

# Employee satisfaction for a healthy business

In July 2010, the Governance and Active Ownership team initiated its engagement theme on employee satisfaction and health. Engagement Specialist Michiel van Esch looks back at some of the key outcomes and conclusions of this engagement initiative and their implications for investors.

In 2010, the Governance and Active Ownership team commissioned research provider Hewitt to examine the effects of employee satisfaction on company performance. The research, based on the results of questionnaires sent to companies across all sectors, shows a positive relationship between factors such as leadership commitment towards employees and attention to health and stress levels on the one hand, and share price performance on the other. Engagement Specialist Michiel van Esch explains why.

## Higher average labor output

Why does this relationship make sense? "Companies that are able to create an environment that keeps their employees motivated and healthy can expect higher average labor output and can outperform their peers," says van Esch. "Policies on the development and health of a talented workforce are key to running an innovative and competitive company." This is especially the case in industries that are human capital intensive, such as the communications and ICT sectors. These sectors are known to require a high degree of innovation, but also have relatively high stress levels. Companies in these sectors were selected for further research and were included in the engagement program.

## Four objectives for engagement

The Governance and Active Ownership team defined employee well-being and health, employee feedback, internal leadership and procedures as the main objectives to be discussed with companies. An advantage of this engagement theme is that practically all selected companies were already aware of the importance of their HR policies and talent retention to their market position. "For example: most companies use detailed company-wide employee surveys to assess their employees' job satisfaction on various topics. All companies use the outcomes for improvements, but they vary in the extent to which they set targets or link their employee satisfaction to remuneration or other incentive programs," states van Esch.

## Talent programs commonplace

"During our dialogue with companies we found that most companies developed programs to enhance the development of their talent, although programs differed significantly in nature and scope," explains van Esch. One common type is a program for so-called "high profiles": preselecting talent that should be further educated and prepared for leadership. More sophisticated programs included company-wide "skill profiles" and company strategic learning demands, which are intended to allocate and develop talent in a way that is tailored to the company's and employees' needs.

## Healthy body mass index incentives

"When it comes to employee health, the companies under engagement maintain very different policies. Some provide athletic facilities, extensive health care programs, work / life planning programs and often a combination of these. One company even had a program in which the achievement of a healthy body mass index (BMI) level is financially incentivized," says van Esch.

**"Companies that invest in advanced HR policies are better able to retain talent and find skilled resources within an internal labor pool."**

## So do HR policies pay off?

"We conclude that the majority of the companies have developed HR policies that meet the standards we set at the onset of the three-year engagement program. In that sense the program was a great success. However, we still needed to determine whether these policies actually pay off," notes van Esch. "Therefore, we asked the companies to share their turnover levels and internal hiring ratios. Only a few companies with advanced HR policies were willing to show us these numbers. Those companies had lower turnover levels than their

peers and were able to fill the vast majority of vacancies with internal recruitments.

### Can better HR policies be linked to superior financial performance?

“We found that companies that invest in advanced HR policies are better able to retain their talent and find skilled resources within an internal labor pool,” Van Esch explains. Can he also link better HR policies to superior financial performance? “The companies with the highest total shareholder return and EPS growth are not necessarily the companies with best practices in HR policies, but the number of companies is perhaps too small and the time frame of our project too short to accurately make that assessment,” says van Esch.

Still, companies’ awareness of the importance of developing and retaining talent and their willingness to develop policies to do so indicate that companies recognize the potential competitive advantage they can gain from such policies. In general, the ICT and communication industry is relatively mature in its approach to employee

satisfaction and health. “We believe that many other sectors and companies can still learn from the policies that were assessed,” Van Esch explains.

### No one HR policy fits all

“That being said, there is no single ‘one HR policy fits all’ and companies can have very different strategic needs for development of their human capital. However, taking employee feedback seriously and looking out for their well-being is crucial for every company to be successful,” concludes van Esch.



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