Engage Employees and Boost Performance

Provide Great Leadership, Meaningful Work, and Other Benefits That Lead to Engaged Performance™

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People who believe their jobs are meaningful channel their "discretionary effort" into their work.

Hay research and studies by leading business schools confirm the engagement/productivity link.

Strong leadership is the ultimate perk.

HayGroup®

WORKING PAPER

Engage Employees and Boost Performance

This working paper is the product of research conducted by Helen Murlis and Peggy Schubert.

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Patrick, a call center team manager, was a "good" employee. He was prompt, did what he was asked and was liked by his subordinates. Ask Patrick how his job was going and he'd say, "Fine, they pay me pretty well."

Suddenly he resigned, citing no complaints and saying only that a competitor offered him slightly more money.

But Patrick quit because he was disengaged. He, like millions of other employees, needed to believe his job was important, that he was contributing daily to the company. That his work had meaning.

Former colleagues who talked to him six months later said he was a different person. His work was no different, but he clearly had passion for his job. His explanation? "My team's hourly sales are 40 percent higher than before. But it's more than that. My first day I got 'induction training,' where they explained the company vision and values. My first week my boss, Stephanie, explained what I needed to do to meet the company's goals and act in sync with its values. She spent time coaching me on my managerial skills, something I needed badly."

Soon, Patrick received a "most promising newcomer" award. At the company picnic, Stephanie's boss asked him how he was doing. After six months Patrick had an in-depth performance review where he and Stephanie candidly discussed his performance and outlined training and career growth options for him.

"I work extra hard when it's needed because they really care about me," Patrick told his ex-colleagues. "They even let me leave early twice a week to pick up my kids, which means a lot. But in the end it really comes down to leadership. My new company doesn't just have a business model; it has a people model."

Patrick is not a star performer and his old company suffered little from his loss. But the conditions that led to his departure could be creating serious problems at that company. In fact, they may be hurting short-term profits and long-term company valuation even more than the loss of a *dozen* star performers.

Here's why. Patrick is part of the "engine room" of reliable but not outstanding people organizations depend on to get things done. There are thousands of

"Patricks" (and "Patricias") at every large private- or public-sector organization. Stars tend to be intrinsically motivated to begin with, plus they end up capturing most of the "prizes" companies offer — the most interesting work, big salary increases, promotions and bonuses. The more difficult challenge for companies is capturing the hearts and minds of good, reliable employees like Patrick who are not stars but who are significantly more productive when engaged.

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Research suggests many companies are not succeeding. A huge percentage of these "engine room" employees are disengaged. Hay Employee Attitude Surveys[1] show that less than half of them feel they do interesting work. Just one-third feel they can advance, and only about the same percentage feel that better performance will lead to better pay.

Figure 1: Difference in value-added discretionary performance between "superior" and "average" performers

Type of Job	Performance Difference
Low-complexity jobs	19%
Moderate-complexity jobs	32%
High-complexity jobs	48%
Sales	48% - 120%

Patrick's new company did not lure him away with a substantially bigger salary. Nor did it use pay as a prime motivator once he arrived. Instead, it offered him a new psychological contract, one that successfully engaged him by letting him know that his contributions mattered. As a result, what mattered most to the company also mattered most to Patrick. The company's reward: A 40 percent increase in Patrick's and his team's productivity.

Your employees start every day with an extraordinary amount of energy, but the amount of "discretionary effort" that people apply to their jobs varies tremendously from employee to employee. One study showed that even in relatively simple jobs the difference in discretionary performance between superior and average workers was 19 percent (see Figure 1).[2] In complex jobs such as high-ticket industrial sales, the difference was as great as 120 percent.

[1] Based on data from Hay Insight's employee opinion database, which contains survey responses obtained in the past four years from about one million employees at more than 330 companies.
[2] J.E. Hunter, F.L. Schmidt, and M.K. Judiesch, "Individual Differences in Output Variability as a Function of Job Complexity," *Journal of Applied Psychology* 75: 28-42.

What accounts for the broad gaps between great and average performers? The individual's degree of motivation and engagement. Hay Group's work with a professional services firm confirms the link. At 10 of the firm's regional offices, we measured employees' current levels of satisfaction using an Engaged Performance diagnostic survey. Professionals in the five "most engaged" offices generated $238,000 in revenue per consultant. Those in the five "least engaged" offices generated just $166,000 per consultant. In other words, the offices with "engaged" employees were as much as 43 percent more productive.

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The experience of General Dynamics Defense Systems (GDDS) in Pittsfield, Mass., shows how efforts to engage employees can yield results.

In 1997 the company restructured and let go 550 of its 1,600 employees. The move devastated the workforce, and GDDS undertook an initiative to re-engage the hearts and minds of the remaining employees. As a result of these efforts (discussed in detail later), attrition in software engineering dropped from nearly 20 percent in 1999 to 2.4 percent in 2001. Confidence in management shot up and commitment rose. Union grievances, which had cost the company as much as $10,000 each, dropped from 57 in 1999 to none in 2001, saving hundreds of thousands of dollars. Best of all, earnings and profit margins doubled.

Engaged Performance™ defined

Engaged Performance is *defined as a* <u>*result*</u> *that is achieved by stimulating employees' enthusiasm for their work and directing it toward organizational success. This result can only be achieved when employers offer an implicit contract to their employees that elicits specific positive behaviors aligned with the organization's goals.*

Getting Engaged Performance is not just about investing financially in employees through perks or pay hikes. It is about striking a new contract in which the organization invests *emotionally* in its workforce. In exchange, employees make a similar emotional investment, pouring their "discretionary effort" into their work and delivering superior performance. The new contract says, "We'll make your job (and life) more meaningful. You give us your hearts and minds."

Is it an employer's job to give meaning and passion to employees? "Absolutely," says Rick Pope, Vice President of Finance and Administration at GDDS and a key player in the company's turnaround. "Work is a significant part of people's lives. When you meet someone new, the second or third question is 'What do you do?' It's imperative that leaders give people meaning in their work because passionate employees get better results. If leaders can't give people passion about their work, employees will find it somewhere else."

