



TOWERS
PERRIN
HR SERVICES

Working Today: Understanding What Drives Employee Engagement

The 2003 Towers Perrin Talent Report

U.S. REPORT

TABLE OF CONTENTS



EXECUTIVE SUMMARY	1
DEFINING ENGAGEMENT: WHAT IT LOOKS LIKE	4
Exhibit 1: Defining Employee Engagement	4
Exhibit 2: Current Employee Engagement	5
Exhibit 3: Engagement Across Job Levels	6
Exhibit 4: Engagement Across Industries	6
DRIVING ENGAGEMENT: WHAT IT TAKES	8
Exhibit 5: Top Drivers of Engagement: How Employees Rate Their Companies Today	8
Exhibit 6: Employee Views About Leadership	10
Exhibit 7: Manager Effectiveness and the Impact on Engagement	12
Exhibit 8: Building More Challenge Into the Work Environment — How Managers Are Doing	13
Exhibit 9: Employee Views About Company Performance	15
Exhibit 10: Trends in Employee Mobility	16
MEASURING ENGAGEMENT: WHY IT MATTERS	18
Exhibit 11: Linking Employee Engagement to Financial Performance	18
Exhibit 12: Engagement and Customer Focus	19
Exhibit 13: Engagement and Revenue Growth	20
Exhibit 14: Engagement and Cost of Goods Sold	20
Exhibit 15: Engagement and Turnover	21
ATTRACTION AND RETENTION: BUILDING THE RIGHT FOUNDATION	22
Exhibit 16: What It Takes to Attract, Retain and Engage	23
Exhibit 17: How Rewards Stack Up Overall	24
Exhibit 18: Employee Views of Pay and Benefits	25
Exhibit 19: How Employee Education Influences Views About Health Care Benefits	27
PUTTING IT ALL TOGETHER: AN HR AGENDA FOR THE FUTURE	28
CONCLUSION	32
ABOUT THE SURVEY	33

EXECUTIVE SUMMARY

If Alan Greenspan's term "irrational exuberance" was the catchphrase of the late 90s' boom, "rational endurance" is today's equivalent. According to Towers Perrin's comprehensive study of the workforce, that phrase accurately sums up the mood of employees today. Despite repeated business and economic blows over the last two years, workers remain surprisingly resilient — even resolute — in their focus on getting the job done.

Our 2003 talent study — completed in April 2003 and representing the views of more than 35,000 employees in U.S. companies — updates and expands a prior study completed just two years earlier. (See page 33 for details about the study and the respondent group.) Thus it provides both a snapshot of today's workforce and a comparison of how employees' views have — and haven't — changed over one of the most turbulent periods in recent times.

In a nutshell, we found that the events of the last two years have *not* taken the expected toll on employees' work ethic and desire to help their company succeed. We believe the reason has a lot to do with enlightened self-interest. By helping their companies, employees are presumably trying to preserve their own

job and financial security. In addition, our respondents agree their employers *have* moved the needle slightly on some aspects of the work environment that matter to them, particularly around creating a far more visible connection between their day-to-day work and the organization's larger goals.

Tempting though it may be to view these findings with relief, employers face real risks in responding with either complacency or inaction. Rational endurance may be good enough to get an organization through a few difficult years. But it will not yield the level of workforce performance required for longer-term success.

Why? Because, as our data clearly show, rational endurance does not allow much room for true engagement, which we define as employees' willingness and ability to contribute to company success. Another way to think about engagement

is the extent to which employees put discretionary effort into their work, in the form of extra time, brainpower and energy. And by this measure, a much more cautionary picture emerges from our study.

RATIONAL ENDURANCE IS *NOT* ENGAGEMENT

A key focus of our research was measuring respondents' level of engagement in their work (see page 5). Just under a fifth of our total respondent group — a disturbingly small percentage — are highly engaged, freely giving that extra effort on an ongoing basis. An equal number are *disengaged*, meaning they probably have "checked out" from their work, as so many employers fear. The remainder — roughly two-thirds of our sample — are "moderately" engaged at best.

“There are clear links between our respondents’ level of engagement, their focus on customers, and aspects of their organization’s financial and operational performance across a number of areas.”

Why does this matter? Because engagement remains the ultimate prize for employers. Companies may use different names or define it slightly differently, but the endgame is the same for everyone: *discretionary effort*. At a time when virtually every organization is struggling with cutbacks and financial pressure — trying to improve performance with fewer people and dollars — having a critical mass of employees who freely give that effort is of tremendous value.

Think of it as the human power driving the financial and operational engine. The greater the power, the better the engine performs on multiple levels, all other things being equal. Indeed, one of the most compelling elements of our study is that this once largely intuitive belief — that highly engaged people *do* outperform others — now has a basis

in fact. There are clear links between our respondents’ level of engagement, their focus on customers, and aspects of their organization’s financial and operational performance across a number of areas (see page 18).

CHALLENGE...OPPORTUNITY... AND RISK

So what does this mean to the typical company right now? In many ways, it’s a classic good news/bad news situation. On the upside, despite the hard choices employers have made in reducing staff and cutting back on core reward programs, they still have a willing workforce with a reasonably strong work ethic. While employees certainly take issue with a number of aspects of their work experience — and exhibit some negative feelings about their jobs (see page 17) — these negative emotions haven’t yet translated into widespread poor performance.

But employees’ willingness to deliver is neither infinite nor self-renewing. And the flip side of the coin — diminishing cooperativeness and engagement — is all about risk for the employer: Risk that the moderately engaged will slide toward increasing disengagement. Risk that resiliency will harden into recalcitrance. Risk that job performance will erode over time, with serious consequences for financial results. Risk that, as the economy rebounds and the job market opens up, the less than fully engaged employees will seek other employment. And finally, the ultimate risk of facing serious gaps in skills and talent in an environment where people are arguably the last source of competitive advantage.

Viewed through this lens, our findings present employers with both opportunity and challenge. The opportunity lies with the small number of highly engaged



individuals, who can become role models for their peers, helping build the kind of environment and work experience that does engage greater numbers of people.

The challenge, by contrast, lies with the large number of moderately engaged — whom we've termed the “massive middle.” Left to their own devices, these employees could easily slide toward the wrong end of the engagement scale, with serious consequences on productivity and morale. Indeed, the sheer size of this group — probably the single largest group in any organization — means it will have a disproportionate impact on the mood and morale of the workforce overall. Strengthening this group's level of engagement may be the most critical task virtually every employer faces today.

TOWARD GREATER ENGAGEMENT: MOVING THE NEEDLE

The value of this study is that it helps identify the nature and shape of this task, drawing on the views of one of the largest employee groups surveyed on this topic. It not only tells us what engagement looks like, but also how to build it — highlighting those variables that have the most positive impact on behavior and performance.

Perhaps most important, the study reminds us of a hard truth that's often forgotten in the desire for a quick solution: Building engagement is a *process* that never ends. And it rests on the foundation of a meaningful and emotionally enriching work experience. It is *not* about making people happy or even paying them more money. As important as pay and benefits are in attracting and retaining people, they play a less important role in engaging people in their work.

What is on the engagement list are the things that take time and commitment — such as strong leadership, accountability, autonomy, a sense of control over one's environment, a sense of shared destiny, and opportunities for development and advancement. In the end, this study reminds us there are no substitutes for these fundamentals.

The remainder of this report explores the elements of engagement in more detail, and compares them to the somewhat different mix of elements that attract and retain employees.

DEFINING ENGAGEMENT: WHAT IT LOOKS LIKE

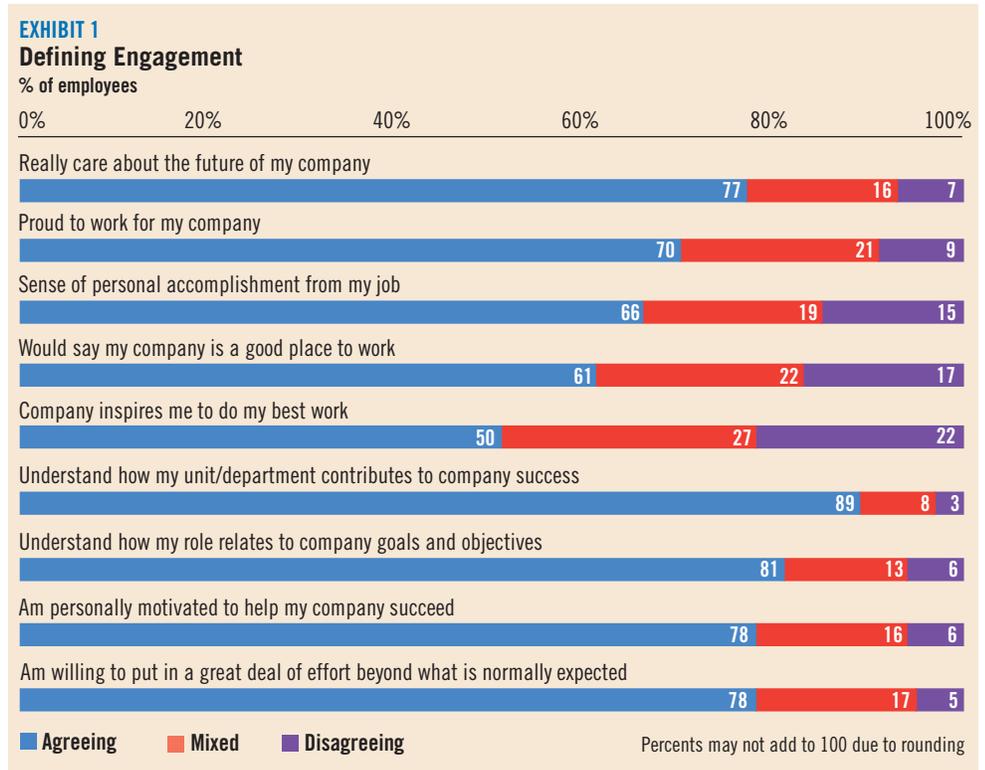
Through our study, we've confirmed a definition of engagement that involves both emotional and rational factors relating to work and the overall work experience. The emotional factors tie to people's personal satisfaction and the sense of inspiration and affirmation they get from their work and from being part of their organization.

A key item here, for instance, is having a strong sense of personal accomplishment from one's job. The rational factors, by contrast, generally relate to the relationship between the individual and the broader corporation; for instance, the extent to which employees understand their role, and their unit's role, relative to company objectives.

Think of this emotional/rational duality as a combination of "the will" and "the way." Full engagement demands both. Employees need the will: the sense of mission, passion and pride that motivates them to give that all-important discretionary effort. And they need the way: the resources, support and tools from the organization to act on their sense of mission and passion.

ENGAGEMENT: THE RATIONAL AND THE EMOTIONAL

Exhibit 1 shows respondents' "scores" on core measures of both emotional and rational engagement. Overall, there is surprisingly strong agreement with many of these statements, which





accounts for our sizable group of moderately engaged employees. Note, however, that scores for key aspects of rational engagement (the bottom items on the exhibit) are generally higher than those for emotional engagement.

