

Perspectives

The Power of Three

Taking Engagement to New Heights

Engaged employees outperform their non-engaged coworkers. Once viewed with some skepticism, that statement is now widely accepted as fact, thanks to a growing body of evidence over the past decade that validates the quantifiable relationship between levels of organizational engagement and financial performance.

We're now learning, however, that employee engagement takes a company only so far. Other factors related to the work environment also play important roles.

To influence employees' performance and their willingness and ability to "go the distance," employers can focus on two aspects of the work environment. First, they can provide the support employees need to do their work efficiently and effectively. We call this *enablement*. Employers can also create a healthful work environment — one that supports employees' physical, social and emotional well-being. We refer to this as *energy*. When an organization builds a workplace that actively marries high levels of employee engagement with enablement and energy, it opens the door wider to a significant performance lift.

Think of it as engagement to the power of three — something we've termed *exponential engagement* (Figure 1). Why exponential? Because the combination can boost financial performance to far greater heights.

Why Engagement Alone Isn't Enough

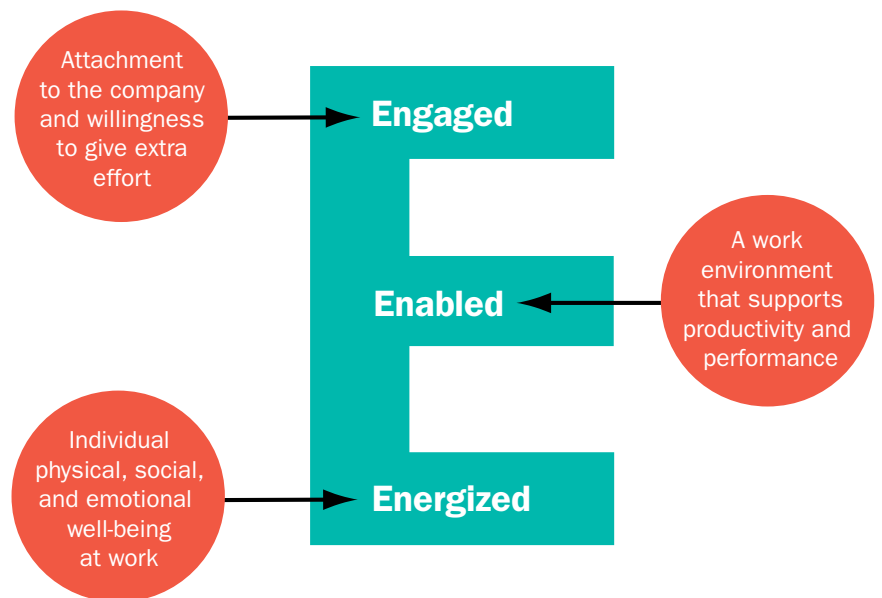
Research on the relationship between engagement and performance has typically focused on trends across organizations in a "steady state." Assuming no dramatic influences from outside the organization or within, studies have looked at how high engagement levels help organizations achieve better financial results. In reality, however, organizations face fluctuating economic trends, as well as changes in their business operations, staffing models, leadership and the like. These changes can cause employees to be ineffective despite being engaged.

Many factors can lead to employee frustration, including inadequate enablement or empowerment,

de-motivating work pressures and a recognition-deficient work environment. These and other workplace problems can hinder employees' productivity. Understanding these influences and the risks and opportunities they present is critical to enhancing performance. By managing these workplace risks and opportunities successfully, organizations can improve levels of employee well-being, engagement and performance — and deliver more consistently superior results.

As organizations seek to do more with less, strategies for maximizing workers' contributions are critical. But the success of those strategies depends largely on the level of performance support the employer provides. Companies need to remove barriers to getting work done. Employers must ensure working conditions are optimal, and employees must be able to surmount obstacles successfully. In short, employees must feel enabled. This means employers must provide, at a minimum, well-functioning equipment, the necessary supplies, effective work processes and clear direction from supervisors. All of these contribute in a very direct way to employees' ability to get the job done.

Figure 1. Our model of exponential engagement



Towers Watson's research shows the business advantage of not only engaging employees, but also enabling high levels of performance. In a study of 10 global companies with employee surveys that include measures of enablement and engagement, we found the highest levels of net profit margin in companies with high levels of both engagement and enablement, as shown in *Figure 2*. Enabling employee performance thus increases the positive impact of engagement on business success.

But support alone isn't enough to sustain strong performance over time. As confident as we might be in our ability to overcome the limitations of time and distance, there often aren't enough hours in a day to meet the demands of the global workplace, no matter how enabled we are. Pressures mount, business relationships fray, employees burn out, and personal well-being is jeopardized. To perform at their best, employees need healthful environments that help sustain high energy levels. For example, clear priorities, effective teams, respectful colleagues, and a balance between performance expectations and job pressures all contribute to employees' sense of well-being on the job. In turn, positive well-being generates energy and supports sustained effort.