What engagement looks like

The new [employment] contract says, "We'll make your job (and life) more meaningful. You give us your hearts and minds."

University of Chicago psychologist Mihalyi Csikzentmihalyi,[3] who has studied the psychology of engaged workers at all levels, found that they create a hyper-focused state of mind. He calls it "flow." People in flow are exhilarated and are remarkably unstressed even when doing challenging work. They lose themselves in a task they love and feel "out of time." Their brains work efficiently and precisely. People are much more likely to be in flow while working than while involved in leisure activities. Moreover, flow occurs most often when tasks are tightly aligned with the person's goals.

What disengagement looks like

At the end of each day union workers at an oil refinery dumped scrap metal in a pile to be discarded by a night crew. The day crew routinely co-mingled the scrap with pieces of new steel; as a result the night crew was tossing out the new steel as well. The practice was costing the company hundreds of dollars a day. When asked why they were throwing out new steel with scrap, the night workers replied, "Because we were told to clean up the area." What they were doing made no sense, but they felt their duty was to do their job, not to make sense of things.

"These workers were very smart people," says a consultant who worked with the company. "Many of them had their own businesses on the side; one was the mayor of his town. There was a great deal of 'discretionary effort' in this workforce, and the company was getting none of it. One of the workers said to me, 'Basically, when we come here we check our brains at the gate.'"

Contrast these workers with a payroll clerk at GDDS.

On Tuesday, September 11, 2001, the day of the World Trade Center attack, she realized that employees weren't going to get their pay checks on Thursday

[3] "Flow: The Psychology of Optimal Experience," by Mihalyi Csikzentmihalyi. Harper and Row, New York, 1990.

morning. Because planes were grounded, Federal Express wouldn't be able to bring the checks from North Carolina. Without consulting anyone, she immediately arranged to have a courier service ship them 650 miles by truck. On Thursday morning, all employees received their checks on schedule. Her boss, Director of Accounting and Taxes Bill Craig, says "you just wouldn't have seen that sort of behavior two years ago. It's the result of the trust we've worked hard to get as a result of our change initiative."

Ultimately, delivering strategy is about hiring the right people and motivating them to deliver results.

Engaged Performance and company valuations

If people are a key source of competitive advantage, their engagement and performance levels can make or break any organization's strategy. Ultimately, delivering strategy is about hiring the right people and motivating them to deliver results. Employers therefore need to answer three questions:

- What types of people will help our organization succeed?
- Why would the best people I need for my business want to work here?
- How should we treat our people so they deliver peak performance?

These questions cut to the heart of engaged performance, which we believe is a factor influencing company valuations. A recent survey by Ernst and Young[4] of institutional investors showed that 35 percent of their decisions now hinge on nonfinancial factors. The investors' top-ranked nonfinancial factor was "execution of corporate strategy" — which is to a large extent about management's ability to motivate people and channel their "discretionary effort." Companies ignore at great risk the elements that contribute to the engaged performance of their employees.

The same is true in the public sector where, increasingly, management quality and staff morale are subject to rigorous scrutiny and factored into development and funding decisions.

[4] "Measures that Matter: An Exploratory Investigation of Investors' Information Needs and Value Priorities," by Sarah Mavrinac and Tony Siesfeld. Ernst & Young Center for Business Innovation and the Organization for Economic Cooperation and Development, 1998.

Why engagement is so important today

Organizational working relationships have changed since many of today's CEOs started work. Before the early 1990s recession an unspoken contract existed between employer and employee: Commit to working here for the long term and we will offer you job security, good pay and promotions. But the recession led to reengineering and downsizing, breaking that contract.

Moreover, there is a new mindset among young people who began their careers in the boom years after the 1990 recession. They do not expect lifetime employment with a single employer. They consider personal fulfilment in their work as a birthright — and this is extremely unlikely to change during economic downturn. They will just take different options — for example, free agency or self employment — rather than work for a low-reputation employer.

Many organizations that have not recognized this significant change in agenda are struggling to cope. Frustrated executives say, *we raised their salaries, gave them performance-based incentives and instituted flextime — but we're still losing good employees and having productivity problems. What do these people want anyway*?

The demands of employees are beginning to mirror the demands customers now make on businesses. In the past two decades, customers have become increasingly demanding and businesses have responded by forging new "value propositions" for customers, usually through value-added service.

Hay believes that you have to start thinking about the people you employ the same way you think about customers. That means offering them a rewarding environment to work in, not just financial rewards.

Proof that engaged employees deliver results

Will engaged employees really deliver improved business results?

Analysis shows that *Fortune* magazine's "America's Most Admired Companies" increased stock appreciation 50 percent over their peers because they instituted pro-employee measures.

Organizational effectiveness research at the Institute of Work Psychology at Sheffield University in the United Kingdom showed that among the manufacturing companies studied, good management practices could account for an 18 percent improvement in productivity and a 19 percent improvement in profitability.[5] People management practices were a better predictor of company performance than strategy, technology or research and development, the researchers concluded.

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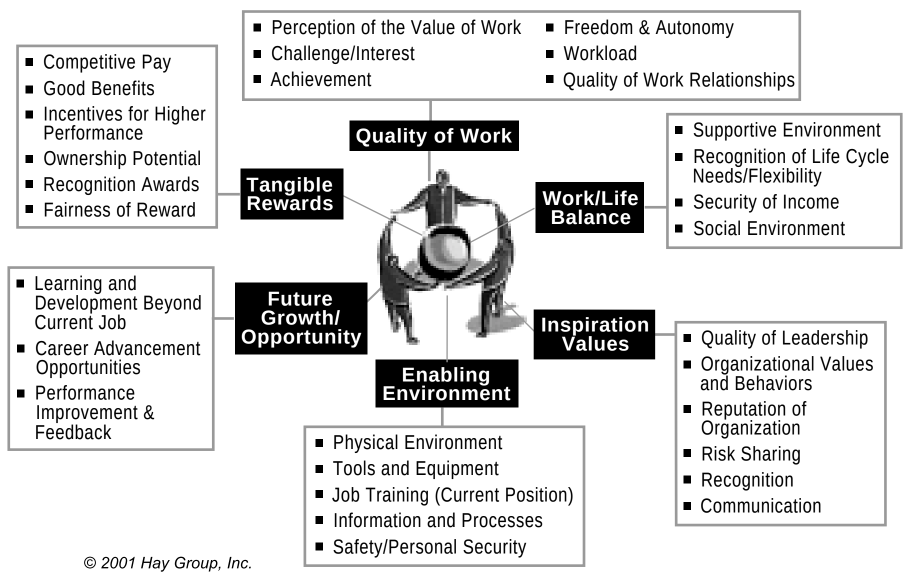
Figure 2: Engaged Performance™ Model — 6 Core Elements