In part, this speaks to the undeniable progress companies have made in recent years in creating more of a line of sight between individual actions on the job and broader company objectives. Programs that communicate and reward the connection between the individual and the broader organization are paying off and helping employees more clearly understand the mutual responsibility and accountability at the heart of the employer/employee relationship.

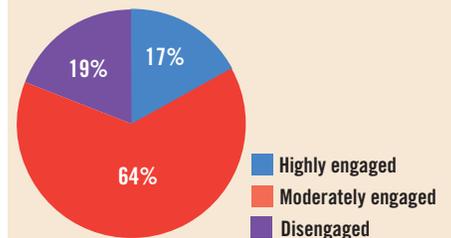
Plumbing deeper into the more emotional aspects of working, though, the picture changes a bit. Just under two-thirds of our group agreed their company is a good place to work, and even fewer — just half — agreed their company inspires them to do their best work.

This is where we see the impact of employees' dissatisfaction with various aspects of their work experience; notably, overwhelming workloads, distant and noncommunicative senior leadership (who fail to present a clear picture of future success) and the lack of developmental opportunities.

The lower scores for elements of emotional engagement also pose some risk for employers. In this period of rational endurance — when both companies and employees are collectively hunkered down to get the job done — engagement based largely or only on rational factors may be adequate. But as the economy rebounds and choices open up for people, many are likely to consider moving to another employer. At that point, emotional engagement may be the only thing helping retain those people most critical to the business.

Finally, our respondents may be reminding us that the heart is a tougher battleground than the mind. Today, employers have better tools and approaches for supporting employees in their daily work, and that shows in the strong agreement

EXHIBIT 2
Current Employee Engagement



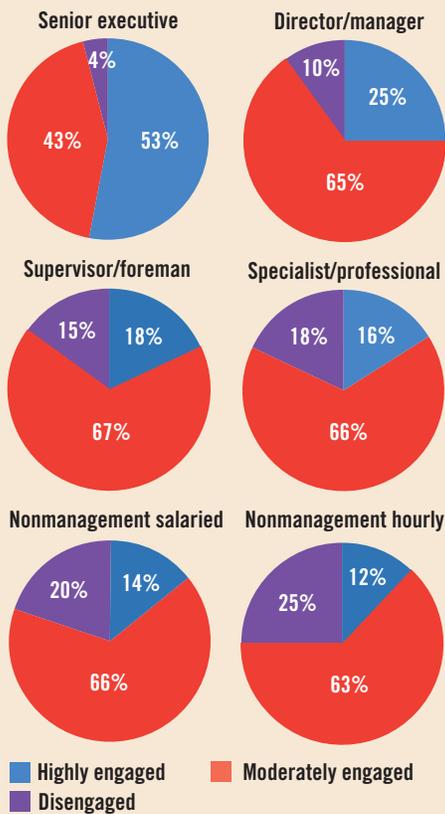
around some of the rational engagement factors. But companies are still behind where they need to be in inspiring people and providing the personal sense of passion and mission that count so heavily in a rich and meaningful work experience.

A QUESTION OF INTENSITY

This last point goes a long way toward explaining why, despite the reasonably strong agreement scores on a number of the engagement factors, we have only a small group of highly engaged respondents. *Exhibit 2* provides the evidence, showing how the total group breaks down according to employees'



EXHIBIT 3
Engagement Across Job Levels

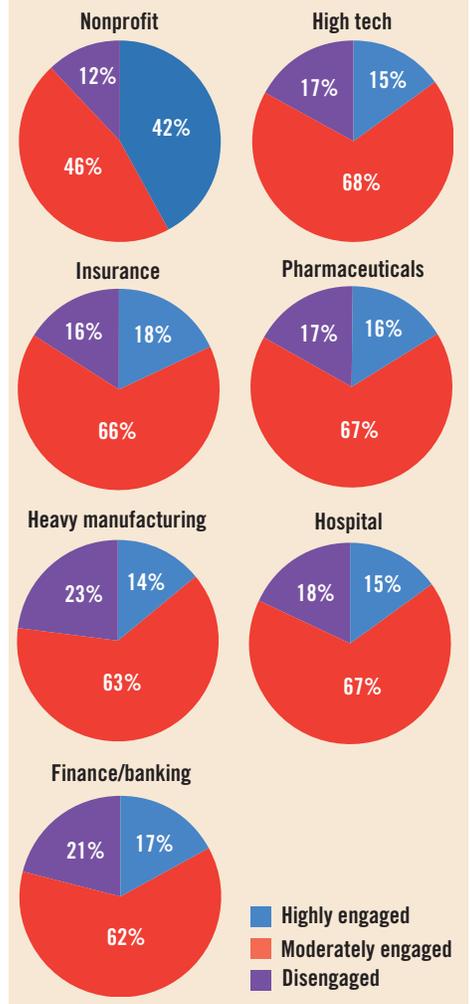


levels of agreement with the core engagement factors. Here are the important points to note:

- The highly engaged — just 17% of the sample — are those who gave the highest scores to all the engagement factors.
- The disengaged — 19% of the sample — are those who gave the lowest scores to all the factors.
- The remaining “massive middle” had relatively lower agreement scores and more disagreement scores across the board. They were quite positive in some areas, but had mixed (neutral to negative) views on a variety of the engagement elements, particularly the emotional ones.

Significantly, this pattern held up across a range of demographic segments in the study, from job level (*Exhibit 3*) to industry category (*Exhibit 4*). In each case, though, there was one important exception to the pattern that’s worth noting, because it further underscores the importance of a sense of inspiration, challenge and authority in generating engagement.

EXHIBIT 4
Engagement Across Industries



“Companies are still behind where they need to be in inspiring people and providing the personal sense of passion and mission that count so heavily in a rich and meaningful work experience.”

■ **Senior executives are more highly engaged than any other group — and less likely to be disengaged (Exhibit 3).**

Cynics might suggest this is because they make a lot more money than others, and while that’s certainly a factor, it’s not the whole story. Senior executives also have, by definition, the very qualities in their jobs that employees repeatedly tell us matter in engaging them: challenge, authority, autonomy, stimulation, access to information, resources and growth opportunities. Indeed, in our study on the emotional climate of the workforce

(page 17), we found that senior management’s current work experience comes close to mirroring what other employees described as their ideal experience (to which all aspire, but few have today). And again, it was largely about things like challenging work, personal contribution to results, advancement, and a sense of energy and excitement from the job — in other words, true passion for the work.

Beyond the top executive group, engagement levels drop progressively. And the lowest levels, not surprisingly, show up among hourly workers, who arguably have the least control or influence over their jobs and work experience.

■ **Among industries, engagement is substantially higher in the nonprofit sector than in every other sector we looked at (Exhibit 4).**

Again, this is logical, given that people tend to be drawn to this sector from a sense of mission and passion, rather than from any prospect of high pay or wealth accumulation. Indeed, the fact that the sector is traditionally not a high-paying one, relative to the others we studied, may be our best reminder that it isn’t possible to “buy” engagement in the conventional sense (through better than average monetary rewards).

DRIVING ENGAGEMENT: WHAT IT TAKES

Defining engagement is a crucial step in the process, of course — laying the foundation for forward progress. But the real value comes in determining what creates engagement. Through statistical analysis, that’s exactly what we’ve been able to do in our study — identifying a set of workplace attributes that, in combination, are critical to building high engagement.

They are, in order of importance:

- Senior management’s interest in employees’ well-being
- Challenging work
- Decision-making authority
- Evidence that the company is focused on customers
- Career advancement opportunities
- The company’s reputation as a good employer
- A collaborative work environment where people work well in teams
- Resources to get the job done
- Input on decision making
- A clear vision from senior management about future success.

Exhibit 5 shows how our respondents feel their companies are doing across these all-important drivers of engagement. Several points are worth noting:

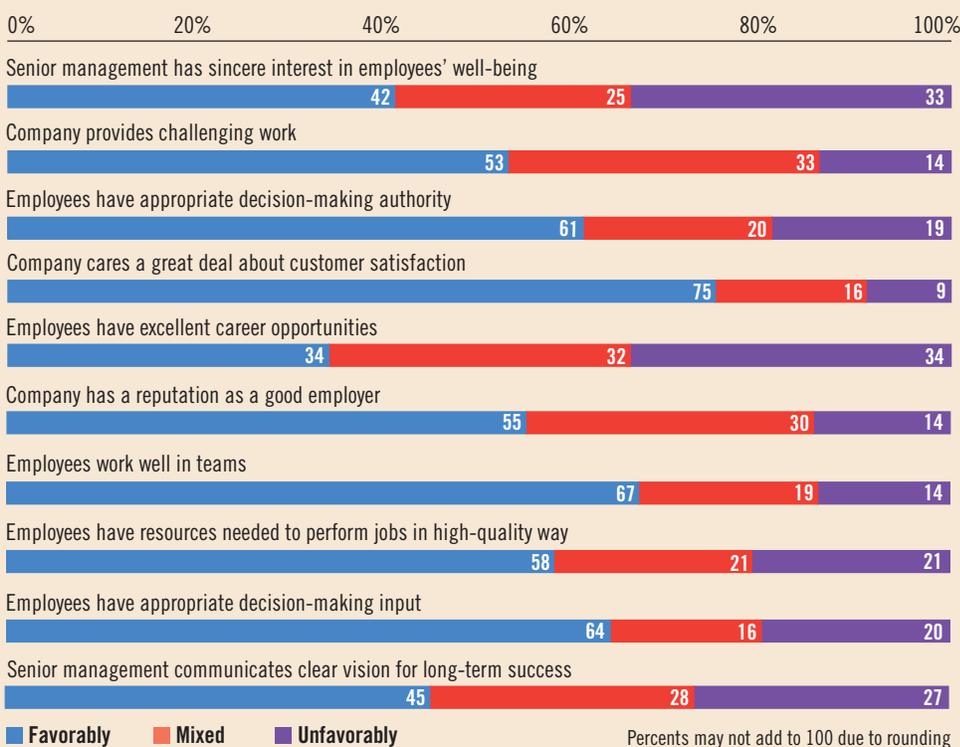
- A majority of these attributes relate to the cultural components of the workplace and the total rewards mix. These are elements that generally can’t be quantified from a monetary perspective — or delivered through a clearly defined program. That’s why, despite their importance to employees, they remain elusive goals for so many companies.

EXHIBIT 5

Top Drivers of Engagement: How Employees Rate Their Companies Today

(in descending order of importance)

% of employees rating company



- The traditional monetary rewards in the total mix — pay and benefits — don’t appear here at all. This doesn’t mean they’re not important to employees. As we’ll explore in detail later, they play a very significant role in attracting people to a company and some role in retaining people. But they have a relatively minor role, at best, in driving engagement itself.

- Two of the elements in the “engagement top 10” — the first and last, respectively — have to do with senior management. Simply put, it’s impossible to underestimate the role leadership plays in building an engaged workforce.



Linking People and Performance: The Right Equation

Our linkage framework deconstructs the four core elements in the fundamental relationship between people and business (read financial) performance.

