

Giving everyone the chance to shine

How leading organizations
use engagement to drive
performance cost-effectively



Lacking the resources available in boom times, firms are now compelled to focus on performance: getting more out of what they've got. The organizations exiting recession in good shape have one thing in common: motivated, enabled employees >>

“The world’s leading organizations know that performance comes from people – but only when people feel motivated and enabled to perform.”

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Executive summary

The post-downturn landscape is tough. Recession-battered firms must fight off fast-growing global competitors while heeding customer demands for better service – and employees' cries for more fulfilling jobs.

Lacking the resources and funding that were available in the boom times, organizations are now compelled to focus on performance: getting more out of what they've got.

This means they need to be agile and flexible, especially to cope with the rapid changes that characterize the new business environment. As well as focusing on the hunt for new business, they need to 'take care of business', nurturing the customer relationships that sustain them.

Our recent studies show that the firms achieving all this share one thing in common: motivated, empowered employees.

The link between employee engagement and performance is well proven. With people prepared to 'go the extra mile', our studies show firms can achieve revenue growth 2.5 times that of peers and cut staff turnover by up to 40 per cent. However engagement

alone is not enough. Hay Group's research shows that while nine out of ten employees say they are committed to success, less than two thirds believe they are as productive as they could be. That's a lot of wasted eagerness. The missing piece is 'enablement' – summed up with the cry "help me help you."

Hay Group's work shows that when people are both engaged and enabled, the performance dividend increases dramatically. Here's how top organizations realize it.

- **Know who you are, build your employer brand** – Our Best Companies for Leadership survey showed that the top-scoring firms all shared a clarity of mission and identity. Nearly 90 per cent of them have developed an explicit employer brand compared to only two-thirds of peers. They are also on top of important workplace trends. They have more women in senior posts and use corporate social responsibility (CSR) credentials to attract staff.
- **Spend wisely** – In our The Changing Face of Reward study, we saw a strong trend to link performance more tightly to reward. However firms in the World's Most Admired Companies list resist the temptation just to set financial-related measures, focusing instead on metrics that work for the long-term: teamwork, customer loyalty, building human capital. Overall, firms are using reward to shift from a culture of entitlement to one of performance. And they are making sure that everyone – not just 'stars' – has a chance to get their efforts recognized.
- **Inspire your people** – Our work constantly reinforces the importance of leaders in driving performance. Yet a recent Hay Group study suggests only 26 per cent of leaders create high-performance climates. The Best Companies for Leadership take this issue seriously. Nearly all of them empower their employees to behave like leaders, compared with only two-thirds of peers. And they set store by leadership qualities like inspiration and teamwork. The result is a culture that enables employees to perform.

In summary

The world's leading organizations are responding to the global squeeze by eking every last drop of performance out of their people and structures. Yet they are not doing this by cuts or coercion. Recognizing that enthusiastic, enabled people are the key to performance, they cultivate 'employer brands' that staff are proud of, craft reward programs that drive the right behaviors, and develop leaders who create inspiring climates.

“Lacking the resources and funding that were available in the boom times, organizations are now compelled to focus on performance.”



Part 1: Post-recession, performance is the focus

As the dust of the downturn settles, organizations will be looking to position themselves in the new business landscape. One that's tougher and more competitive than before.

Globalization now means threat as well as opportunity. Many recession-battered Western companies find themselves operating in increasingly mature markets; they face growing competition from what were once emerging markets. All are looking ahead, focusing on growth markets and at the same time maintaining the pressure on costs.

Yet, against this backdrop, customers haven't stopped demanding ever greater levels of service. And despite tough times, employees are expecting more from their work – seeking personal fulfillment, not just a job.

Organizations must respond to these pressures in order to survive. But without the finance and resources that were available before the downturn, they are left with one option: focusing on performance or, to put it another way, getting more out of their existing capability.

It means gearing the firm up to respond quickly to the accelerating pace of change in many industry sectors. But it also forces attention on one of the basics of business: looking after existing customer relationships (which are, after all, the bedrock of most organizations) as well as pursuing new customers.

Recent Hay Group studies suggest that firms performing well in this new, lean environment have one thing in common: motivated, enabled employees focused on clear business-relevant goals. It's this factor that gives them the agility they need. Yet how do they achieve this when resources are tight?

“Yet, against this backdrop, customers haven't stopped demanding ever-greater levels of service.”



The benefits of engagement

The link between engagement and performance is well proven. The more enthusiastic and motivated your people are, the more they will contribute. What's interesting about our recent studies is the way in which they show high-performing organizations have used and fostered engagement even when recession would be expected to drive levels down.

