TOWERS WATSON

Turbocharging Employee Engagement

The Power of Recognition From Managers

Part 1 — The Engagement Engine

Originally published by Towers Perrin

This white paper, the first of a two-part series, examines new research on the power of recognition from managers to accelerate employee engagement and boost productivity and performance.

A successful business is like a powerful sports car: It moves quickly, turns nimbly and handles curves without losing momentum. And sometimes a business, like a car, will hit a speed bump, go into a ditch or run out of gas. Regardless of the driving conditions, both perform best when they have strong engines. For a Ferrari, the power comes from a 500-horsepower, V-12 power plant. In a corporation, the engine is employee engagement.

The Power of Engagement

Employee engagement refers to the broad and deep connections people have with an organization. Engagement plays a critical role in any business environment, but it takes on a special significance when an economic downturn makes every sale precious and every dollar saved a dollar truly earned. An engaged workforce gives an organization the power it needs to climb the hill back to prosperity, and to make the climb faster than the competition.

As we define it, employee engagement encompasses three dimensions:

- **Rational** — How well employees understand their roles and responsibilities
- **Emotional** — How much passion they bring to their work and their organizations
- **Motivational** — How willing they are to invest discretionary effort to perform their roles well.

Companies with highly engaged employees generate more marketplace power than their competitors. Towers Watson confirmed this by analyzing three years of employee data for 40 global companies in its normative database. At the beginning of the study, we separated the 40 organizations into high-engagement and low-engagement categories according to their employee engagement survey scores. We found that, over a period of 36 months, companies with a highly engaged employee population turned in significantly better financial performance (a 5.75% difference in operating margins and a 3.44% difference in net profit margins) than did low-engagement workplaces. In another analysis, we looked at companies in what we call our High-Performance Engagement Index. This group, which shows consistently higher engagement levels than average organizations, produced shareholder returns 9.3% higher than the returns for the S&P 500 Index from 2002 through 2006.

Towers Watson's global research on the factors that increase employee engagement has shown that high engagement results from an array of organizational elements. In our 2007-2008 Global Workforce Study (a worldwide survey of close to 90,000 employees in midsize and large organizations), we found that employee engagement rises when people experience a combination of effective and caring leadership, appealing development opportunities, interesting work, and fulfilling tangible and intangible rewards. (*Closing the Engagement Gap: A Road Map for Driving Superior Business Performance* is available on www.towerswatson.com.)

The research uncovered two elements that have a particularly strong influence: *Senior management's sincere interest in employee well-being and the opportunity an employee has for personal development of skills and abilities.* The first element refers to the decisions executives make, communicate and implement in areas like company direction, reward programs, and workplace culture and policies.

When those decisions and actions convey to employees that senior managers understand and take their concerns into account, engagement goes up. Likewise, an organization's learning environment, embodied in widely available and valuable training programs and rich informal opportunities to learn on the job, influences engagement. When employees have confidence in their growth and development opportunities, engagement increases.

"Companies with highly engaged employees generate more marketplace power than their competitors."

Boosting Engagement Through Recognition

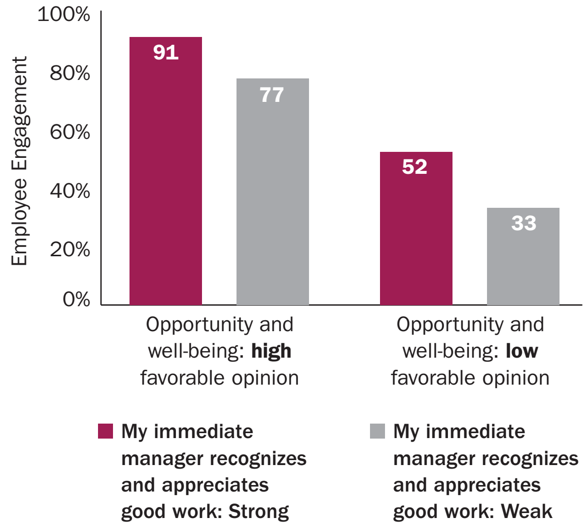
In 2008, Towers Watson supplemented its research base on employee engagement by conducting a global recognition study for O.C. Tanner (see sidebar). That research reinforced an important conclusion from our earlier Global Workforce Study: Relationships between employees and their direct supervisors play a key role in the system of factors that drives engagement. Specifically, we found that manager-delivered recognition of employee performance boosts engagement the way a turbocharger cranks up a sports car's horsepower. The research revealed how recognition from the immediate manager can give a powerful lift to the two principal engagement drivers (abbreviated in *Exhibit 1* as opportunity and well-being).

The right-hand pair of bars depicts organizations with low scores for development opportunity and perception of senior management concern for employee well-being. Even in those low-engagement workplaces, recognition from immediate supervisors and managers has a dramatic effect.*

In these environments, strong manager performance in recognizing employee performance increases engagement by almost 60%, from 33% of employees giving a favorable engagement score to 52%. In organizations where opportunity and well-being are clearly part of the culture (represented by the left-hand bars), the effect of manager recognition is less striking, but nevertheless significant — a gain in favorable engagement scores from 77% to 91%, an increase of almost 20%.