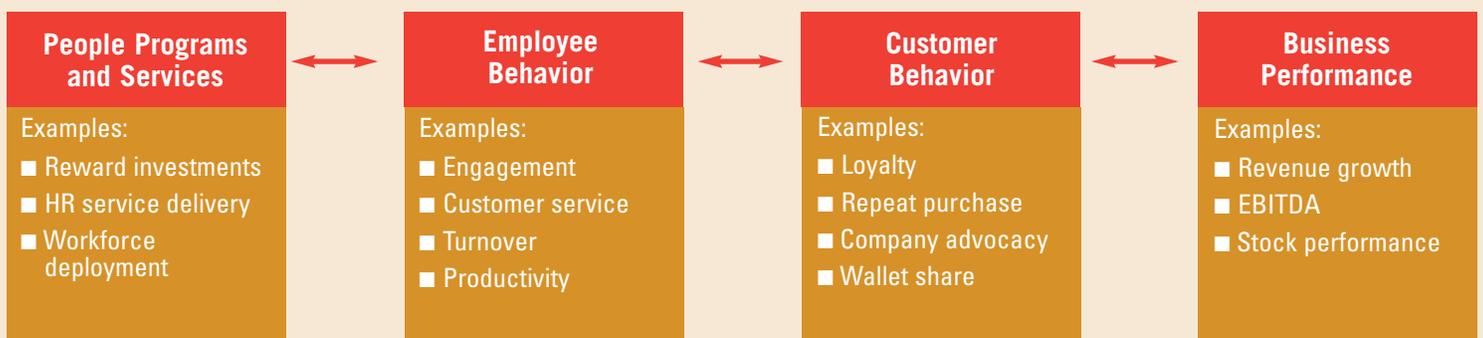
The notion is deceptively simple. Employee behavior influences customer behavior (think of the last time you walked out of a store without making a purchase because of an ill-informed, rude or poorly trained salesperson). Customer behavior directly affects revenue growth and profitability, among other things. So it's critical to shape the behavior of the individuals at the beginning of the chain: employees. That means creating an overall work experience, and developing and managing a series of workplace programs and practices, that directly support desired behaviors and high levels of engagement.

At the individual company level, the linkage framework becomes much more meaningful. It allows a company to identify the specific variables that affect customer behavior and related financial outcomes, and determines what employees need to do or focus on to help achieve those desired outcomes.

At one type of company, for instance, employees' technical skills and knowledge might be a key factor in customer loyalty — leading to an emphasis on training and development, among other things. At another kind of organization, rapid turnaround, flexible problem solving, or fanatical attention to store cleanliness and point-of-service assistance might be far more important influences on customer behavior, leading to a very different mix of programs to shape employee behavior and attitudes.

When a company aligns its programs and practices within this framework to drive the right behavior from employees through to customers, it positions itself to realize an appropriate return on its people investment. By contrast, when a company builds its people programs in a strategic and operational vacuum — with no explicit or implicit links to behavior and performance — it will not only fail to achieve a return on investment but may, over time, see a drop in customer retention, profitability and the like.

The Towers Perrin Linkage FrameworkSM





- The nature of people’s work matters a lot. The desire for challenge on the job is the second-most influential factor in driving engagement — a finding consistent with the data from our study of the emotional climate of the workplace (page 17). Being able to do something interesting and meaningful helps feed that important need for a sense of personal inspiration and accomplishment, leading to pride in one’s work and one’s company.
- Control over one’s environment is a clear theme, seen in items like decision-making authority, input into relevant decisions and resources to get the job done. Employees need to believe that some authority and autonomy come along with the increased responsibility and risk they are being asked to bear in various ways in the workplace.

Ultimately, all of these elements come down to the kind of culture and work environment a company creates and nourishes over time. As we noted earlier, it isn’t possible to build such an environment overnight. It takes commitment, consistency, trust in employees’ judgment, strong leadership, even stronger day-to-day management, and practices and programs that align with and support the desired culture.



Below, we’ve chosen to focus on the first five of these engagement drivers because they collectively have the most impact on engagement and, hence, represent a critical focal point for employers in strengthening current levels of engagement.

#1. SENIOR MANAGEMENT’S INTEREST IN EMPLOYEES’ WELL-BEING

Considering this is the most important driver of engagement, employers should be disturbed by respondents’ weak vote of confidence here. Asked whether *their* senior management exhibited such interest, only 42% of our respondents agreed it was true (Exhibit 5, page 8).

A third disagreed, while the remainder were mixed, suggesting they felt too distanced from senior management to even make the judgment call.

Exhibit 6, which shows how respondents feel about various aspects of their company’s leadership, suggests some of the reasons for this mixed view. While our respondents are reasonably positive about their management’s business savvy (with more than half agreeing their management is taking steps to ensure the company’s success), they are less sanguine on most other measures of leadership effectiveness. Note, in

“Many organizations confuse communication with information, concentrating on disseminating basic facts rather than providing context, commentary and two-way dialogue.”

particular, the relatively lower favorability scores for management’s communication abilities, both in terms of articulating a vision for the future and in being honest and forthright in dealings with the workforce.

Effective employee communication is a perennial challenge for organizations, especially large, complex ones. In our work with clients, we’ve found that it’s a learned skill, and one that traditionally hasn’t been emphasized among managers moving up through the ranks. In addition, many organizations confuse communication with information, concentrating on disseminating basic facts rather than providing context, commentary and *two-way* dialogue. In our experience, employees want to know what management thinks and believes and how it plans to act. And they also want vehicles to give their input. It’s part of the environment of mutual trust, accountability and responsibility that’s important in engaging people and winning discretionary effort.

Equally damaging, we’ve found, is a culture characterized by perceived gaps between leadership’s words and its actions. A common example is trumpeting

a strong performance orientation, but then paying people with little regard to meaningful performance distinctions, or failing to connect incentive pay to measurable organizational or personal outcomes. Nothing destroys trust and engagement more over time than inconsistency — or worse, outright contradiction — between words and actions.

#2. CHALLENGING WORK

Just over half of our respondents (53%) agreed their company provides challenge in their work. But a third were mixed — indicating perhaps that challenging work is not consistently available — and the rest claimed to lack sufficient challenge (Exhibit 5, page 8).

Clearly, employers’ ability to build challenge into a job varies dramatically, depending on the nature of both the work and the workers. Indeed, given the size and breadth of jobs represented in our sample, the fact that more than half of the respondents said they have challenge in their work seems to be a surprisingly positive finding. After all, how many jobs by their very nature involve repetitive, mundane activity?

But even taking this into account, there are certain things employers can do to help promote a more stimulating and challenging environment for almost everyone. In our experience, these can include encouraging people to take initiative, being open to change, tolerating uncertainty, coaching and developing people’s skills, and holding people accountable for their performance. Arguably, in fact, these elements are even more important in environments where the work itself is relatively routine — providing some counterbalance to the otherwise “disengaging” quality of the work.

In many organizations, the absence or presence of elements like these depend on the personality, skill and beliefs of the frontline supervisor or manager. He or she generally sets the tone and feel for a unit, taking cues from leadership and the prevailing culture. So we asked our respondents how their immediate managers were doing on a range of relevant attributes and we analyzed their responses in the context of our engagement data. *Exhibits 7 and 8* tell the story — a mixed one at best.



EXHIBIT 7

Manager Effectiveness and the Impact on Engagement

% of employees rating manager

Overall Quality of Supervision



Manager Behaviors Having the Most Significant Impact on Employee Engagement

(in descending order of importance)

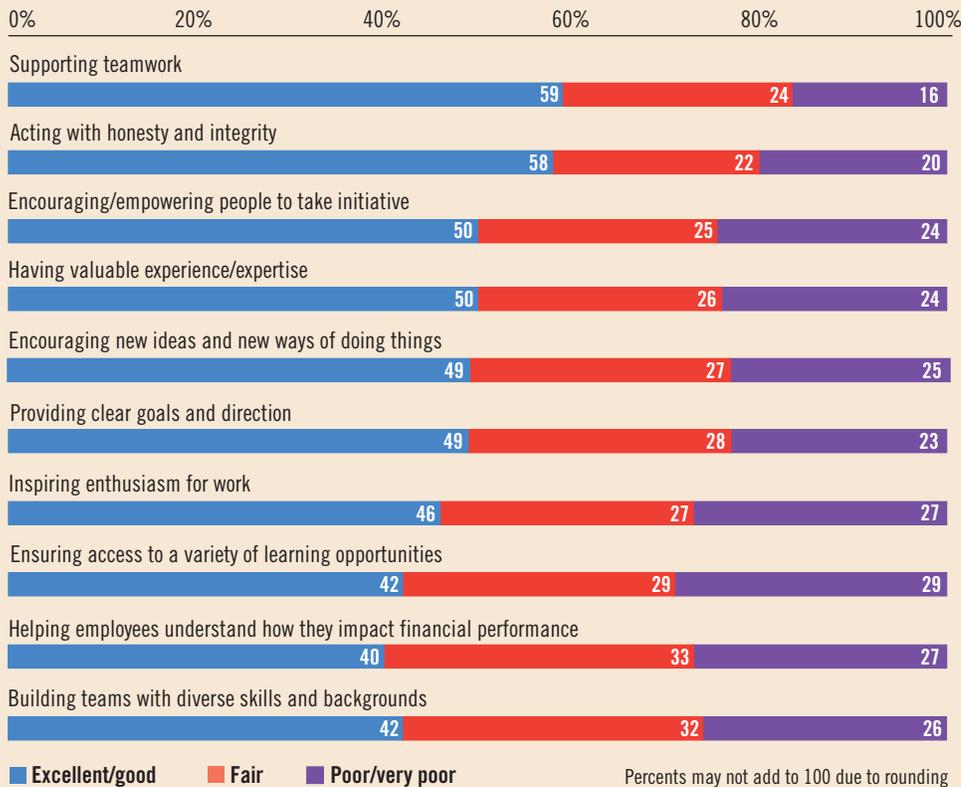


Exhibit 7 shows respondents’ overall ratings for managerial quality, as well as their ratings for the 10 managerial behaviors that have the most influence on engagement. Some points to consider:

- Forty-three percent of our respondents rated their managers favorably in terms of overall quality of supervision. While this is hardly a ringing endorsement of managerial effectiveness, that figure actually represents a slight improvement from our prior survey two years ago, when just 38% had favorable views about supervisory quality. It suggests companies are starting to recognize the importance of the managerial role and helping equip managers with the skills and tools to become more effective in these key areas. Still, employers have a long way to go, given that a full third of the respondents rated their managers as fair and a quarter gave them poor ratings.
- Managers appear to be putting their energies where it counts the most. Respondents gave them somewhat higher scores for the three most “engaging” behaviors than for the other listed behaviors. Still, roughly half of the respondent group rated managers as only fair to poor across virtually this entire behavioral spectrum, further affirming how far managers have to travel to deliver a more inspiring and challenging work experience in their units.

“Giving people a chance to provide input — providing a forum for opinions — is not only part of building more challenge and stimulation into the work environment, but also a part of involving people to enhance engagement and a sense of accountability.”