Highly engaged employees are the people who are committed and will 'go the extra mile' for your firm. They are very valuable and have the potential to be extremely productive. With high levels of engagement, firms can see revenue growth 2.5 times that of their peers and a 40 per cent reduction in expensive staff turnover.

Source: based on linkage case studies using Hay Group Insight's global normative database

Our research into this year's FORTUNE® World's Most Admired Companies® (WMACs) shows that they are emerging from recession in better shape than before, with more committed and motivated employees. Nearly 70 per cent of WMACs report greater levels of engagement post-downturn compared to just under 50 per cent of their peer group. They have only had to commit to half the levels of layoffs and hiring or compensation freezes that their peers have had to initiate.

The benefits of this are clear. Nearly all of the WMACs report that their engagement efforts reduce staff turnover, compared to two-thirds of their peers. The ROI of this is immediately apparent, given that the cost of replacing an employee can be between 50 and 150 per cent of salary. The WMACs also credit their engagement efforts with creating competitive advantage, strengthening customer relationships and reducing

employee performance issues. In each case, they've achieved more through engagement than their peers.

In the Best Companies for Leadership survey we examined how organizations were preparing for the new business reality from the perspective of leadership. It was clear from our study that investment in leadership pays off, with the top 20 Best Companies showing significantly better shareholder return than the S&P 500.

This investment has driven productive levels of engagement too. Of the best companies, 90 per cent give their employees the opportunity to behave like leaders, compared to only two-thirds of their peers. Handed this responsibility, employees are motivated to perform.

“Recent Hay Group studies suggest that firms performing well in this new, lean environment have one thing in common: motivated, enabled employees.”

Engagement is not enough

There's a problem with engagement, though. Many organizations with highly motivated workforces still struggle with performance issues. Hay Group's normative database shows that while nine out of ten employees say they are committed to success, less than two thirds believe they are as productive as they could be.

That's a lot of wasted eagerness. The missing piece is 'enablement': best summed up with the cry "help me help you." Employees need to be able to channel their enthusiasm into productive and satisfying action: put into roles that leverage their skills, and given the tools and the freedom to be effective. Without this, they may lose motivation, dial down their efforts or even leave.

Hay Group's work shows that when people are both engaged and enabled, the performance dividend increases dramatically.

“While nine out of ten employees say they are committed to success, less than two thirds believe they are as productive as they could be.”

The business case for engaging and enabling employees

	High engagement only	High engagement + high enablement
Employee performance Increase in employees above performance expectations	10%	50%
Employee retention Reduction in turnover rates	-40%	-54%
Customer satisfaction Customer satisfaction rates	71%	89%
Financial success Revenue growth	x2.5 	x4.5 

Based on linkage case studies using Hay Group Insight's global normative database

Part 2: How to achieve the performance dividend from engagement

Today's climate, however, seems hardly conducive to engaging people. Budgets are tight and the best people have most likely been shouldering the burden – often doing more than one job – for some time. How do you stop these people from walking as the markets recover? The top-performing companies have worked out a formula for keeping people engaged. It's about taking a step back and deciding what you can offer employees beyond cash.

Know who you are – build your employer brand

One of the stand-out results from our Best Companies for Leadership survey was that the top-scoring firms all shared a clarity of mission and identity. Southwest Airlines, for example, has not changed its mission statement in 22 years and even has a committee whose job it is to ensure that the company culture stays on track. This consistent 'employer brand' is a powerful force for inspiring loyalty and engagement – and attracting high performers.

The World's Most Admired Companies understand employer brand, too. Nearly 90 per cent of them have developed an explicit employer brand compared to only two-thirds of peers.

The top 20 firms in the leadership study also did much better than their peers in addressing current trends that affect employees' choices today: accelerating globalization, work/life balance, the role of women in the workplace, a growing focus on the environment. Best Companies for Leadership score almost twice as high as peers in having a high proportion of women in senior leadership and in working from home. Over 90 per cent of them want their employees to appreciate global issues, compared to fewer than 60 per cent of peers. And nearly all of the Best Companies are using their CSR credentials to attract new staff, something that less than two-thirds of the 'rest' are doing.

How far could I go in this firm? Clearly seeing how their career could develop is key to attracting the best people and keeping them motivated. Eighty per cent of the top companies in our Best Companies for Leadership study report that “people stay at this company primarily for growth opportunities” compared with only 61 per cent of peers. Over 80 per cent of these firms also report that they invest a lot in the people they need.