Hay Group — which has helped dozens of leading international companies and many major public service organizations create sustained performance by engaging their workforce — has identified six motivational drivers that help create an engaged workplace and influence results. They are: Inspiration and Values, Future Growth/Opportunity, Quality of Work, Enabling Environment, Work/Life Balance and Tangible Rewards (see Figure 2).

Not all of these drivers will matter equally to everyone. You need to collect specific data to identify the most significant needs within the different demographic segments of your workforce. Only then can you formulate high-impact programs to meet employees' needs and effectively engage them. One-size-fits-all no longer works as an HR or reward strategy.

[5] Cited in "The Change Agenda," by Simon Caulkin. Published by the Chartered Institute of Personnel and Development (CIPD), 2001.

1. Inspiration and Values

Would you channel your "discretionary effort" into your work if you believed that your organization's leadership was second-rate or that its values were either off-base or ill-defined?

You probably wouldn't, regardless of how much money you made, or how good your benefits and other perks were. That's why "Inspiration and Values" is the most important of the six drivers in our Engaged Performance model. Inspirational leadership is the ultimate perk. In its absence, delivering on the other five elements of the Engaged Performance model is unlikely to engage employees.

Inspirational leadership is the ultimate perk.

General Dynamics' journey

General Dynamics Defense Systems is a company that learned to listen as carefully to its employees as it did to its customers, making dramatic changes in the way it managed itself. As a result, it engaged its workforce and achieved exceptional results. But it was not easy, and the twists and turns on its journey offer insights for other companies broaching major change initiatives.

Stage One: Shooting in the dark

In the year after GDDS laid off 550 workers, it took steps to improve leadership quality and revitalize its workforce. These initiatives were part of a program called "Workplace 2000" and included various efforts to improve the workplace, such as flextime and mentoring. Top management felt it was making progress with these measures until a July 1999 employee attitudes survey revealed that workers were still deeply dissatisfied and had little confidence in management. One finding in particular stunned the executive team: more than 70 percent of GDDS employees believed the company tolerated poor performance.

How could this be? top management wondered. We made huge investments in Workforce 2000 to improve the company. What do these people want?

"The initial reaction from the management team was 'Fire all the bastards! They just don't get it,'" recalls Rick Pope, the head of finance. "Then we realized that maybe we were part of the problem."

Director of Human Resources John Lipa says this finding was "the single most galvanizing piece of data we saw in this entire process. It really showed that our leaders didn't know how to talk to people. We were gathering sound bites, but we weren't listening. And we shouldn't have been shocked. If we'd really been in tune with our workforce, that number wouldn't have surprised anyone."

"The initial reaction from the management team was 'Fire all the bastards!' Then we realized that maybe we were part of the problem."

The lesson learned: "Implementing 'point' solutions doesn't work," says Pope. "Since they weren't tied together, employees perceived them as just a bunch of management initiatives. Development needs weren't identified. There was no training. Employees didn't see the efforts as part of a holistic system."

Stage Two: Focusing on processes

GDDS knew it couldn't just ask people to work harder. "We had to find a way to get them engaged," says Pope. "The main thing we saw at that point was the need to give them clarity. They needed to understand how their individual role fit in the grand scheme of things."

To help employees see the importance of their roles, GDDS created a "Learning Map," a graphical representation showing the link between every employee's day-to-day tasks and the firm's business objectives. For example, the map could show a software engineer that if he speeded up cycle time on a project the company could cut internal costs, thereby enhancing the saleforce's negotiating leverage on bids. That would increase company sales and profits. The engineer had a direct *line of sight* to business outcomes, and his performance metrics were directly tied to the organization's financial results.

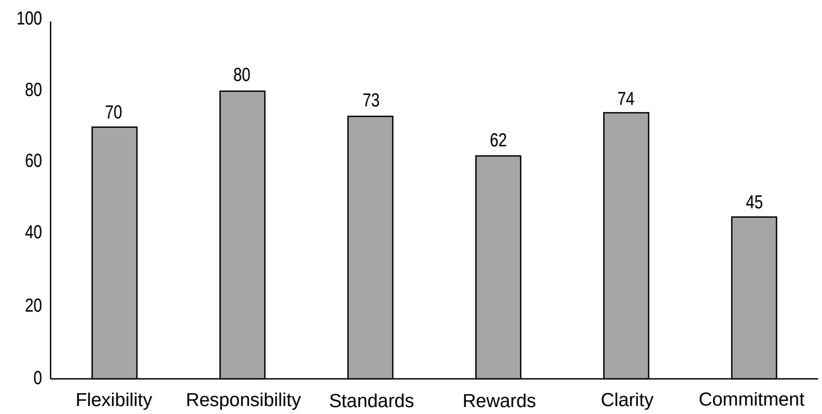
Management began conducting quarterly sessions at all levels of the organization. At these gatherings senior staff would reveal financial results, both good and bad, and link them to employees' individual goals.

These process-based efforts showed results a year later (see Figure 3). In June 2000 employees gave management high marks for "clarity" (74), meaning that management had set a clear mission and direction and had defined clear roles. The Learning Map had done its job well. Employees believed the company knew where it was going.