EXHIBIT 8

Building More Challenge Into the Work Environment — How Managers Are Doing

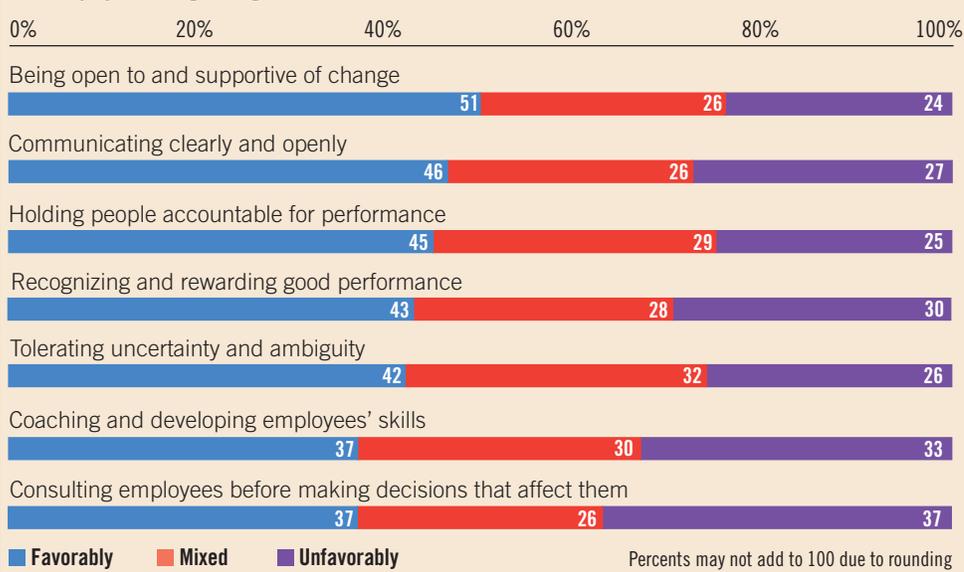


Exhibit 8 shows respondents' ratings for a related set of behaviors that particularly affect the ability to provide a more challenging work environment. While respondents were generally split down the middle in most of these areas as well, with half or less reasonably positive, two areas do stand out as particularly problematic:

- *Managers' ability to coach and develop employees' skills.* Just under two-thirds of the respondents were mixed to neg-

ative on this managerial attribute. Yet, from a company's perspective, what could be more important than ensuring employees build and maintain the skills required to get the job done and done well? If that focus isn't coming from the frontline managers who have the most direct view of people's abilities, from where else will it come?

- *Consulting employees before making decisions that affect them.* This actually garnered the biggest negative score across the range of manager behaviors, with 37% rating their manager as poor or very poor at taking their views into account.

Given today's fast pace and need for rapid decisions, having the time to talk to people about an issue may be more of a luxury than a practical reality for many managers. And sometimes, consultation just isn't possible for business or other reasons. Still, giving people a chance to provide input — providing a forum for opinions — is not only part of building more challenge and stimulation into the work environment, but also a part of involving people to enhance engagement and a sense of accountability. The workplace is no different from other areas in our lives. We all want to control as much of our personal situations as we can, and supporting that need to the extent feasible should be an increasingly important focus for employers.

“People are much more willing to accept increased risk if they perceive they also have control over decisions relating to that risk — as well as relevant information and tools to make good decisions.”

#3. DECISION-MAKING AUTHORITY

Control is, in fact, at the heart of the third-most important driver of engagement: freedom to make decisions relating to one’s job. Interestingly, this is an area where employers are faring reasonably well overall. Just under two-thirds (61%) of the respondents agreed they have an appropriate amount of decision-making authority to do their job well (Exhibit 5, page 8). But a fifth disagreed. The rest were mixed, suggesting that their ability to make decisions could be occasional at best, depending on the manager or task at hand.

The relatively higher score respondents gave their companies on this key aspect of engagement may well stem from an increased focus on the broad notion of empowerment, which took root in the late 80s to early 90s as command-and-control organization models began to look both antiquated and inefficient. While the term itself has now become something of a cliché, our data suggest the intent behind the word may finally be taking hold in companies as something more than a slogan. It is impossible to underestimate the importance of this

element of the overall work experience, especially today, when companies are increasingly asking employees to shoulder greater responsibility (and risk) in areas as diverse as training, career management, retirement planning, and management and use of health care.

In our consulting work, we’ve consistently found that people are much more willing to accept increased risk if they perceive they also have control over decisions relating to that risk — as well as relevant information and tools to make good decisions. Essentially, this comes down to an employer’s responsibility to provide employees with information. To the extent a company consistently keeps employees fully informed, it provides the necessary foundation for employees to behave responsibly and accept accountability for making their own decisions.

So along with decision-making authority must come clear communication and education as well as decision-making tools and support. In addition, responsibility and autonomy have to be seen as a core and consistent part of the environment. Giving employees responsibility in some areas, but pulling them back in others (relating to their jobs or dealings with customers, for instance) can send

mixed messages and ultimately defeat attempts to create more accountability across the workforce.

Finally, of course, decision-making authority ties closely to the ability to build more challenge into the work environment, since being in control of decisions enhances the satisfaction and excitement of work on so many levels.

In a fluid business environment, nothing slows down a person’s efficiency and effectiveness more than having to get approval for every action, and nothing stifles initiative more than continually being second-guessed.

#4. CUSTOMER FOCUS

Respondents gave their companies top marks on this engagement driver, with fully three-quarters agreeing their company cares a great deal about customer satisfaction, and only 9% disagreeing (Exhibit 5, page 8).

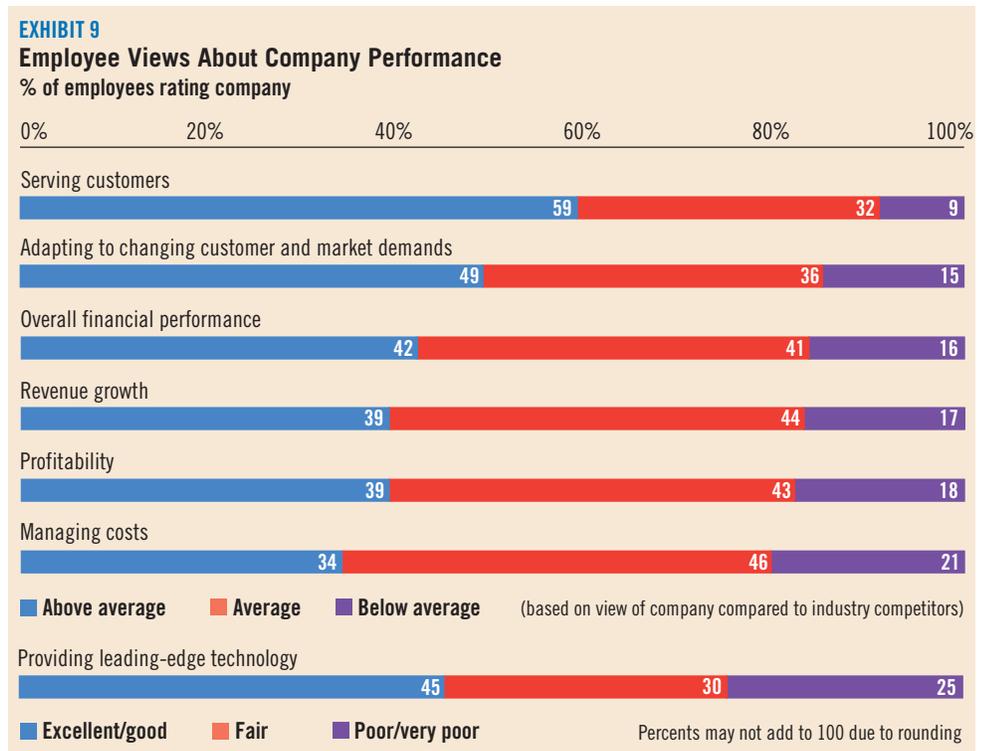
Why is a strong customer orientation so important to employees and to capturing their discretionary effort? We think it comes down to their pragmatism and core business savvy. Employees know



their companies are in business to serve customers and that financial performance depends on doing that well. So they care whether their company is performing well in this area. Working for a good competitor in the customer arena helps ensure their own future and gives them the sense of confidence that comes from association with a winner.

Still, they are also realists, as *Exhibit 9* shows. While 59% gave their companies high marks for serving customers well, far fewer felt as positively about financial results, indicating they are very aware of the toll the recession has had on most companies in the last few years. For instance, just 42% agreed their companies' overall financial performance was above average compared to others in the industry. This represents a full 10 percentage point drop from our prior April 2001 study, when 52% felt their companies were above average in overall financial results.

Perhaps even more significant, less than half (45%) rated their company favorably in providing leading-edge technology to support work processes and activities. This, too, is an area where we saw a relatively sharp decline in employee confidence since our April 2001 study,



when 58% of those respondents gave their companies a favorable rating on the technology side.

This decline could well be attributable to cuts in spending on new technology and upgrades, which many companies made in the last 18 months as part of broader cost management efforts. It could also explain why, despite all the attention on cost reduction, just a third felt their companies were ahead of competitors

in controlling costs. To the extent employees feel burdened with older, less efficient systems to handle increasingly demanding workloads, they may well think their companies are simply managing costs badly relative to the competition, making poor decisions about where and what to cut, and shortchanging future growth and competitiveness.

“If employees don’t see the potential for career advancement — particularly in the treatment of the best and brightest within their companies — they are likely to bolt when they can.”

#5. CAREER ADVANCEMENT OPPORTUNITIES

Respondents gave their companies the lowest scores by far on this engagement driver. Just a third of the respondents agreed their career opportunities were excellent, while an equal number disagreed and the remainder were mixed (Exhibit 5, page 8).

This indictment of career opportunity came through in two related survey items as well:

- *Communicating career opportunities.* Just 35% agreed their companies did that well, while 32% disagreed.
- *Advancing high performers in the organization.* Only 31% were positive about this aspect of their organization, while 36% were not.

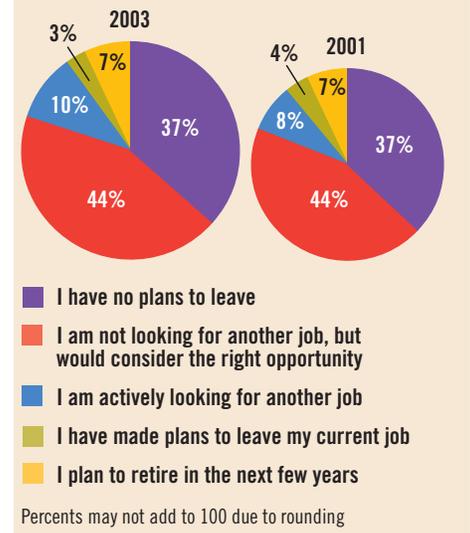
Given companies’ economic belt-tightening over the last two years, job advancement — indeed, job movement at all — has probably been limited at best (other than job eliminations). So to some extent, our respondents’ views may simply be a sign of the times — in keeping with their recognition that it’s harder today to find another, and especially better, job than it was two years ago.