- Our study of a large multinational organization illustrates how well-being contributes to sustained employee engagement. As part of this company's annual employee survey, we have developed a well-being index. The index focuses on social connections at work and workers' perceptions of stress and pressure on the job. For the study, we identified two divisions with similar business operations: one in which workers had particularly favorable feelings of well-being, and another characterized by unfavorable views. Importantly, levels of employee engagement in both divisions were nearly identical. As shown in *Figure 3*, the division with high well-being sustained and even improved its engagement score over a year, gaining four points. In contrast, engagement in the division with low well-being declined nearly 10 points. In short, strong feelings of well-being sustained the level of engagement needed to support and enhance business performance.

As we've noted, though, enablement is only one part of the equation. The true power comes from the triad: engagement, enablement and energy. Engaged employees who don't have appropriate support and

Figure 2. Net profit margin (one-year) by engagement and enablement

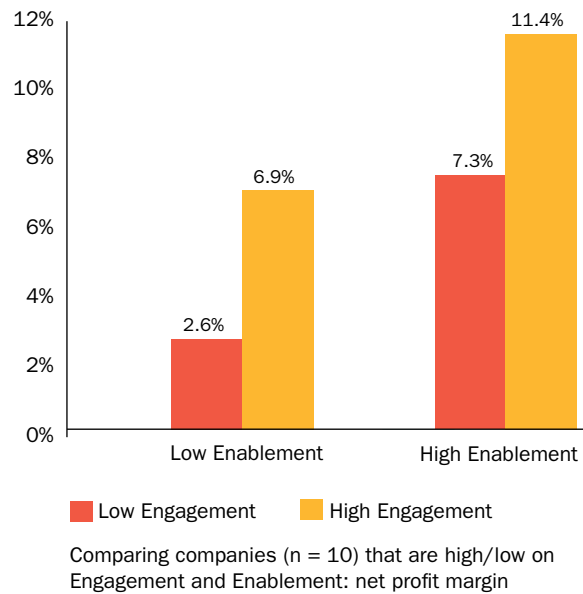
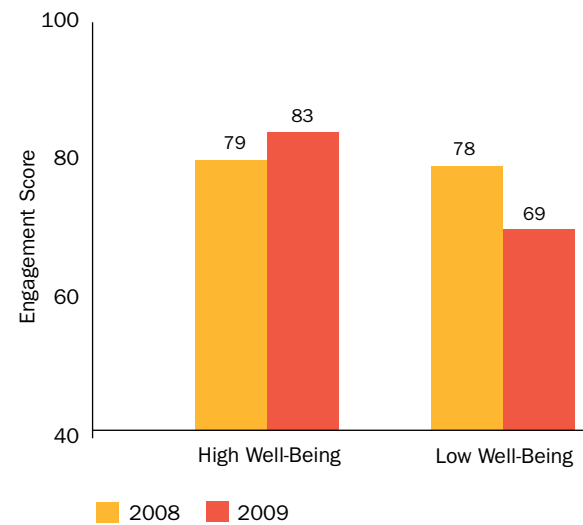


Figure 3. The impact of well-being on engagement



feel overwhelmed by stress not only are likely to underperform, but also represent a business risk. They could be frustrated, demoralized or angry, if not all three of those things. It's easy to imagine the potential outcomes from such employees interacting with customers, making key decisions about quality or evaluating product innovations. Poor quality, suboptimal manufacturing, and lost customers and revenue are all significant risks in such instances.

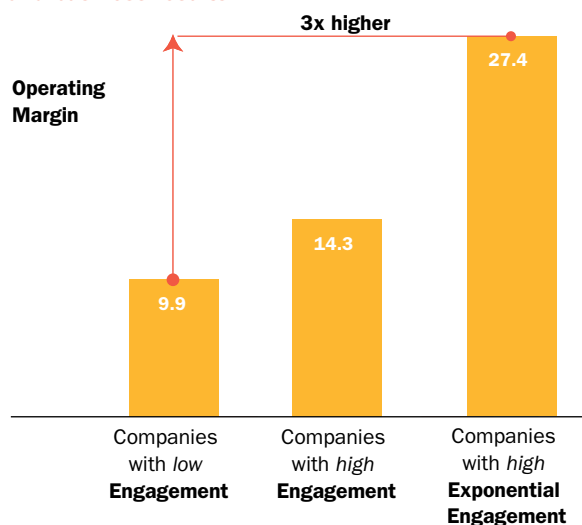
To validate our intuitive understanding of the importance of all three elements in driving performance, we conducted another study of 50 global companies for which we had data on the three elements. We found that companies with the combined impact of all three exponential engagement factors can generate operating margins three times higher than companies with low engagement, and nearly two times higher than companies with high engagement alone, as shown in *Figure 4*.

Harnessing the Power of Exponential Engagement for Competitive Advantage

In short, while highly engaged employees generally produce better business outcomes than their less engaged coworkers, engagement alone doesn't guarantee top performance. Companies can realize greater value by seizing the opportunity to not only engage employees, but also enable and energize their efforts.