But the June 2000 climate survey also showed disappointingly low levels of employee commitment, a key measure of pride in belonging to an organization. Committment scored just 45 on a scale of one to 100. Again, top management was shocked. Despite employees' sense that they knew where the company was going, and where they fit in, employees were not engaged.

In June 2000, efforts such as the Learning Map raised Clarity to a satisfactory level (74). But Commitment (45) was still far too low.

Figure 3: GDDS Organizational Climate Survey, June 2000



Stage Three: Focusing on people — getting it right

In June 2000 General Dynamics' senior staff received 360-degree feedback (i.e., from bosses, peers and subordinates) using a managerial styles inventory. It showed them what range of styles were commonly being used and provided insights into why commitment levels were lower than expected (see Figure 4).

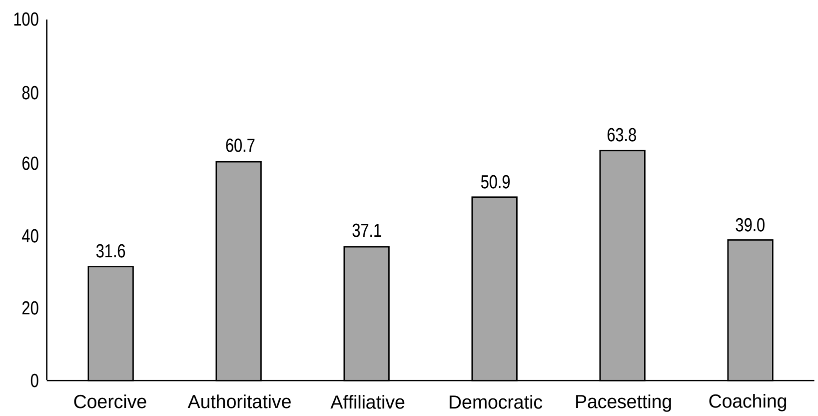
There was some good news — the aggregate Authoritative score (60.7) for all managers combined was relatively high, confirming the top management team was indeed providing direction. And the Coercive score (31.6) was reasonably low, suggesting that managers got results from employees without using command-and-control tactics.

But the Affiliative score (37.1) and the Coaching score (39) were way too low. Coaching includes helping employees identify their strengths and weaknesses in light of their aspirations. The Affiliative style involves listening to employees, giving positive feedback and offering rewards for "who you are" as much as "what you've done." GDDS employees were telling their bosses they needed more individual human contact in the form of dialogue, feedback and recognition.

Pope says the executive team realized the June survey was telling them that action was needed not just to change the organization but to change *themselves.* "We were intellectually smart enough once we saw the data to see that we needed to change our approach," says Pope. "Rather than focus on processes, we needed to focus on people. And it started with the executive team."

In June 2000 senior staff scored high on the Authoritive style, indicating they were giving clear direction on company goals and values. However, both the Affiliative and Coaching styles were low, suggesting senior staff was not listening to employees, recognizing achievement, or coaching employees.

Figure 4: GDDS Managerial Styles Inventory, June 2000



The eight members of the executive team received individual coaching. The process was difficult for them. "You rise to a position of authority and think you're good enough," says John Lipa, the director of human resources. "But then that data hits you in the face and you recognize that subtle things are preventing you from being really effective."

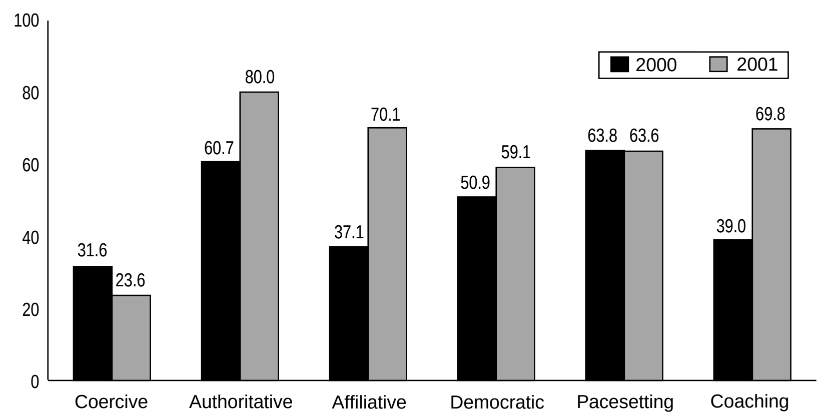
The executive team members were remarkably open about their shortcomings. Then-vice-president of engineering Mike Tweed-Kent acknowledged in the company newsletter that "my direct reports felt that I could be more empathetic — that I was too quick to find a solution for problems and issues rather than taking time to listen and understand." Rick Pope said he could improve "managing situations where people expressed different views" and that he needed to "spend more time communicating and being visible."

That top management was talking this way to employees had a huge impact. “It showed that senior management was committed to making changes,” says Gloria Forbes, a principal HR representative. “They recognized it had to happen from the top down, and they were walking the talk. It really improved morale.”

Forbes said her own boss would gather his team together and ask them point blank how he was doing. Forbes says: “He gave us a report card and said, ‘grade me.’ And he made it clear it was okay to be candid.”

The June 2001 Managerial Styles survey showed dramatic increases in the Affiliative and Coaching styles, indicating that senior staff was treating employees more as unique individuals.

Figure 5: Changes in Managerial Styles, June 2000-June 2001



After a year of intense management development at all company levels, a June 2001 survey showed that employees perceived significant positive changes in the managerial styles of General Dynamics leaders (see Figure 5). Senior staffers became considerably better at articulating the company’s vision. They also tilted more toward democracy: They asked for input from others, sought consensus more often and became less coercive.