Our research reinforced the manager's effect on engagement in another way. We asked the survey respondents to specify the organizational context in which they had received their most fulfilling recognition. The majority said that their best experience had occurred within their teams or work groups (35% of the respondents) or at the department level (37%). Clearly, people most value appreciation for accomplishments that are familiar to and significant for one's direct peers. At the broader organization level, the accomplishments of an unfamiliar person from a distant department are bound to have less meaning.

Exhibit 01. Recognition From the Manager Boosts Employee Engagement



Departments and work groups, of course, are the supervisor's and manager's home turf, the place where he or she has the greatest impact as a leader and as a source of appreciation. These are the venues where a pat on the back, a word of praise in front of the team or the presentation of a commendation has great power to increase employee engagement. We find that most organizations have in place recognition programs or other mechanisms that managers can use to show appreciation for high performance. The failure results not from the lack of recognition methods, but from the execution of the manager role.

"Most organizations have recognition programs that managers can use to show appreciation; when failure results, it's from the execution of the manager role."

About the Recognition Study

The 2008 Global Recognition Study was conducted by Towers Watson for O.C. Tanner, a major provider of appreciation awards, training and consulting. It covered 13 countries that included major economies (Germany, Japan, the United Kingdom and the United States), emerging markets (Brazil, Russia, India and China) and other selected countries that play an important economic and sociopolitical role on the global landscape (Australia, Mexico, Singapore, Turkey and the United Arab Emirates). In total, the research incorporated interviews with more than 10,000 individual workers.

*Throughout this discussion, "supervisor" and "manager" are synonyms. The terms refer to the first two or three organization levels at which an individual's performance, from the organization's perspective, depends largely on the work of others who report to him or her.

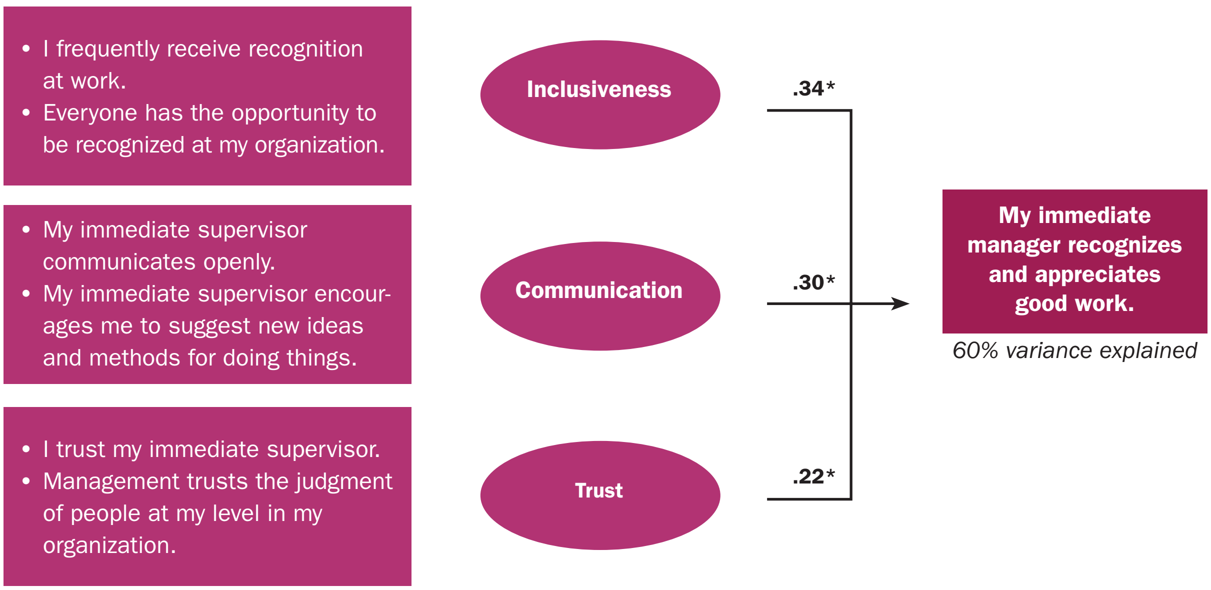
The Manager's Role in Recognition

Our research on recognition told us that effective recognition from managers encompasses three basic requirements: inclusiveness, communication and trust. These factors are shown in *Exhibit 2.*

Overall, respondents to our global recognition survey gave managers a score of 56% favorable. This means that 56% of the respondents agreed or completely agreed that their immediate managers recognize and appreciate good work. Clearly, there is room for improvement. *Exhibit 3* shows the scores for the individual elements that drive this result (the items listed in the boxes on the left side of Exhibit 2). The data give some clues about where managers' perceived weaknesses lie.

> "Effective recognition from managers encompasses three basic requirements: inclusiveness, communica-tion and trust."

