

GLOBAL BUSINESS



*Feedback loop Caldwell and Gebauer, from left, helped J&J's Kuschel lead a management makeover.*

duction in turnover, which saves some \$40 million that would be needed to replace workers. A study by Towers Perrin of 40 multinationals over three years found that companies with high engagement scores had operating margins that were 5.75 percentage points greater than those of low-engagement companies; net profit margins were 3.44 percentage points more. "The organizations that have cracked the code understand we're not just doing this to be nice; we're doing this for business reasons," says Max Caldwell, a managing principal at Towers Perrin, who with managing director Julie Gebauer runs the firm's Workplace Effectiveness group.

Companies are putting real resources into these efforts. North Shore-LIJ Health System, for example, plowed about \$10 million into worker training and tuition reimbursement last year. People at all levels are encouraged to expand their skills, which is how employees who start out as secretaries or housekeepers eventually wind up as technicians on surgical teams. That helps lead to a one-year retention rate of 96%, besting the industry-average 88%, and, ultimately, to better care for patients, says chief human-resources officer Joseph Cabral, who likes to display a chart that shows patient-satisfaction scores rising with employee engagement.

At Johnson & Johnson, the notion of engagement is part of overhauling the way the firm manages. One component gives work teams substantially more feedback on how they help the company as a whole. Imagine a chemical engineer in a Tylenol plant logging onto a system that shows how his factory's output feeds into divisional output—and how much closer that brings the company to its quarterly goals. "We believe this really creates commitment," says Kuschel. Once you're committed, the thinking goes, you work harder and make the company more money.

That outlook is a departure for many firms. "People used to think HR was just a cost center and not a source of value creation," says Alex Edmans, a finance professor at University of Pennsylvania's Wharton School who has studied engagement. In one paper, Edmans looked at Fortune's list of the 100 Best Companies to Work For and found that those firms' stock price from 1998 to 2005 rose an average 14% per year, as compared with 6% for the market overall. Edmans considers that pretty strong evidence. But there is always a chance that something else—say, good management—is causing both engagement and performance to rise. The consultants aren't done yet.

TOP BUSINESS TEAMS

## The Rage to Engage.

Giving attention to workers can pay off as much as pay

BY BARBARA KIVIAT

It's natural to want your employees to be happy. When people come to work with a spring in their step, chances are they do their jobs with more gusto, stick around an hour longer, go that proverbial extra mile—all of which boosts productivity and filters to the bottom line. Right?

Yes, says the burgeoning field of employee engagement, a movement that aims to quantify what, exactly, a company gets when it puts money into bonding with its workers. Consultancies such as Towers Perrin, Watson Wyatt, Hewitt Associates and the Gallup Organization measure how "engaged" workers are and then counsel companies on how to ratchet up those scores. The result is a slew of initiatives—like frequently telling workers how they generate value and offering them free retraining to move from one division to another—that go far beyond the rudimen-

tary concept of motivating people with pay to get them to work harder. "In competitive times, we all have to achieve more with less," says Tobias Kuschel, director of global talent management at Johnson & Johnson. "It's important to achieve that in a way people don't feel squeezed like a lemon."

Engagement is an amorphous concept, but as anyone who ever worked on a team can tell you, it's critical—the unengaged undermine—even if it's tough to pin down. Gallup says the top driver is direct managers; Towers Perrin says interest and vision coming from the executive level are much more important.

What is increasingly clear, though, is that management attention to engagement leads to real returns. The Royal Bank of Scotland has found that in retail banking, a 10% increase in leadership effectiveness—as measured by a series of questions about direct and divisional managers—ripples into a 3% boost to customer satisfaction and a 1% re-