The most reliable way to assess exponential engagement is to measure each of the three elements individually by way of an employee opinion survey. You may assess each one with only a handful of questions and then combine the results to form an exponential engagement index. While measuring exponential engagement alone is useful in gauging current levels and comparing them with relevant external benchmarks, a more valuable approach is to measure engagement together with a broad range of factors related to employees' work experiences and how the company functions. In this approach,

Figure 4. The link between exponential engagement and business results

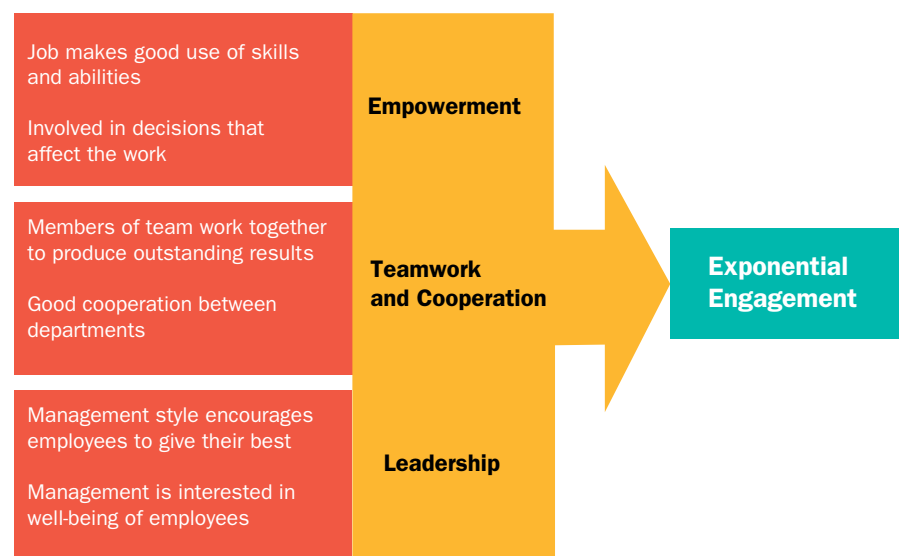


exponential engagement is examined as an outcome, or consequence, of workplace conditions. Moreover, post-survey statistical analyses can reveal the key drivers of exponential engagement, pointing to critical areas for improvement in efforts to boost business performance.

When an energy company used this approach, company leaders found the key drivers of exponential engagement to be empowerment, teamwork and cooperation, and leadership, as shown in *Figure 5*. In other words, this organization can improve the ability of its workforce to foster business success by further empowering employees, helping them to work more effectively in teams and improving leadership capabilities across the organization.

Developing strategies for each of these drivers requires input from different levels of the organization. Empowering people is an important element of immediate supervision. First-level managers can take concrete steps to increase employee involvement in decision making and to ensure employees can apply their abilities appropriately. Line managers can also improve teamwork by helping employees work together more effectively to achieve team goals. In addition, divisional and functional leaders can play a role by fostering the sharing of best practices and by creating more opportunities for cross-department teams and projects. Finally, senior leaders can ensure that their internal communications recognize and encourage employees' efforts, and express concern for individuals' well-being.

Figure 5. Company example of key drivers of exponential engagement



In this example, managers at all levels play a role in improving exponential engagement. The diverse action steps arise from the varied components of the concept itself. Specifically, empowerment is a form of performance support that bolsters enablement. Effective teams help to create an environment that promotes enhanced well-being, thus energizing employees. Effective leadership not only improves employees' attachment to the company overall, but often is a top driver in traditional engagement formulations.

This diversity across drivers is an important advantage of the exponential engagement approach. Responsibility for post-survey actions includes all levels of the organization. It involves all leaders and managers in the steps required to enhance engagement in ways that truly accelerate business performance. When leaders track these actions across the organization and incorporate the results into corporate scorecards, the accountability for improving exponential engagement is clear and shared equally across levels.

To learn more about how to measure exponential engagement, identify its drivers and implement the changes needed to improve business performance, visit us at towerswatson.com/services/employee-surveys.

Engagement: The Next Generation

Towers Watson has been studying employee engagement — and the organizational elements that drive it — for more than a decade, and we work with organizations across industries and around the world to measure and improve it.

Through our client work and global workforce studies, we can readily correlate high engagement with better financial metrics. For example, in a three-year study of 41 global companies, we found that operating margins improved nearly 4% on average in organizations with high employee engagement levels, and declined about 2% in those with low engagement levels. These results have been corroborated by other studies.

Because of evidence like this, measuring engagement has become very popular. The engagement metric appears on business scorecards in many organizations as a critical measure of human capital performance. And a number of companies use increases in engagement as specific goals for the CEO and his or her direct reports.

About Towers Watson

Towers Watson is a leading global professional services company that helps organizations improve performance through effective people, risk and financial management. With 14,000 associates around the world, we offer solutions in the areas of employee benefits, talent management, rewards, and risk and capital management.