Exhibit 02. Three Requirements for Effective Manager Recognition

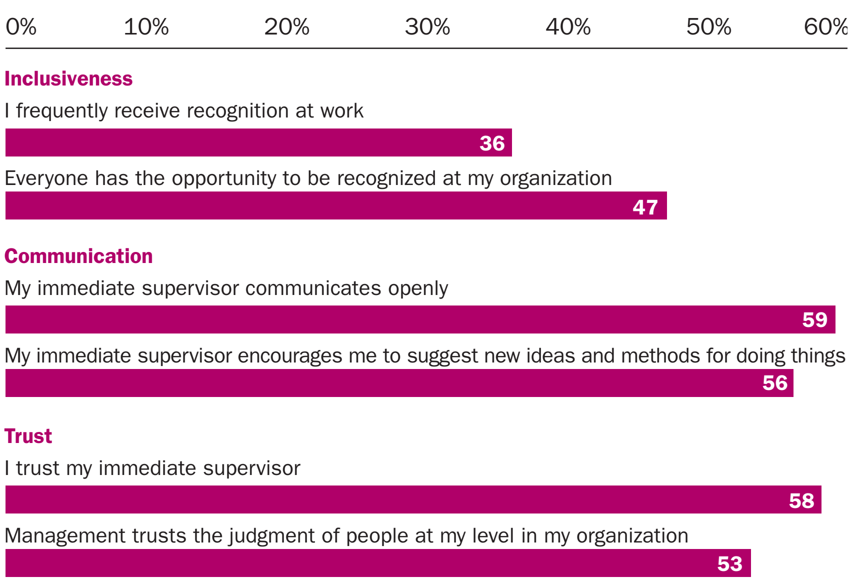


*Standardized regression coefficients indicate the relative strength of inclusiveness, communication and trust as drivers of immediate manager recognition.

Source: O.C. Tanner 2008 Global Recognition Study

Exhibit 03. Managers Need to Improve Their Recognition Practices

Percent responding favorably



Source: O.C. Tanner 2008 Global Recognition Study

The most glaring deficiencies appear in the inclusiveness category — frequently recognizing performance and ensuring that recognition opportunities are available throughout the organization. This weakness may stem from the way many organizations define — and overload — the manager role. Supervisors and managers must plan the department's work, oversee work processes, coordinate with other functions, coach and evaluate employee performance, administer the pay system and contribute directly to departmental production, all the while attending meetings and responding to a hundred or more e-mail messages a day.

At many flat organizations, managers are also expected to produce work, meet with clients and sell. Little wonder that activities like recognizing and appreciating employee accomplishments tend to fall off the manager's to-do list.

Managers do slightly better in the communication category. However, these scores may chiefly reflect the ubiquity of information. Constant communication flow, aided by electronic media, has become a common feature of the modern workplace. Information quality matters more than quantity, however. The scores for encouraging and using employee suggestions may reflect some success at involving employees in work process improvement, often in the context of quality enhancement. Evidently, managers do it well enough for half of the employee population to agree that it forms part of their work experience and contributes to their opportunities for recognition.

Scores for reciprocal trust may be the most disturbing. More than 40% of respondents gave neutral or negative responses regarding their trust of supervisors; scores for the perception that management trusts employees came in even lower. In many ways, reciprocal trust establishes the emotional foundation for effective recognition. Trust between employees and management makes it possible to do business without a burdensome infrastructure of contracts, policies, rules and regulations. In organizations where people at every level trust the people at every other level, work proceeds smoothly and efficiently. When trust is low, efficiency breaks down, and cost goes up as people invest time and effort in protecting themselves.

Trust becomes even more important in a difficult economy. Challenging times exact a high penalty for every market opportunity lost and every dollar wasted. No organization can afford the opportunity cost that comes when employees hesitate to act because they can't predict how or whether their managers will appreciate success (or punish failure).

The three main drivers of recognition by managers — inclusiveness, communication and trust — all seem like basic requirements for good management. However, as Part 2 of our series on recognition will describe, each factor has important aspects that can power up or power down the effect of recognition on employee engagement.

"When trust is low, efficiency breaks down, and cost goes up as people invest time and effort in protecting themselves."

Manager Training Improves Recognition

At a Midwestern regional hospital, part of a larger health care system, recognizing the efforts and performance of caregivers is part of a strategy to maintain high-quality patient care and top-tier service delivery. The hospital had instituted such programs as "Hero" cards, thank-you notes and service awards. But hospital administrators had concerns about some managers' commitment to recognition and about their skill in recognition delivery.

The hospital performed an employee survey to establish baseline measures for such factors as demonstrating the organization's values, investing effort to exceed objectives and building recognition into the culture. The organization then conducted a series of manager workshops on effective recognition and taught managers how to use recognition practices to connect employees to the organization's values and goals.

About eight months after the workshops, the hospital resurveyed employees. Data showed a 10% improvement in employee satisfaction with recognition experiences. This score, in turn, correlated with improvements in employee focus on core values, intention to exceed program objectives and perception that managers were helping people to learn. Learning, in turn, supported efforts to upgrade the quality of patient care. Hospital administrators came away convinced that enhanced recognition from managers, through the learning link, was increasing health delivery quality as well as improving the hospital's financial performance.

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.

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