Still, we have a far more mobile workforce than was true a generation ago. Almost two-thirds (63%) of the respondents agreed there’s no appropriate amount of time to stay with a company — a number that hasn’t changed at all in the past two years.

What’s more, as *Exhibit 10* shows 57% remain open to moving to another company, whether passively (expressing willingness to “consider” another job) or actively (looking for another job or about to make a job shift). Even more interesting, considering what’s happened in the labor market since April 2001, we found virtually no differences in response patterns around mobility across the two studies.

What all this says is that employees still remain as or more committed to their work than to a particular employer, all other things being equal. In tough times, they will stay the course with a company — if for no other reason than they have to. But if they don’t see the potential for opportunity — particularly in the treatment of the best and brightest within their companies — they are likely to bolt when they can.

EXHIBIT 10
Trends in Employee Mobility



In marked contrast, as we’ll explore next, highly engaged employees — who presumably see such opportunity to a far greater degree than others — are far less likely to bolt than are their less engaged brethren. So as competition for talent heats up again over the next few years, the question for employers is this: Which employees, or employee groups, are most critical to the organization, and how can you create a work experience that marries their commitment to their work and their advancement with an equal commitment to your organization?



Emotional Attachment in the Workplace — Keeping Negative Emotions in Check

During the period we were gathering data for our *2003 Talent Report*, we launched a related study with 1,100 employees from similarly sized companies that focused specifically on quantifying people's emotional connection to work. (See *Working Today: Exploring Employees' Emotional Connections to Their Jobs*, available on towersperrin.com.)

We used a unique tool called Resonance™ to obtain completely unstructured and open-ended views on how people felt about their current and ideal work experiences. What we found from this effort not only mirrors the results of our talent study, but also builds on it by painting a vivid picture of the elements that can create the most positive work experience an individual could imagine. And significantly, those elements track closely to the drivers of engagement discussed in this report.

Here's an overview of the results:

- Roughly 40% of respondents had negative emotions about their current work experience. The reasons come down to excessive workloads, lack of faith in management (its competence in driving the company forward, not its integrity), anxiety about job security, lack of challenge in their work, and insufficient recognition for the level of contribution and effort provided. What

our talent study shows, of course, is that most employees are keeping these negative emotions in check and maintaining their professionalism. The question, as we've noted, is how long this will last.

- Respondents' ideal work experience was grounded in reality — actually, a vastly improved variation on their current situation — and focused on four key areas:
 - **Feeling confident about what they do.** People need to feel pride, optimism and certainty about what they do, how they do it and, to a lesser but still important degree, who they do it for. Strong leadership, effective day-to-day management and a strong sense of connection with a winning organization that consistently delivers the best to its customers go a long way toward helping build this feeling in employees.
 - **Feeling competent at their work.** Being good at a job bolsters confidence and ensures both the organization and the employee achieve individual and collective goals. Training and development programs, mentor/coach relationships and regular feedback from managers not only engender competence, but help a company build the skills and behaviors that meet specific business objectives.

- **Having control.** Employees want to control their own destiny as much as possible; control feeds both competence and confidence. Employees feel in control when they have a measure of power over how they do their work. Even when workloads are heavy, being able to control the flow and pace of their work can relieve pressure on employees, as can a feeling they can turn to managers for resources and support when they need it.
- **Feeling part of a work “community.”** People's positive emotions are strongly influenced by the people they work with day to day, by collaboration, teamwork and shared goals, and by a sense of a purpose in work (beyond just a paycheck). Generating a sense of community is perhaps the most difficult challenge, especially in a culture where loyalties are divided or morale is low. However, establishing a two-way communication program that emphasizes the goals of the organization and the roles employees should play is a good first step.

MEASURING ENGAGEMENT: WHY IT MATTERS

If engagement was once little more than a theoretical concept, that time is long gone. Not only can we now define it clearly and measure its existence and intensity, but we can also demonstrate its value to an organization in concrete terms. A key part of our research process was collecting financial data on the public companies for which many of our respondents work.

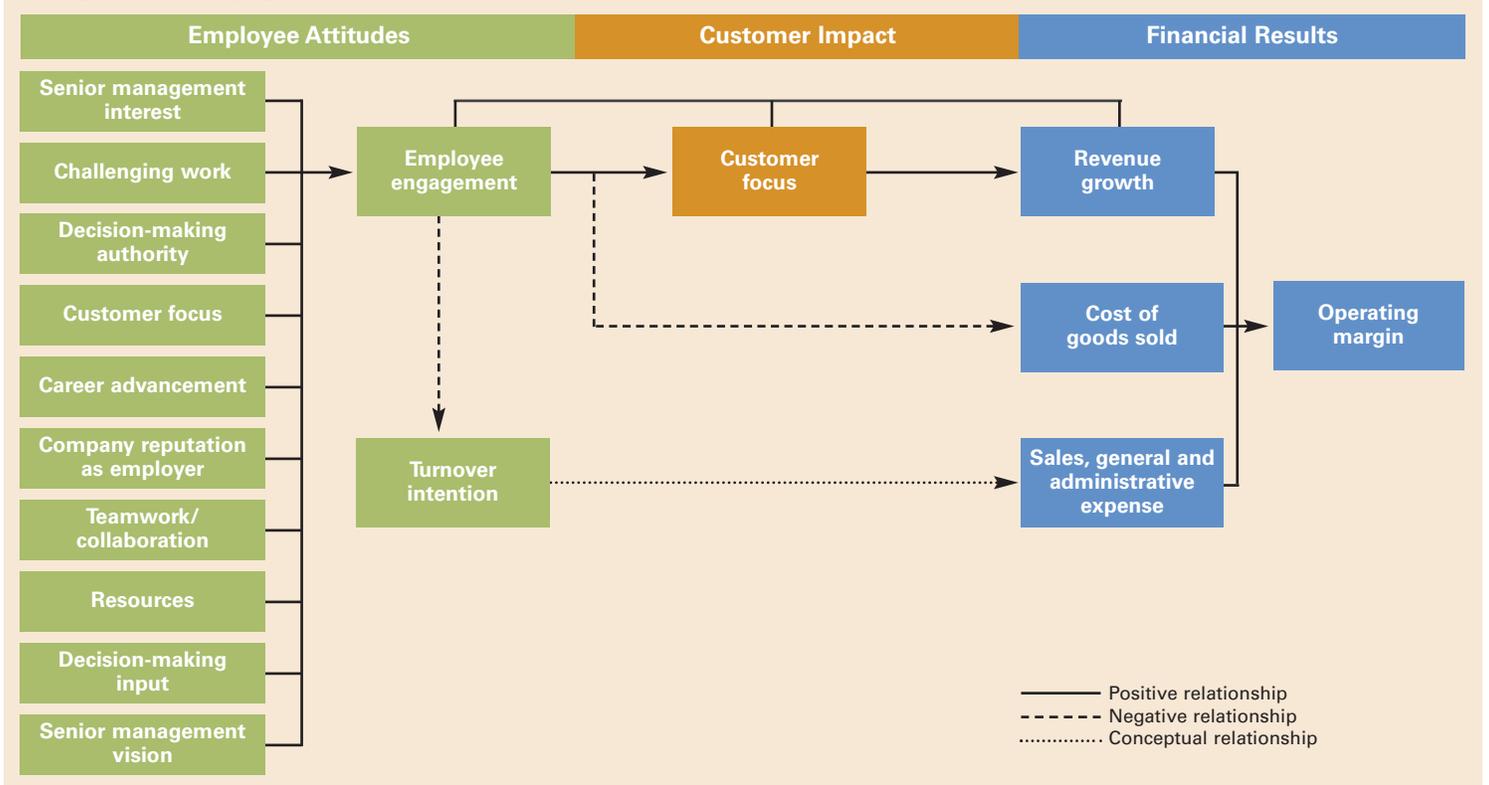
This additional information allowed us to compare (for a portion of the total survey sample) people’s responses to our engagement, customer focus and mobility questions with their employer’s actual financial performance. We measured these relationships using a set of publicly available company financial metrics, and we controlled for industry sector perfor-

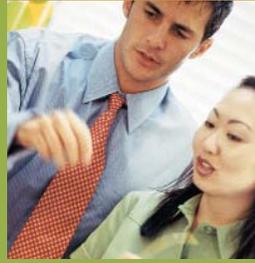
mance to adequately reflect differences across industries in market demand, growth rates and cost structures.

Our expectation was that we’d find distinct differences in company performance based on people’s level of engagement. And in fact, that’s precisely what we found.

Exhibit 11 draws on our Linkage Framework (page 9) to show the strength of the direct and indirect relationships among company programs, employee behavior, customer focus and financial results. While it’s important to recognize that there are many variables that affect business outcomes, our analysis nonetheless shows a clear relationship

EXHIBIT 11
Linking Employee Engagement to Financial Performance





between increased engagement, improved retention of talent and better financial performance. Here's how to understand this picture.

On the extreme left are the 10 workplace attributes that, as we've seen, help drive employee engagement. The stronger these attributes are in the workplace, the stronger the level of employee engagement. As engagement rises, we see two important outcomes: a decline in the likelihood of leaving the company and a stronger orientation around meeting customer needs. Put simply, the more highly engaged employees are, the *more likely* they are to put customers at the heart of what they do and how they think about their jobs, and the *less likely* they are to leave their company.

The right side of the picture addresses financial results where, not surprisingly, there's a relationship between customer focus and revenue growth (as well as one between engagement itself and revenue growth). There's also an inverse relationship between engagement and the cost of goods sold (COGS). In other words, we found that the cost of production tends to drop as employees become more engaged in their work.

Rounding out this picture is the relationship between turnover, turnover costs (which can average about 40% of an employee's salary), and sales, general and administrative expense (SG&A). SG&A, in turn, along with COGS and revenue growth, are key mathematical components of operating margin — a significant bottom-line measure of a business's financial health.

Basically, what we're seeing here is the power of discretionary effort on multiple levels. In a service business, for instance, the relationship is readily apparent: An engaged employee focuses on customer service, giving the customer a reason to return to the store or business and buy more goods and services. Such employees build customer loyalty and retention over time. But even in a business where there is little direct contact between employees and customers, engaged employees can still indirectly affect revenue growth, for instance, by supporting other employees who do have direct contact or by pioneering an innovation that boosts sales.

Exhibits 12 through 14 look a bit more closely at the relationships that support this model.

EXHIBIT 12
Engagement and Customer Focus



Note: This graph plots the linear regression equation that explains the correlation between two variables: Respondents' engagement scores and their mean score on three survey questions assessing the degree of customer focus in their organization (using a five-point scale).

Exhibit 12 shows the relationship between respondents' engagement scores and their responses to a set of questions measuring the degree of their organization's customer focus. As the slope of the graph clearly demonstrates, higher engagement scores relate to higher scores on the customer focus questions. Specifically, more engaged employees agree that their company:

- Cares deeply about customer satisfaction
- Has a strong ability to serve customers (compared to competitors)
- Can adapt rapidly to shifts in the market.

