and more effective, saving time and ensuring each individual's needs are met. Organisations that have had such platforms during the pandemic have enjoyed major boosts to collaboration and teamwork, using social media-type functionality to overcome physical separation. Other organisations have struggled to maintain a culture of teamwork. What is especially important is for employers to stress how technology will be transformative for individuals, offering opportunities for additional training and skills to provide the most substantial boost to career development many workers will experience.



13.

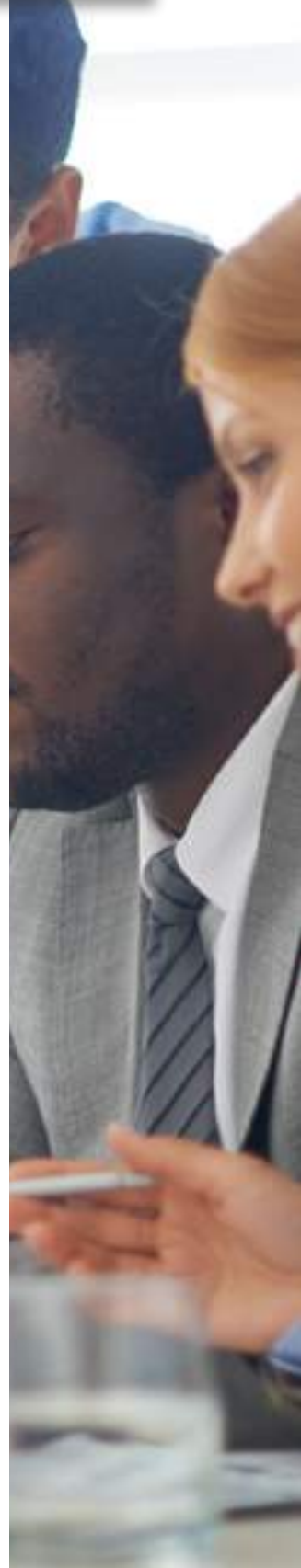
Avoiding culture wars

Many in HR believe an organisation's culture is vitally important for boosting loyalty and retention. Culture covers everything from the hours people work to how employees are treated by managers and how managers are approached by employees. It includes fairness, diversity, transparency, social activities, dress codes, company strategy and corporate policy, or details such as willingness to accommodate the increasing demand for flexible working. Pay and individual rewards or recognitions are also part of the internal culture of an organisation, which being so multi-faceted and all-encompassing, does have such a major impact on whether employees want to stay and feel committed and engaged.

This research examined the many different factors affecting workplace culture and how to improve it. The survey found employees and their employers are reasonably close in their views on a range of related topics and share beliefs in openness, transparency and the role of rewards.

The research found:

- Surprisingly, less than one-in-five (19%) of employers think a good workplace culture is indicated by employees who feel fulfilled. What appears to be surprising is that not many more employees (25%) agree. Fulfilment for individuals is mostly seen as separate from the culture they work in
- However, a fair and transparent approach to pay and rewards is the primary building block of a good workplace culture for almost half (49%) of employers and slightly more employees (53%)
- A management style that is transparent and clear is important to 50% of employers and 46% of employees
- 39% of employers and 45% of employees want to see a commitment to rewarding loyal individuals
- 35% of employers and 38% of employees want management that combines consideration with high expectations



10%
GAP IN
CULTURE

However, there are notable differences of opinion on what makes for a good culture. Only 27% of employers and 37% of employees think good workplace culture is indicated by an inclusive atmosphere where workforce and management mix and exchange ideas freely and everyone feels valued. Although there is a difference in the percentages, majorities on both sides clearly believe mixing and mingling and the free exchange of ideas are not the most important aspects of culture.

There is a bigger difference on the influence career plans have on loyalty and culture. More employers (42%) rate career development as a trigger of greater loyalty than employees (31%), suggesting poor experiences or lack of effective HR systems.

One detail that emerges is that while a third (33%) of private sector employers believe a sympathetic, transparent and fair-minded style of management will keep employees loyal, only 16% of public sector employers hold this view. Public sector managers put more emphasis on other cultural factors.

No laughing matter

Both sides, however, take a dim view of laughter in the workplace. A mere 5% of employers think a workplace with a lot of laughter indicates a good organisational culture, along with only 8% of employees. Perhaps the pressures of the pandemic have put the lid on laughter. Or maybe fear of being reprimanded has killed off the office joker. Even so, it's not healthy for individuals or organisations to go through the day as if in mourning. Studies show problem-solving, innovation and teamwork improve when we laugh. For individual employees, laughter is an important release and source of resilience at times of stress, with direct impact on employee wellbeing, which is now such an important concern.



14.