The importance of career development is further backed up by our recent Changing Face of Reward study, which highlights the latest reward practices. A key trend at successful companies is a shift to

‘total reward’: creating and presenting a package that includes not just the fixed and variable financial elements but also intangible rewards such as career development, motivational leadership and challenging work.

Knowing who you are – and presenting an offer to employees that goes beyond just a title and a salary to encapsulate this ‘employer brand’ – is key to effective engagement when resources are tight.



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Firms are using reward to make the shift from a culture of entitlement.

Spend wisely

The resources that organizations do have are being deployed very carefully. Even firms that are growing are taking an opportunity to reassess their cost base, optimize their management processes and put their operations on a more sustainable course for the future. Engagement is essential, as we've seen – but it must be achieved affordably.

One way to do this is through careful tuning of reward programs. They must be motivating and linked tightly to business objectives. This was the message that came through in *The Changing Face of Reward*.

Top six pay-for-performance actions

- 1 Introduce differentiated reward structures where available rewards increasingly go to the top performers and high potentials – those critical to the survival of the business.
- 2 Building management skills in setting goals, coaching and recognizing and rewarding performance.
- 3 Clarify definitions of performance.
- 4 Balance individual and enterprise targets for bonuses.
- 5 Align individual targets to overall strategy.
- 6 Make greater use of multiple rewards, mixing short-and long-term incentives with the motivational stimulus of better career development and varied and interesting work.

We found that organizations in all sectors were working hard to link performance more tightly to reward. They talk of a shift from 'entitlement', 'paternalism' and 'comfort' to one of 'performance'. In practice, this means differentiating reward according to each individual's performance.

“A 'one size fits all' reward program will not be applicable. The trend will go to 'one size fits me.'”

Essent | Netherlands

The result is that the best performers have the highest earning power – indeed senior managers at the world's top firms earn 20 per cent more than peers when bonuses are taken into account.

However organizations must resist the temptation to set financial-related performance metrics. Why? Because it's at odds with what *The World's Most Admired Companies* do. Unlike their peers, these companies' reward metrics include measures around long-term thinking, teamwork, building human capital and customer loyalty. It's these types of metrics that will drive long-term, sustainable performance and avoid encouraging the risky, short term behaviors that have caused so much trouble in the financial sector. In short, driving the 'right' performance is what matters.

Our study showed that firms are differentiating reward for high performers so that everyone – not just the 'stars' – has the chance to have their efforts recognized. This, of course, is a key way to engage employees.

Inspire your people

Hay Group's work underlines time and time again how pivotal the quality of leaders is in driving performance. Something as abstract-sounding as organizational 'climate' has a huge bearing on how well employees perform. And with a recent study of 3,000 international organizations suggesting that only 26 per cent of leaders created high performance climates, there's a lot to play for.

The Best Companies for Leadership study illustrates how seriously top firms are taking this issue. What they do that's different is to create a culture of leadership that pervades the organization. It begins with empowering all employees to behave like leaders and ends by ensuring that there is almost always a supply of good talent ready to assume open leadership positions. In the best companies, nearly everyone is empowered to develop leadership capability, compared to only two-thirds of peers. And nearly all have a ready pool of successors for key roles, while only 69 per cent of peers are doing this.

And for the first time, these 'best' organizations are valuing strategic thinking over execution. They want leaders who can take the long view, not just get quick results. Compared to their peers, they set more store by inspiration, teamwork and the ability to influence, rather than technical ability.

The leadership culture that these organizations foster makes people feel 'enabled'. The best companies are way ahead of their peers in this area – they are nearly 30 per cent more likely to expect employees to lead and 20 per cent more likely to encourage them to address problems or opportunities.

It's this combination of motivation and enablement that drives performance. Our studies show that leadership is one of the keys to this.

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Conclusion

In each of our three recent studies – the World’s Most Admired Companies, the Best Companies for Leadership and the Changing Face of Reward – performance has been the mantra. The world’s leading organizations are responding to the global squeeze by eking every last drop of performance out of their people and structures.

However they are not doing this by coercion, cost-cutting or wild financial incentive. They recognize that people must feel enthusiastic, enabled and have a sense of identity and destiny with the firm. And they have worked out that this can be achieved without the need for extra investment or capital outlay – but by cultivating an ‘employer brand’ that staff are proud of, carefully crafting reward programs that drive the right behaviors, and developing leaders who create inspiring climates.

They know that performance comes from people – but only when people feel motivated and enabled to perform.





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