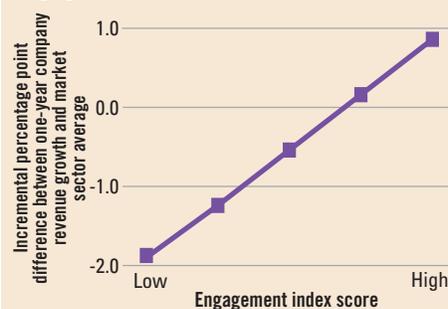
“The more highly engaged employees are, the more likely they are to put customers at the heart of what they do and how they think about their jobs, and the less likely they are to leave their company.”

Conversely, disengaged or only moderately engaged employees have far more misgivings about their company in terms of these measures and are likely to have little personal investment in a strong customer focus.

Exhibit 13 shows the relationship between respondents' engagement scores and their company's one-year revenue growth relative to average revenue growth for their respective Dow Jones industry sector. The compelling finding here is that the more engaged an employee, the more likely his or her employer is to exceed (versus fall behind) the industry average in one-year revenue growth.

Put another way, our highly engaged employees tend, on average, to work for companies that had revenue growth at least one percentage point above the average for their industry. Conversely, our least engaged employees tend to work for companies where revenue growth fell one or two percentage points below the industry average for the year (putting these companies at the lower end of the performance spectrum on a relative basis).

EXHIBIT 13
Engagement and Revenue Growth



Note: This graph plots the linear regression equation that explains the correlation between two variables: Respondents' engagement scores and their companies' revenue growth, as measured by the percentage point difference between company revenue growth and the overall Dow Jones market sector growth average for the relevant industry.

Exhibit 14 demonstrates the inverse relationship we saw earlier between employee engagement and a company's cost of goods sold, compared to the Dow Jones industry sector average for that measure. Here, the point is that highly engaged employees tend to work for companies where COGS fell below the industry average, while the least engaged employees tend to work for companies where COGS surpassed the industry average.

EXHIBIT 14
Engagement and Cost of Goods Sold



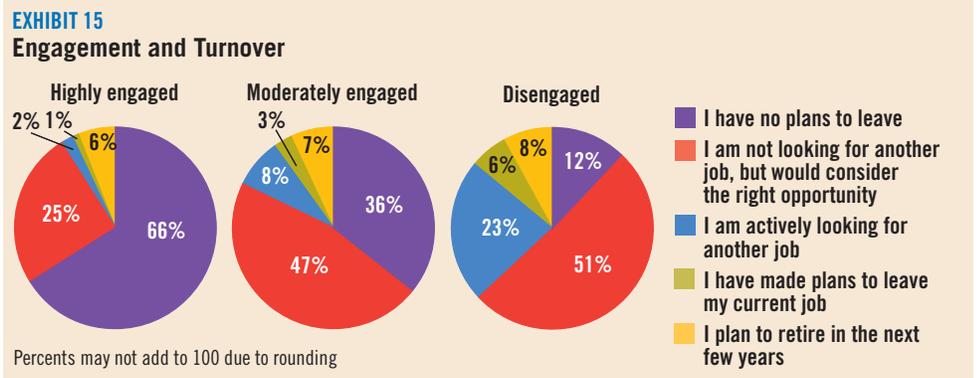
Note: This graph plots the linear regression equation that explains the correlation between two variables: Respondents' engagement scores and their companies' cost of goods sold, as measured by the percentage point difference between company COGS and the overall Dow Jones market sector COGS average for the relevant industry.

In each of these cases, the directional evidence is clear and compelling: *Companies with higher employee engagement outperform those with lower employee engagement, relative to industry benchmarks.* Whether that's because they attract more engaged people as a consequence of their superior performance, or whether their superior performance comes from the discretionary effort of their engaged people is, in the end, almost moot. What's clear is that the two are intertwined and together work to create a “virtuous circle” of enhanced performance.



ENGAGEMENT AND RETENTION

Exhibit 15 takes a closer look at the relationship between engagement and intent to leave the company — underscoring the fact that a highly engaged workforce is a more stable workforce. As shown, fully two-thirds of highly engaged employees have no plans to leave their current jobs, versus just a third of the moderately engaged — and a mere 12% of the disengaged. Thus, moving employees from a state of moderate to high engagement makes them almost twice as likely to want to stay with the company and invest discretionary effort, all other things being equal. And while high engagement doesn't guarantee retention (fully a quarter of this group are still open to an interesting opportunity), it does increase the chances of retaining the very people who are probably going to be most attractive in a competitive talent market.



Disengagement, for its part, poses two distinctly different retention risks for employers:

- *Losing key people.* Note that about a quarter of our disengaged group are actively in the market now — three times the number of moderately engaged and more than 10 times the number of highly engaged who are seeking other positions. This is a very worrisome fact if many of these individuals are in critical jobs.
- *Keeping disaffected and nonproductive people.* On the other side of the coin, but just as disturbing, half of the

disengaged are open to other opportunities, but are not actively looking. This suggests that a company could have a very large group of people not only marking time themselves, but adversely affecting performance by spreading their own negative views and behaviors to others. Retaining the disengaged — for however long — has as serious potential consequences for performance as losing the highly engaged.

ATTRACTION AND RETENTION: BUILDING THE RIGHT FOUNDATION

Despite our focus on the nontraditional (i.e., nonmonetary) elements of the work experience, there's no question that pay and benefits remain critical to our respondents and to employees broadly. Think of these as the first line of defense; the needed-to-play elements in managing the workforce. A company can't get into the game — successfully attracting or retaining people — without relevant and reasonably competitive pay and benefit programs.

Only to the extent those programs meet both the company's and employees' needs can an organization focus on the more intangible, needed-to-win elements so influential to engagement and discretionary effort.

Employers need the full portfolio of traditional and nontraditional rewards, designed in the context of their business and people strategies. But what our study demonstrates so clearly is that they need to emphasize different rewards at different stages in the employment relationship.

DIFFERENT GOALS...DIFFERENT DRIVERS

As we did for the drivers of engagement, we analyzed our data to isolate the specific elements of the work experience most important to recruiting and retaining employees. *Exhibit 16* (opposite page) shows the results — and contrasts the top 10 drivers of attraction and retention with the list we've already explored for engagement.

What's immediately apparent are the differences across these three areas. While there are some overlaps, particularly in retention and engagement, different reward elements take on greater or lesser importance, depending on the objective. Knowing what counts to employees — and when — can make all the difference in structuring a total rewards program that brings in the right people, keeps them and secures their discretionary effort over time.

No single reward element — or even single combination of reward elements — can effectively do all three. Let's take a closer look.

■ **Attracting people.** This is where pay and benefits predominate. Five of the 10 most influential recruitment factors fall into these two categories — including the top four in the mix. Interestingly, this mix has changed a bit since our April 2001 study, underscoring the impact of the external environment in shaping people's needs.

Competitive health care benefits and base pay held their top spots in both studies, which is not likely to surprise anyone. But in April 2001, before the Internet bubble burst, opportunities

for career advancement ranked third on the list, followed by work/life balance and raises linked to individual performance. Today, after 18 months of recession, downsizing, and sharp cuts in merit increases and bonuses, advancement opportunities are somewhat less important — coming into the mix only after the financial basics are in place. Work/life balance, however, remains a very strong factor in both studies — likely a reflection of the demanding workloads employees continue to carry (today, more by necessity than choice).

Among the important nonmonetary elements in the mix, career advancement and work challenge remain critical, which is consistent with their importance in the overall work experience. Equally critical are the kind of people one works with and the kind of company one works for, factors that are presumably related, since company reputation helps draw the best talent, while that talent, in turn, helps build the company's reputation. Both factors point to the importance of working for an organization perceived to be a winner on a number of fronts.



EXHIBIT 16

What It Takes to Attract, Retain and Engage

Top 10 Elements That *Attract* Employees (Attraction Drivers)

Pay

- 2 Competitive base pay
- 8 Pay raises linked to individual performance

Benefits

- 1 Competitive health care benefits
- 3 Work/life balance
- 4 Competitive retirement benefits

Learning and Development

- 5 Career advancement opportunities
- 6 Challenging work

Work Environment

- 7 The caliber of coworkers
- 9 Recognition for work
- 10 Reputation of the company

Top 10 Elements That *Retain* Employees (Retention Drivers)

Pay

- 6 Competitive base pay

Benefits

- 10 Overall satisfaction with benefits needed in day-to-day life

Learning and Development

- 1 Career advancement opportunities
- 2 Retention of high-caliber people
- 4 Development of employees' skills
- 8 Challenging work

Work Environment

- 3 Overall work environment
- 5 Resources to get the job done
- 7 Clear goals from manager
- 9 Manager inspires enthusiasm

Top 10 Elements That *Engage* Employees (Engagement Drivers)

Pay

Benefits

Learning and Development

- 2 Challenging work
- 4 Customer orientation
- 5 Career advancement opportunities
- 10 Senior management vision

Work Environment

- 1 Senior management interest in employees
- 3 Decision-making authority
- 6 Reputation of the company
- 7 Collaboration with coworkers
- 8 Resources to get the job done
- 9 Input on decision making

“Knowing what reward elements count to employees — and when — can make all the difference in structuring a total rewards program that brings in the right people, keeps them and secures their discretionary effort over time. No single reward element, or even single combination of elements, can effectively do all three.”

■ **Retaining people.** Pay and benefits remain somewhat important in retention, but clearly to a lesser extent. In a sense, what we’re seeing here is the difference between the needed-to-play and needed-to-win reward elements. Assuming an employee perceives that his or her pay and benefits are competitive and adequate in the context of the job and competitive realities, other things — notably advancement, talented coworkers and the overall work environment — matter far more in deciding to stay with a company. But if pay or benefits are seen as inadequate or out of line with effort or competitive reality, that will then become a major factor in pushing people to look for other situations.

Here, too, we’ve seen some shifts in the mix of key elements driving retention over the last two years. In April 2001, for instance, our respondents cited skill-building as the top driver, perhaps reflecting the need to master new Internet-related skills for the hot job market in the “new economy.” Today, by contrast, the focus on skills has dropped down in importance, replaced by the need to ensure some kind of advancement on the job.

What’s also more important today is managerial effectiveness, particularly in setting clear goals and inspiring people, both of which hark back to people’s need for both “the will” and “the way” in giving discretionary effort. Indeed, it’s impossible to underestimate the importance of the manager’s role overall, especially, as we’ve seen, in creating a positive work environment and building more challenge into people’s jobs.