Getting high on team spirit

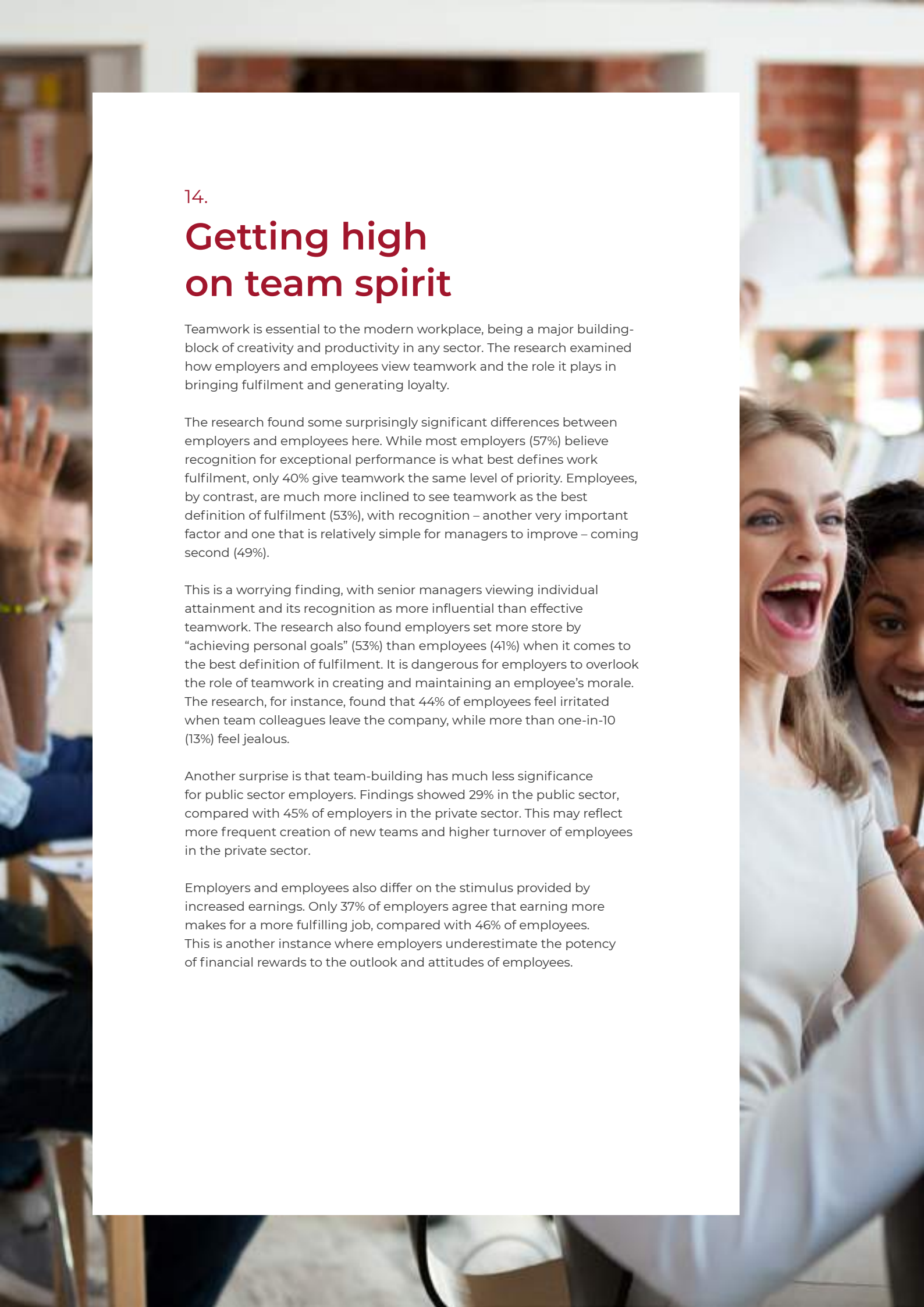
Teamwork is essential to the modern workplace, being a major building-block of creativity and productivity in any sector. The research examined how employers and employees view teamwork and the role it plays in bringing fulfilment and generating loyalty.

The research found some surprisingly significant differences between employers and employees here. While most employers (57%) believe recognition for exceptional performance is what best defines work fulfilment, only 40% give teamwork the same level of priority. Employees, by contrast, are much more inclined to see teamwork as the best definition of fulfilment (53%), with recognition – another very important factor and one that is relatively simple for managers to improve – coming second (49%).

This is a worrying finding, with senior managers viewing individual attainment and its recognition as more influential than effective teamwork. The research also found employers set more store by “achieving personal goals” (53%) than employees (41%) when it comes to the best definition of fulfilment. It is dangerous for employers to overlook the role of teamwork in creating and maintaining an employee’s morale. The research, for instance, found that 44% of employees feel irritated when team colleagues leave the company, while more than one-in-10 (13%) feel jealous.

Another surprise is that team-building has much less significance for public sector employers. Findings showed 29% in the public sector, compared with 45% of employers in the private sector. This may reflect more frequent creation of new teams and higher turnover of employees in the private sector.