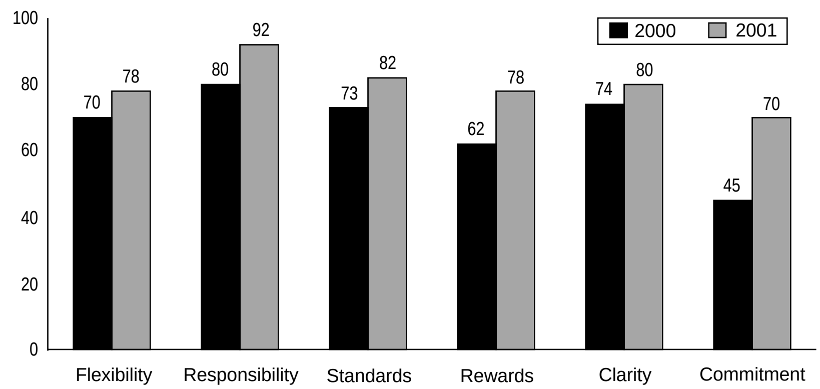
But the biggest gains were in their use of the Affiliative and Coaching styles. The Affiliative score shot up from 37.1 to 70.1, suggesting that the senior staff was really listening to employees and encouraging them through positive feedback. The Coaching score rose from 39 to 69.8, indicating that GDDS leaders were engaging in meaningful dialogue with employees about goals, performance and future opportunities.

Employees noticed. "When I first arrived here in 1999 performance measurement was very inconsistent," says Forbes. "It was done on an annual basis, if at all. Today, managers dialogue with employees several times a year. And the conversations are very different. They talk about performance, raising issues before they become problems. They talk about changing the culture. They talk about our careers."

All of which has *engaged* employees. An administrative assistant to a vice president says that as a result of management's new behavior, she feels a greater sense of ownership in her job. "I dress more professionally than I used to, and when I answer a customer call I no longer just give a yes or a no," she says. "I ask questions and really try to help the person on the other end of the line."

As a result of changes in Managerial Style, employee Commitment soared from 45 to 70 in just one year.

Figure 6: Organizational Climate Changes, June 2000-June 2001



Changes in managerial style improved climate

How did these management changes affect employee commitment? Significantly. In June 2001, a year after the initial climate survey, GDDS surveyed employees again and commitment levels had shot up 25 points, from 45 to 70 (see Figure 6).

The key: Spend time with employees

John Lipa believes leaders need to understand that "interface time" is the key to providing "Inspiration and Vision." He says: "Managers can't engage people by making announcements. They have to *invest time* in developing people."

Lipa recalls a "tough conversation" he had with an employee who came to ask for a promotion. "He had this quizzical look on his face when I told him he wasn't going to get it," says Lipa. "So I asked him 'what don't you understand?' and I coached him on the changes he'd have to make to get where he wanted to go. I explained that the bar had been raised. You have to compete for jobs more than in the past. That conversation took an extra 20 minutes. It took him a long time to get it. But as a manager you've got to take the time. That's what people respond to."

"Managers can't engage people by making announcements. They have to invest time in developing people."

2. Future Growth/Opportunity

A recent Hay study on retention showed that the primary reason employees leave is that they are not adequately using their skills. Employees think long-term about their careers and want to know that they are using their skills to advance.

In the context of Engaged Performance, this should be no surprise. Engaged Performance is about instilling enthusiasm and passion for work, to the point where people find such meaning in their jobs that they no longer compartmentalize their "work" and "private" lives. Meaningful answers to questions such as "How am I doing?" and "What are my long-term prospects with this company?" and "What learning and development opportunities can you offer beyond my current job?" are essential to engaging people in their work.

What if jobs don't appear to offer enough opportunity? Create it!

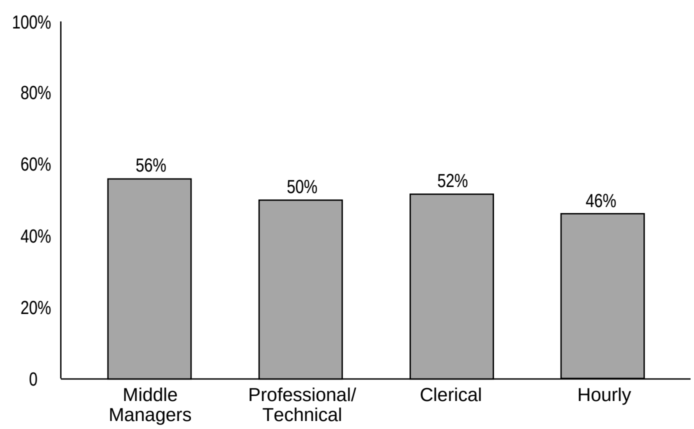
In 2000 Singapore's Ministry of Education faced a crisis when it realized it could lose a third of its teachers within five years. Instead of looking at conventional reward-based solutions, the Ministry asked a sample of its 24,000 teachers for input on what would attract people to and keep them in the teaching profession. Career prospects were a critical issue. Many felt that if they were not in management, they had little opportunity to advance. The Ministry came up with a creative solution, establishing three new career tracks, or "fields of excellence," that teachers could pursue. Those who wanted to stay in teaching could pursue a "Master Teacher" accreditation. Teachers who wanted to develop in a specific area such as educational psychology could work to become "Senior Specialists." And those who wanted to lead could follow a management track that ranges from the heads of departments to the top of the Ministry. The result: teaching has become a more attractive career. Attrition has slowed.

Feedback is key to giving employees a sense of where they're going, but many organizations are remarkably bad at giving it. A Hay Employee Attitudes Survey shows that only about half of employees are satisfied with the feedback they get from their bosses (see Figure 7). Managers don't give effective feedback for a variety of reasons. Some are too inexperienced to realize its importance. Others know it's important but don't know how to give it. And many, unable to bear the unpleasantness of giving negative feedback, avoid it. Then they wonder why their staffs are alienated and lack motivation.

Feedback is key to giving employees a sense of where they're going, but many organizations are remarkably bad at giving it.

Figure 7: Performance Improvement and Feedback

Percent Favorable



How do you rate your supervisor on letting you know what kind of job you are doing?

But feedback is perhaps the best tool in the boss' arsenal for decoding strategy and improving execution. What's more, employees clearly crave it. A major professional services firm in the U.K. that hires high-caliber university graduates was losing too many of them and wanted to know why. In a focus group conducted for the firm the problem became crystal clear: "The performance management system promised feedback after one year, but we want it after *three months!*" said the recruits. "We want to know how we're doing. Are we fitting in? Do we understand the culture? What can we be doing better? We can take tough feedback as long as it helps us grow and build confidence."