THE REWARD STORY

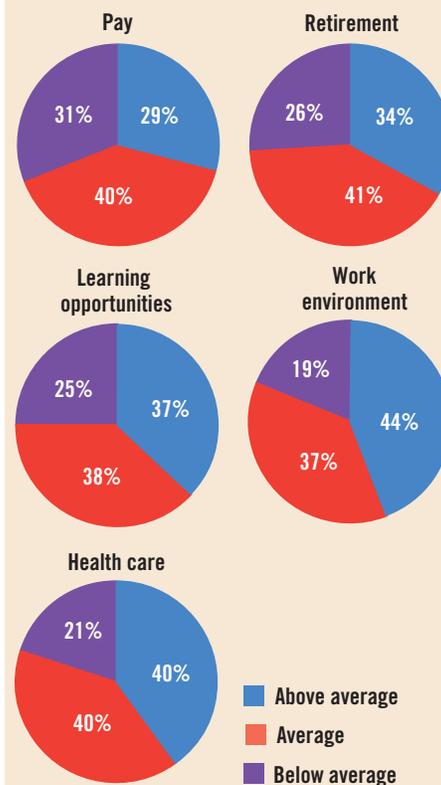
So how well are employers doing in creating reward packages that meet employees’ varying needs? *Exhibit 17* begins to tell the story. It shows how respondents rated the four key components of their total rewards program — pay, benefits (health care and retirement), learning and development, and work environment — relative to what they might expect at another company at which they could work.

The good news is that the number of respondents rating any of these reward elements as below average was generally between a fifth to slightly less than a third. The bad news is that the number rating their rewards as above average wasn’t much higher. For the most part, employees see their rewards as solidly average.

EXHIBIT 17

How Rewards Stack Up Overall

% of employees rating elements



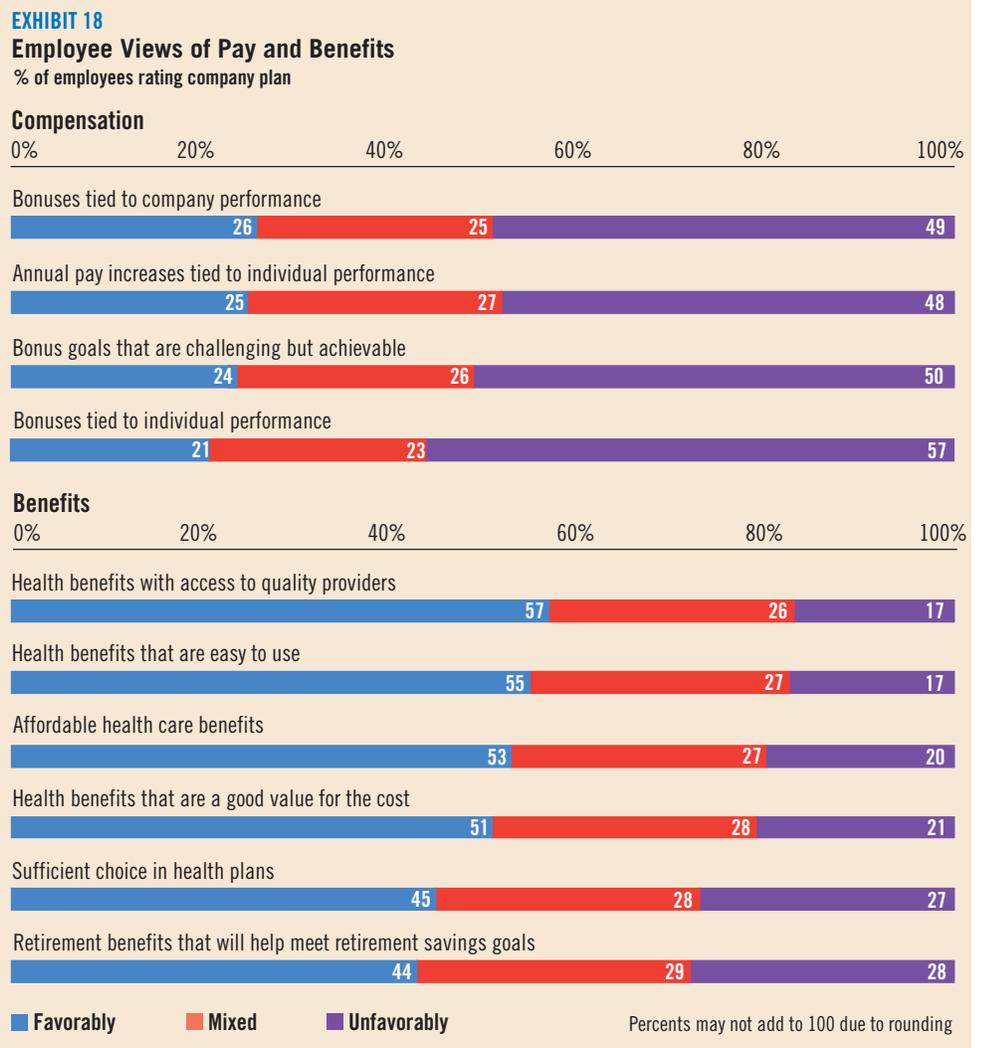
(compared to other companies where employee could work)
Percents may not add to 100 due to rounding



In the current economy, this clearly hasn't proved to be a big concern. Employees are staying put because they have to. And they likely know, from online research, conversations with friends and other sources, that pay increases have leveled off in the last two years and that many companies are cutting back on bonuses and benefits and shifting more cost to employees. They probably see little difference between their situation and those of friends or colleagues elsewhere.

But that brings us right back to the issue of risk. As the labor market eases, distinctions in these areas will become increasingly important. Then, being average won't be good enough for employers — particularly in recruiting or retaining the in-demand talent who always have the most job options and, hence, bargaining power. So what will it take to surpass average?

Exhibit 18 drills down into specifics a bit more, highlighting respondents' views about what is and isn't working for them in the core pay and benefit arena.



“Respondents are more, not less, cynical about the connection between pay and performance, and are less positive about the extent to which either their base pay or bonuses adequately reflect their individual performance.”

Among the noteworthy points:

- *Respondents were most negative about pay issues.* Close to or more than half of our respondents didn't rate their company well in terms of paying for performance and setting realistic bonus goals.

While complaints about pay are something of a perennial theme for employees, negative views have actually increased, albeit slightly, since our last study, particularly regarding the connection between pay and performance. In other words, our respondents are more, not less, cynical about that connection, and are less positive about the extent to which either their base pay or bonuses adequately reflect their individual performance. This is a potentially very troublesome say/do gap. If management is focusing on the importance of high performance, but failing to make meaningful distinctions when providing raises and bonuses, the message not only gets lost, but can actually disengage employees.

That such a gap does exist at many companies comes through in another troubling statistic from our study: 49% don't believe their company rewards top performers more than average performers. This disturbingly high percentage — which actually increased slightly since our April 2001 study — appears to be a fairly broad indictment of the true state of pay for performance today. And it's a perception that's likely to be quite problematic for employers who today, more than ever, need to use their limited compensation budgets to best effect for the company and its most critical employees.

- *Respondents were most positive about their health care benefits, relatively speaking.* Fully 40% of our respondents said their health care benefits were above average, while another 40% judged them average. This was a somewhat surprising finding, given employers' multiyear campaign to change the way they deliver health benefits, first moving to managed care and now, increasingly, looking at consumer-driven approaches.

To some extent, of course, this view is probably another example of our respondents' pragmatism. They know cost shifting is pervasive and they may well feel that things are not much different (or even slightly better) at their firm than elsewhere.

But this view also appears to reflect some improvements employees see in health care plan design and management. Specifically, our data show that certain attributes of a plan have a lot to do with perceptions of overall competitiveness. In particular, five factors influence the extent to which employees view their plan as better or worse than average:

- *Affordability of the benefits.* Do people feel they can bear the costs of their deductibles and copayments? And are these costs generally in line with what they know friends are paying at other, similar companies?



- *Perceived value for money.* Overall, given their total level of contribution, do people feel they're at least getting good value?
- *Access to quality providers.* Is there sufficient access to doctors and hospitals that are perceived to be good?
- *Sufficient choice in their plans.* Are there multiple plans and features from which to choose (for instance, both a point-of-service plan and an HMO)?
- *Ease of management.* Are there complex claim forms, referral requirements, Web enrollment elements? The easier a plan is to manage, the more likely an employee will feel reasonably good about it.

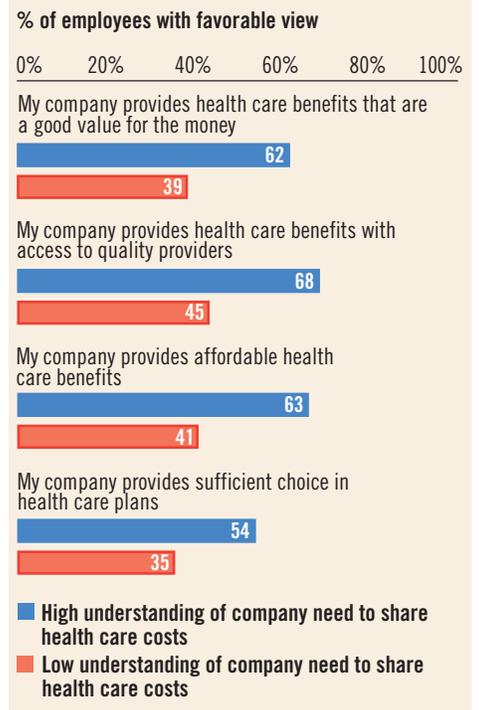
Note that with one exception (choice), half or more of the respondents agreed their plans delivered on these attributes (Exhibit 18, page 25). This finding underscores the importance of focusing on these attributes in both designing and communicating health care programs today. While each single attribute can influence employee perceptions, the combination appears to have a very strong impact on positive views about a plan, even in the current climate.

Our data also revealed that education has an important influence on perceptions about health care. As *Exhibit 19* shows, respondents who said they understood why their companies asked them to share health care costs were far more likely to feel positive about the various plan attributes shown above and, in turn, far more positive overall about their programs.

This shows, once again, that there is no substitute for communication, no matter what the issue. The more a company informs and educates — about health care, retirement, performance, the business, financial results — the more likely employees are to be positive and on board.

Even with an improving economy, cost pressures are not likely to abate anytime soon, and most companies will continue to control or reduce fixed payroll expense. In so doing, our data suggest they need to employ both art and science to channel limited dollars in ways that best equip them to attract, retain and engage the people most critical to their long-term success.

EXHIBIT 19
How Employee Education Influences Views About Health Care Benefits



PUTTING IT ALL TOGETHER: AN HR AGENDA FOR THE FUTURE

Managing an organization and its people pose unique challenges today. Consider what's occurred just in the two years between our two talent studies: A sharp rise in terrorism worldwide. A major attack on our own soil. U.S. involvement in two wars. Growing tensions among nations about the best way to address terrorism. Continued economic uncertainty. A stock market that took back a decade's worth of profit and remains volatile in the midst of recovery.

Rational endurance is not an unreasonable response from a workforce buffeted by this kind of continuing uncertainty and change. But, as we've noted, it isn't a sustainable proposition over time. It won't elicit discretionary effort from employees or inspire them and engage them emotionally. It won't, in the end, provide measurable performance lift.