Employers and employees also differ on the stimulus provided by increased earnings. Only 37% of employers agree that earning more makes for a more fulfilling job, compared with 46% of employees. This is another instance where employers underestimate the potency of financial rewards to the outlook and attitudes of employees.



20%
GAP IN
FLEXIBLE
WORKING

15.

The awkward truth most employers admit to

One of the most significant findings in this research is that 57% of employers believe they can do more to improve loyalty.

There is a degree of commercial sense to this. A third of employees (33%) disclosed they are looking for a new job at least once a month, even during the pandemic. The costs of recruiting and retraining replacements and overcoming any disruption are well-documented, making the reduction of this figure a priority.

More than eight-in-ten (83%) of organisations taking part in this research spend up to 25% of their payroll and employment costs on employee turnover – already a very hefty price to pay for underperforming on loyalty.

However, the employers' awareness that they must improve is tempered by the 26% who say they believe employee turnover will always be a problem, so all anyone can do is to minimise it.

Nonetheless, what should employers do to improve performance on employee loyalty? The answers from this research are to increase remuneration and rewards but also invest more in the culture of their workplace. This is where differences in emphasis between employers and employees remain. Since extra investment is unlikely in the current economic climate, employers had best consider the non-financial, lower-cost methods available to them.

Take flexible working, for example. This is one of the areas where action could make a significant difference in employers' favour. More than two-thirds of employers (67%) fail to see flexible working as an important tool for keeping employees loyal, even during the pandemic. But 47% of employees disagree, viewing the ability to vary their hours of work as one of the major factors that makes them feel more loyal.

Research shows nine-in-ten employees view flexible working as a key motivator in productivity, enabling them to achieve better work-life balance. Managers and colleagues also report a positive or neutral effect from employees shifting to flexible working arrangements.

18%
GAP IN
LOYALTY
INDEX

16.

Conclusion and next steps

While the Loyalty Index and accompanying research show there are aspects of loyalty and workplace culture on which employers and employees share similar opinions, the divergences in their views are more significant.

The gap of 18% in the Loyalty Index may seem relatively tame, but taken with the rest of this research, it reflects serious differences between how employers rate themselves and what their employees think of their performance. There is a disconnection between the two sides which employers must bridge.

The consequences of this are evident in the 33% of employees who are looking for a new job at least once a month.



All the research shows employers often fail to grasp what their employees require to make them feel loyal. Not only do employers underestimate the power of financial rewards in boosting loyalty, they also ignore the demand for more flexible working or misunderstand the nature and importance of fulfilment and teamwork. Many employees, for instance, are irritated when colleagues leave and more than a quarter (26%) blame management for losing valued employees. A picture emerges of many employers failing to plug into what their employees think and feel.

The consequences of this are evident in the 33% of employees who are looking for a new job at least once a month. Turnover and disengagement on this scale inflict serious costs on any organisation. Some 83% of organisations already spend up to 25% of their payroll and employment costs on employee turnover.

What should employers do?

This research tells us managers need to address the factors that lead to workforce attrition, boosting transparency in pay, rewards and management style, displaying fairness and offering clear-sighted leadership. Employees want better career planning and progression and a continuation of efforts to share workloads and alleviate pressure-points.

In the middle of a pandemic, it is well-nigh impossible for organisations seeking to boost employee loyalty to commit to wholesale improvements in pay, bonuses and rewards. They can, however, target their rewards and recognitions on high performers, as the research shows employees regard this as a legitimate and effective loyalty-driver. The key to this is for employers to know which of their people is making a real difference. They can only achieve this through a more detailed understanding of their workforce, which in a large organisation is impossible without the use of HR technology.



Connection is very rightly a buzzword in 2020. It has become a vital necessity. Within every organisation, managers must ensure they connect with their workforces, which makes the HR function and its technology critical. HR needs to dispense with normal layers of complication to make it easier for managers to understand their people. Digital HR platforms, for example, enable managers to check-in regularly with their employees far more regularly than the traditional half-yearly appraisal. Technology and an informal approach to exchanges delivers far better insights into an employee's state of mind and makes for a more cohesive and responsive organisation in which individual ambitions are more likely to be met.

In the analysis of loyalty and retention, a digital HR system will record the real reasons why people have left and provide hard data and visualisations in a way that is easy to understand and provides a firm basis for intervention that addresses the key drivers, such as perceived unfairness of workloads or the absence of flexible working.

When it comes to technology we can see that on the management side there is a need to explain its benefits to workforces, who remain unconvinced it will help them feel more loyal. Employers need to choose the right solutions of course, but they also need to see technology and culture holistically, the two combining to benefit individuals and the organisation simultaneously.

Employers certainly need an open channel of communication with employees so that they can regularly monitor sentiment and attitudes as well as performance and training requirements. Without it, they will continue to lose employees and suffer from a discouraging workplace culture that leads to weak individual performance, competitive disadvantage and significant damage to the bottom line. Engagement and two-way communication must be maximised to increase loyalty if organisations are to become more stable, productive and competitive.



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