To guarantee that employees receive feedback, a company must create systems that managers find easy to use. Amgen, a biotechnology company based in Thousand Oaks, California, recognizes the importance of helping employees manage their careers. Once a year, the company requires that all managers sit down with their subordinates and have a "non-performance-related" discussion. The idea is simply to talk to them about their careers. Are they happy? Are they using their skills and abilities to the fullest extent? Are they moving in the direction they want to go?

To guarantee that employees receive feedback, a company must create systems that managers find easy to use.

As part of its initiative to engage employees, GDDS instituted "Individual Training and Development Plans" (ITDPs). Every employee has such a plan, which connects training to goals. Managers meet with employees four times annually to discuss four different topics, most of which touch upon ITDPs: salary, training and development, career planning and goal setting.

HR Director Lipa says managers at GDDS have been good about making sure the training gets done. His records show that 98 percent of the 3,600 training courses and other "development inputs" were completed in the first year of the program. "This sends the message to employees that we're serious about developing them," Lipa says.

Managers too often get caught up in day-to-day tasks and see employees' work merely as a means to accomplish the organization's objectives. They forget that for employees, their daily work is a means of fulfilling *career* aspirations. Smart managers understand the need to align the company's objectives with the employee's long-term career goals. That's how you engage employees.

3. Quality of Work

Recently, a solar energy firm placed the following recruiting ad in a London newspaper:

> *Belief in what you're doing is perhaps the most important perk of them all, so if you looked at the salary offered before reading about the job, perhaps we're not right for you.*

A bomb disposal expert in Britain who had taken over for a colleague killed by an IRA bomb was asked by a reporter: "*You are risking death doing this and only getting paid an army salary. Why do you do such an awful job?*"

"It isn't an awful job," the bomb expert replied. "It's a very worthwhile job and the danger is worth it to save lives. People respect what I do!"

In each example a sense of mission and intrinsic value is built into the job. So is the line of sight to a meaningful objective. For most employees, however, the intrinsic value of their work is harder to gauge. And the line of sight to a meaningful goal is often fuzzy. A key leadership task is to elevate the stature of apparently mundane work, to engage people by getting them to believe they are building cathedrals, not merely laying bricks. How can organizations do that?

Engage people by getting them to believe they are building cathedrals, not merely laying bricks.

Set high standards.

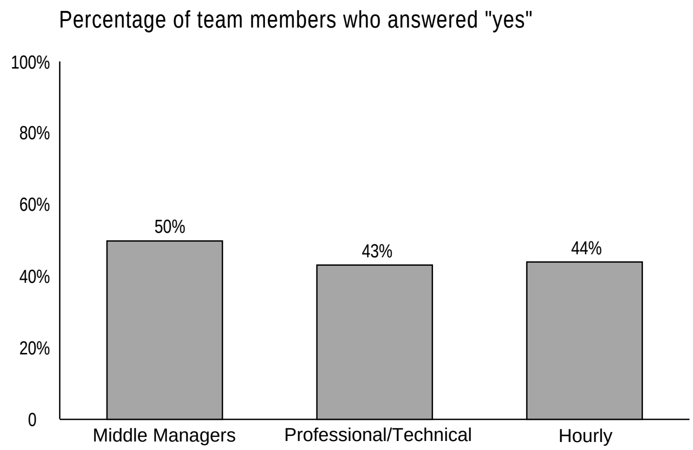
Pride in work gives employees a sense of purpose and meaning. It is also a huge motivator. One of the best ways to instill pride in a workforce is to set high standards and challenge people to meet them. As obvious as this may seem, initially we saw that at GDDS 70 percent of employees felt the company tolerated poor performance. According to the Hay Employee Attitudes Survey, typical companies are better than GDDS but not by much. About half of employees say their organizations' standards are too low (see Figure 8).

One way to dispel these perceptions, and give people a sense of pride in their work, is to invest in measures that ensure high quality. GDDS, for example, implemented a Six Sigma program back in 1999. Like Total Quality Management, Six Sigma is a methodology for improving processes and the quality of outcomes. It gives workers the freedom and autonomy to identify problems and develop their own solutions.

GDDS has trained more than 90 engineers in the new methodology. Their attitudes have changed dramatically. Before the advent of Six Sigma, when engineers spotted a problem "a handful of engineers would define the problem and send their recommendations to senior management," says a quality assurance engineer. "Then we'd just shrug our shoulders and wait for senior management to respond."

Now, engineers have the authority and freedom to solve problems themselves. "I recently suggested ways to improve our process of writing proposals to customers," says the engineer proudly. "Management quickly told us to go ahead and do it. So we figured out how to do two iterations instead of four to get to a final draft. That saves a lot of time and money." It's also deeply satisfying to the engineers, who pursued a higher standard of excellence and met their objective.

Figure 8: Tolerating Poor Performance



Do you agree that poor performance is usually not tolerated at your company?

Connect employees' work to company goals.

One goal of the Six Sigma program was to streamline processes and cut costs to improve negotiating leverage when the company bid for contracts. Employees, who saw the direct connection between their activities and company profitability, took on the challenge. In October 2000 the company newsletter published a list of Six Sigma successes, naming team members who took it upon themselves to cut costs. One group charged with streamlining the failure-reporting process reduced the need for documentation by 80 percent and saved the company $80,000 annually. Another team reviewed telecom contracts, chasing out $100,000 in costs while *improving* service. Another group reduced cycle time in the material-review process from nine days to four-and-a-half, slashing labor costs 20 percent. None of this would have happened if employees hadn't had a clear line of sight to the company's objectives.

Make sure managers value employees' work — and show it!

Employees' most important relationship is with their line manager, research shows. "People don't leave companies," one of our clients said. "They leave bosses." Imagine working for a boss who does not believe what you do is important. Even the bomb disposal expert would not continue risking his life if he felt his superior officer did not respect what he did.

"People don't leave companies," one of our clients said. "They leave bosses."

In our work with a major health care organization we asked a hospital porter what he liked about the job. His answer: *Variety and helping people. There are some routine things, but you are always seeing different people, reassuring the nervous ones going for treatment, making sure the supplies arrive when they should. I know the place can't function without people like me and we can do a lot to make the place cheerful. I feel part of a team and my boss always thanks me when I have had to do something nasty or difficult.*

A hospital porter has a repetitive, low-status job. Why does this man like it so much? Because his boss continually *reinforces* the importance of his role, which is to help patients get better. He channels his "discretionary effort" into his work because his boss believes his work is important, and tells him so regularly.

Employers around the world know how much job satisfaction matters. Yet Hay Group research consistently finds that not enough of them actually deliver it. A Hay Employee Attitudes survey found that 75 percent of managers feel they have interesting and challenging work. But only 56 percent of professional and technical employees and fewer than 40 percent of clerical and hourly employees feel the same way.

Companies have a lot of work to do.

4. Enabling Environment

Managers who control organizational resources understand the inherent conflict in that job. On the one hand, they know that an enabling environment — which includes a friendly, well-designed, safe physical space; good equipment; effective communication; and good training — will help improve productivity. On the other hand, resources to create that environment are limited and allocation decisions are tough. *My computer is too slow. I need training. My office is too cold (or hot). I need an ergonomic chair. We need a security guard in the building after working hours. Shouldn't we put pictures on the walls? Why don't we have a fitness center?*

An analogy to marketing is apt here. Marketers would ideally use all available media to promote their products. Because that would be prohibitively expensive, they rely on market knowledge and sophisticated analytical tools to make strategic choices. Those with the best information, and the best analysis, get the biggest bang for their buck.

Most companies, because they have no systematic way to determine where the real "pain" is in their workforces, often rely on the "squeaky-wheel-gets-the-grease" method of dealing with requests.

Employers need to think the same way about investments to create an enabling environment.

Our research has shown that most companies, because they have no systematic way to determine where the real "pain" is in their workforces, often rely on the "squeaky-wheel-gets-the-grease" method of dealing with requests. They give in to the demands of individuals or groups that are persistent and vocal, rather than doing what's best for the organization. In consumer marketing, this is the equivalent of making product changes in response to feedback from early adopters or people who call in and write letters; chances are neither group represents all consumers.

To create an enabling environment in a cost-effective way, employers have to understand their employees' real needs. They need to *manage by fact,* considering how investments in employees will affect the bottom line and delivering where it matters most.

At General Dynamics the information gleaned from employee surveys led to good decisions. Ninety-two percent of employees said the work area was safe, vs. a 71 percent national norm. Seventy-three percent of GDDS employees were satisfied with their computers, vs. 59 percent elsewhere. This valuable data told GDDS that it didn't need to alter perceptions about safety and computers, and it provided ammunition against those who demanded excessive new investment in these areas. The survey also found that employees felt senior staff did not adequately communicate its reasons for important decisions. That justified a GDDS investment in an Intranet site called the "Feedback Tool," where employees could post questions and get thoughtful, detailed answers from management.

Some requests that seem outlandish can be accommodated through creative thinking. Two years ago the GDDS facilities group asked the executive committee for $2 million to build an employee cafeteria. The plan called for major, expensive structural changes in a building. The senior staff rejected the idea but told the facilities group it would share the cost if they could find other sources of funds. If getting a cafeteria wasn't really important to them, those in the facilities group would have dropped the idea. But they didn't. They approached a customer who agreed to put up one-third of the cost. A caterer put up another third in exchange for a long-term contract, and GDDS put up the rest. Today, the company has a beautiful new cafeteria. "They really took the initiative and went out and did it themselves," says Pope. "They made it happen in a cost-effective way for the company."

Employers need to manage by fact, considering how investments in employees will affect the bottom line and delivering where it matters most.

5. Work/Life Balance

If employees are willing to blur the distinction between work life and personal life and put their hearts and souls into their jobs, it is only fair that employers do the same.

But how should an employer proceed? By offering flextime to employees, letting them work at home at will? Should they offer free child care? Job sharing? Elder care? Telecommuting? Dry cleaning services?

The answer depends on the make-up and needs of your workforce. To create a supportive environment, a telemarketing operation with a high percentage of single parents could make a business case for offering child care. An organization with lots of fiftyish baby boomers might consider elder care support.

At GDDS a highly popular program called Flex 40 allows employees to decide with their bosses how they will put in their 40-hour week. Some work four 10-hour days, others work four nine-hour days and a half-day on Friday. According to Lipa, Flex 40 is "the most significant thing they've seen management do. It works for us, too. Productivity is higher. Sick days and personal days are down."

How does GDDS decide which programs have merit? Rick Pope admits it's hard. "Employees come up with a zillion ideas," he says. "You've got to be careful not to give in to special interest groups that make a lot of noise. We've found the best solution is to narrow down the list and let employees vote on which ones they want."

Last year employees voted to institute telecommuting. The guidelines for telecommuting are strict; the employee, along with the manager, has to show why it makes business sense. Ironically, the program has generated tremendous employee goodwill even though only three employees out of 1,000 telecommute. "We got a lot of mileage out of offering a telecommuting benefit," says Pope. "It's resulted in zero cost to the business."

A huge investment in work/life benefits can deliver a negative return if managers send a message inconsistent with company policy.

Occasionally, as long as the cost isn't great, GDDS has yielded to the squeaky wheel. A group of basketball players wanted a court, so management agreed to set one up in some old factory space. "Five years ago that wouldn't have happened," says Pope. "Management would have said, 'if you want to play basketball, go to a gym.'" Has GDDS benefited? It's hard to say, Pope says. But he points out that last March one participant got various departments to put together basketball teams that then held a tournament during the NCAA playoffs. "They played the championship game on a Thursday at noon," Pope says. "They had about 200 people screaming their heads off. How do you quantify what that does for an organization?"

The importance of getting managers on board

Prudential Life Insurance provides a case study showing why it's not enough merely to offer attractive work/life benefits. Prudential's Family Friendly benefits package, which included a flexible work option, was superb, earning the company recognition in the business press. However, an internal survey of female executives showed that 56 percent felt their work negatively affected their personal life. Only 45 percent of high-performing employees at the company felt that their managers would support flexible work arrangements.

Why the contradiction?

Because even though Prudential encouraged flexibility, many individual managers didn't buy the company philosophy and *discouraged* their people from taking advantage of the benefits. This disconnect between company policy and managers' behavior poisoned employee attitudes. Prudential now trains managers to negotiate flextime arrangements; how well managers do this is now one of the criteria for determining their bonuses.

Perception is important when considering work/life benefits. The Prudential experience shows that a huge investment in work/life benefits can deliver a negative return if managers send a message inconsistent with company policy. The telecommuting example at GDDS demonstrates that by listening carefully to employees (letting them vote for the benefits they wanted), the company gained tremendous goodwill from a program that cost little or nothing.

"What I really wanted to hear was 'Thanks. You did a good job.' But all my boss did was hand me a check."

6. Tangible Rewards

In one Hay Group research project on rewards we interviewed several high-level employees at Wall Street brokerage houses who had recently received half-million-dollar bonuses. Several echoed the sentiment of one broker who said, "Getting the money was great, but it was also a bit of a letdown. What I really wanted to hear was 'Thanks. You did a good job.' But all my boss did was hand me a check."

Salary, incentives and benefits are external motivators and rarely give employees meaning. It's not that they're not important to achieving engaged performance. They are. If you don't give people competitive pay, if your company's benefits are sub-par, or if people feel that good performance does not result in higher compensation, they can become disengaged. Perhaps it's best to think of pay and benefits as merely a ticket to the game. If you meet threshold levels for both, you get to play. But you're not going to win the game unless you do a whole lot more. When it comes to tangible rewards, here are two measures smart companies take to engage employees:

Make sure employees know your reward system is fair

A U.K. food manufacturer surveyed employees and found that the majority felt demoralized because they were poorly paid. In reality the company paid higher salaries than 90% of its competitors.

The above example illustrates two important things. First, that fairness of rewards is an important issue for employees. GDDS HR Director John Lipa says that the perceived unfairness of the company's compensation systems was the main reason why, in a 1999 survey, 70 percent of employees felt the company tolerated poor performance.

Second, the U.K. example shows that if companies don't manage the message about employee pay, employees will do so on their own, distorting the truth and needlessly undermining morale.

GDDS made sure this didn't happen. When the company created a pay-for-performance program in 2000, it went to great lengths to make sure employees understood it and were convinced it was fair. For example, GDDS educated employees extensively, running articles in the company newsletter explaining the details of the plan. It also conveyed data to employees showing that the "bonus pool," which equaled six percent of payroll, matched software industry averages and exceeded norms in the aerospace/electronics sector by 1.5 percent. Finally, GDDS educated managers on the importance of explaining why their people earn what they earn. "You've got to be able to tell a good performer, 'I'm giving you a 20 percent increase and here's why,'" says Lipa. "You've got to reinforce what he did right. And of course you have to do the same for the guy who gets 3 percent. It's only fair to him that he get an explanation of what he needs to do differently."

If companies don't manage the message about employee pay, employees will do so on their own, distorting the truth and needlessly undermining morale.

Create a culture of recognition

Managers everywhere dramatically underestimate the power of spot recognition — for example, simply complimenting employees on their work. Or giving employees gifts — dinner for two, tickets to a play or a sporting event — if they complete a project on time and within budget. The benefit is huge. The cost is small.

In the 2001 Managerial Styles survey at GDDS (see Figure 5), the score for the Affiliative style rose more than any other (from 37 to 70) as a result of the change efforts that began in 2000. This indicated that during a year of intense management development, the senior staff made huge gains in its ability to encourage employees through positive feedback.

Director of Accounting and Taxes Bill Craig recently worked on a task force that assembled a report analyzing overhead rates for a new IT program. When the group presented the report, a senior staff member expressed dismay; the program wasn't feasible with such high overhead. But the senior staff member told Craig in private that the report was well done. "He recognized the effort that went into it," says Craig. "That meant more to me than money."

Creating a culture of recognition starts at the top and cascades down an organization. When Craig's payroll clerk took the initiative to get paychecks delivered on time after the World Trade Center attack, his first instinct was to personally thank her for what she did. "She let me know she appreciated the gesture," he says. Craig even sent a note to three senior vice presidents explaining how the woman's initiative had ensured employees got paid on time. One of them fired back a note saying,"Thank her for taking initiative." It was already done.

"Getting the top people to change sends the message that change has to occur at all levels and that we're all in this boat together."

Conclusion

People do not become engaged at work merely because they get paid a lot, or because they have a fast computer, a nice cafeteria or flextime. Even inspirational leadership, on its own, might not do the trick. Using the Engaged Performance model to understand how better to tap employees' "discretionary effort," and possibly even get them into real and sustained "flow," requires paying attention to *all* six drivers. It means understanding the needs and priorities of different segments of the employee population and taking action to meet those needs.

In sum, it requires a coherent "people model." The company that hired Patrick in our opening vignette "gets it." So does GDDS. The payoff is clear when organizations create the conditions for engagement and tap their employees' "discretionary effort": improved morale, higher productivity and, as we saw with GDDS, a dramatic boost in financial performance.

Earning Engaged Performance from the "engine room" is about organizational change. It's difficult and takes time, as GDDS's experience reveals. It requires research to learn more about your organization. It requires creating a system for encouraging continuous performance dialogue. This is not just about processes and systems, it is about real changes in behavior. And so it requires that senior managers adopt the appropriate managerial styles required to create a climate where engaged performance can happen.

“Organizations don’t change, people change,” says GDDS’s John Lipa. “You start at the top. When people at lower levels see the top guys change, they change, too. Getting the top people to change sends the message that change has to occur at all levels and that we’re all in this boat together.”

Is it expensive to create engaged performance in an organization? That’s the wrong question. The right question is: “What’s the cost of not having engaged employees?”

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