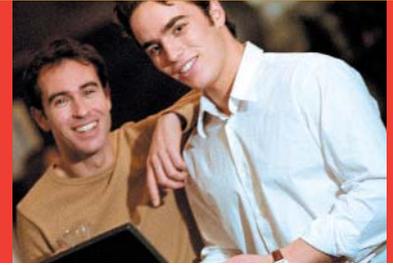
Employers need to begin moving people beyond the prevailing mood and mode of rational endurance. And they need to begin now — before employees' pragmatism hardens into cynicism and their work ethic and professional focus start to wane. Drawing on our data, here's what we believe will make a difference to employers in setting a successful HR course for the future:

- **Build sufficient flexibility into the employment cycle and experience to emphasize different rewards and cultural elements at different stages in the process.** If our research offers one key lesson, it's that employers cannot view attraction, retention and engagement through a single lens, or provide a one-size-fits-all program that will serve these three distinct needs with equal success. An organization that puts pay and benefits at the core of its "deal" with employees will probably be quite successful at recruiting. But if it doesn't expand that deal in its communications with current employees — shifting the emphasis from pay and benefits to career opportunity and job challenge, for instance — it may see an unwanted rise in turnover.
- **Put mechanisms in place to ensure that all employees can see and understand senior management's concern for them collectively and its vision for the future of the organization.** Essentially, this comes down to *two-way* communication. Keeping employees informed is a prerequisite, but it's not enough. What employees want — what signals

management's concern and focus — is the ability to comment, share ideas and give input.

Communication on this level requires a willingness to listen as well as inform, and to present both good and bad news with sufficient context for the news. It requires adherence to a consistent set of messages about the organization and its vision for growth, and frequency in getting those messages out across multiple channels.

- **Set clear expectations for managerial behavior and hold managers accountable for that behavior and related skills.** Experts have long debated whether good managers are made or born. Whichever the case, good managers still need some very specific things from their companies — and their leadership. They need to know precisely what's expected of them as people managers. They need support and training in delivering against those expectations. And they need to be held accountable for their performance



in the same way they need to hold employees in their units accountable for their specific objectives.

Ultimately, managing people should become as important an objective to an organization as managing operations, inventory or budgets. This is a message that has to flow down from the top and take root in the fabric of the organization.

- Seek creative ways to make jobs more challenging and improve opportunities for advancement.** If employers were to focus on just two areas in workforce management, these would arguably provide the most return on their investment. They are the only two elements that show up as key drivers across all three aspects of the employment relationship, from attraction through engagement.

At a time when so many people are struggling with excess work — doing the same or more work with less help — there is a special urgency to making work seem more challenging and

stimulating. Simply put, it can mitigate the negative impact of a demanding workload. One of the most interesting findings in our study of the emotional climate of the workplace (page 17) was that people who are stimulated and inspired by what they do (typically, more senior executives) tend to focus less attention on their workload, regardless of its size. The stimulation of the work ultimately compensates for the amount of the work, helping dissipate negative feelings about workload itself.

What does it take to create more stimulation and challenge in a job? As we've seen, that can, and often has to, go beyond the boundaries of an individual job. It rests on shaping a culture that gives people a reasonable amount of autonomy, allows them to take some risks and is open to new ideas.

As for career advancement, there's no question it's more difficult today, when so many companies have flatter organizational structures. In part, companies need to redefine advancement, focusing less on traditional spans of control and reporting relationships than on elements like skill mastery, team lead-

ership, special assignments and so on. But it's also a function of strong performance management programs that help people set clear goals, assess progress against those goals, understand gaps in skills and how to close them, and what their longer-term opportunities might be.

- Give employees education and tools to increase their business savvy.**

Remember our respondents' focus on decision-making authority and customer service. Both were among the top drivers of engagement. Viewed in tandem, these elements speak to employees' need and desire to have more of a personal connection to, and impact on, the business and its customers and contribute materially to results.

This is obviously easier in some roles than others, particularly in service-based businesses where employees can have a great deal of direct customer contact. A number of companies have built reputations for being both great

“It’s important for employers to understand that limited dollars do not need to limit their return on reward investments.”

employers and great service organizations by empowering employees to make their own, on-the-spot decisions about how best to address customer needs.

But there are other ways to help people feel they’re part of and contributing to the business. Both our data and our consulting work with clients repeatedly show the importance of a clear line of sight for employees between what they do and how it affects the organization and its financial results. This is, in fact, an area where companies have improved over the past two years, according to our respondents.

The challenge now will be to expand this focus, using new tools and approaches to strengthen the link across more job functions and give people a greater sense of connection to customers and the bottom line, even where their direct customer contact may be limited. In the end, this can also help foster a greater sense of job stimulation and challenge across an organization.

■ **Ensure that employees have the right information and education to become *informed consumers of the full range of workforce “goods and services” available to them.*** As we’ve noted, employees need information to feel comfortable and in control when shouldering increased responsibility and risk in various aspects of their work lives. More companies are now turning to the Web to address this need. It is an effective vehicle both for pushing information to people and pulling requests and data from them. It personalizes information and decision making for individuals, letting employees play what-if scenarios with differing benefit plan types and financial outcomes to make better decisions about purchasing health care coverage or planning for retirement. The Web can also be an important tool to do self-assessments about skills and career focus, and pursue the training necessary for career advancement.

■ **Invest total reward dollars for maximum return on investment.** Over the past decade, more and more companies have begun viewing their reward programs as an aggregated investment pool that they can mix and remix in different ways, depending on workforce needs and issues and financial pressures. They can identify employee preferences among reward options and create programs that let employees trade current for deferred pay, salary for bonuses, bonuses for benefits, benefits for cash and so on.

Down the road lies perhaps the ultimate goal: A totally customized, flexible approach that puts all the risk and responsibility in employees’ hands by giving them a total sum of money — commensurate with their skills, experience, function and level — to allocate in whatever way best suits their needs across an array of employer-provided or -sponsored programs.



Until then, it's important for employers to understand that limited dollars do not need to limit their return on reward investments. Advances in technology have ushered in an era of Web-based modeling and decision tools that quantify the impact of shifting dollars from one reward area to another, not only in terms of program design and management, but also in terms of employee engagement, retention and a host of other measures.

A growing number of companies are using such approaches, including our own Total Rewards OptimizationSM tool, to test different reward portfolios and determine precisely how far they can go in cutting back or redesigning plans without negatively affecting employee engagement and productivity. It's a critical first step in allocating financial and other resources for maximum value, particularly when there are severe constraints on those resources.

■ **Measure, measure, measure.** The HR function has been among the slowest to quantify its impact on an organization, in part because so much of its work relating to employee performance and engagement has been impossible to measure. While HR has long looked at things like turnover, head count, recruitment costs and training costs, the notion of determining a true return on investment in people has remained elusive.

That is changing fast, partly because of cost pressures and management's need to better understand the relative value of investments in various employee programs. Sophisticated new tools, like our Linkage Framework (pages 9 and 18), now allow employers to quantify the relationship between employee and customer behaviors and financial outcomes, and drive behavior in ways that lead directly to the right outcomes. Through linkage analysis, employers can also identify levels of employee engagement and quantify the impact of different levels on a range of financial measures.

Demographic and staffing modelers help identify, early on, the changing profile of a workforce, including the potential loss of large numbers of skilled workers to retirement, and the associated effect of lost skills and experience.

These and other measurement tools allow companies to plan and manage staffing and turnover far more efficiently and over a far longer period — helping deliver an HR strategy in line with a long-term business strategy.

CONCLUSION

Organizations have always struggled with the temptation to address people management issues with money. In flush times — for instance, the early days of the Internet boom — many could and did just that through creative equity and incentive programs, among other things. But even then, what drove so many of the dot-com employees to work through the night and literally move beds into offices was more their passion for creation than the downstream rewards.

Today, the situation is very different and few organizations have the financial wherewithal to solve workforce issues with money even if they wanted to. So it's a welcome reminder, assuming we needed one, that money is only part of the answer — and a relatively small part when it comes to discretionary effort.

What employees seek — indeed, what we all seek in our work experience — is a blend of tangible and intangible elements that together create an environment of stimulation, contribution, recognition (monetary and otherwise), development, learning and support (from day-to-day management and senior leadership).

Our study reaffirms the importance of these elements. And it tells us how and why they work. Now, we need to recommit to using them and staying the course over time.

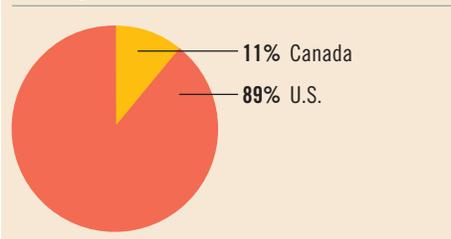
ABOUT THE SURVEY

The *Towers Perrin Talent Report* presents the results of a biennial study that tracks the views and attitudes of employees to understand the elements of the work experience that drive attraction, retention and engagement.

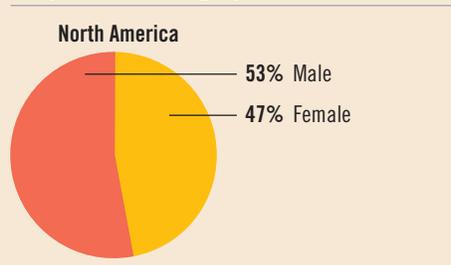
This study, completed in April 2003, was administered via the Web by Harris Interactive. It involved 40,000 employees working full time for medium and large organizations (employing at least 500 workers) across North America.

The U.S. sample — the basis for this report — was just under 36,000. The Canadian sample was about 4,400. Our prior study (*New Realities in Today's Workforce*), completed in 2001, involved 6,000 employees across the two countries.

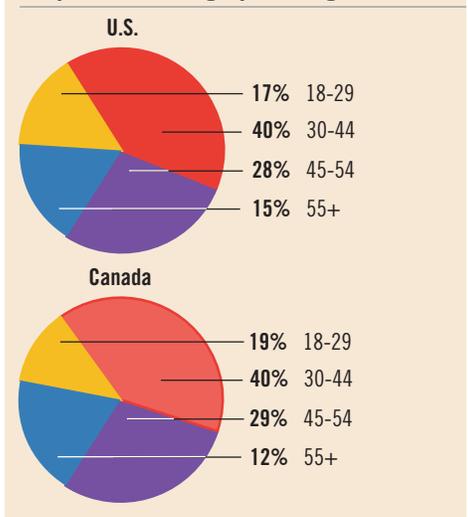
Respondent demographics: Country breakdown



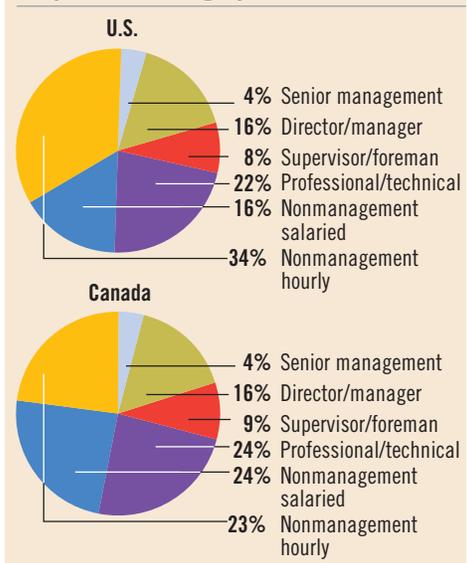
Respondent demographics: Gender

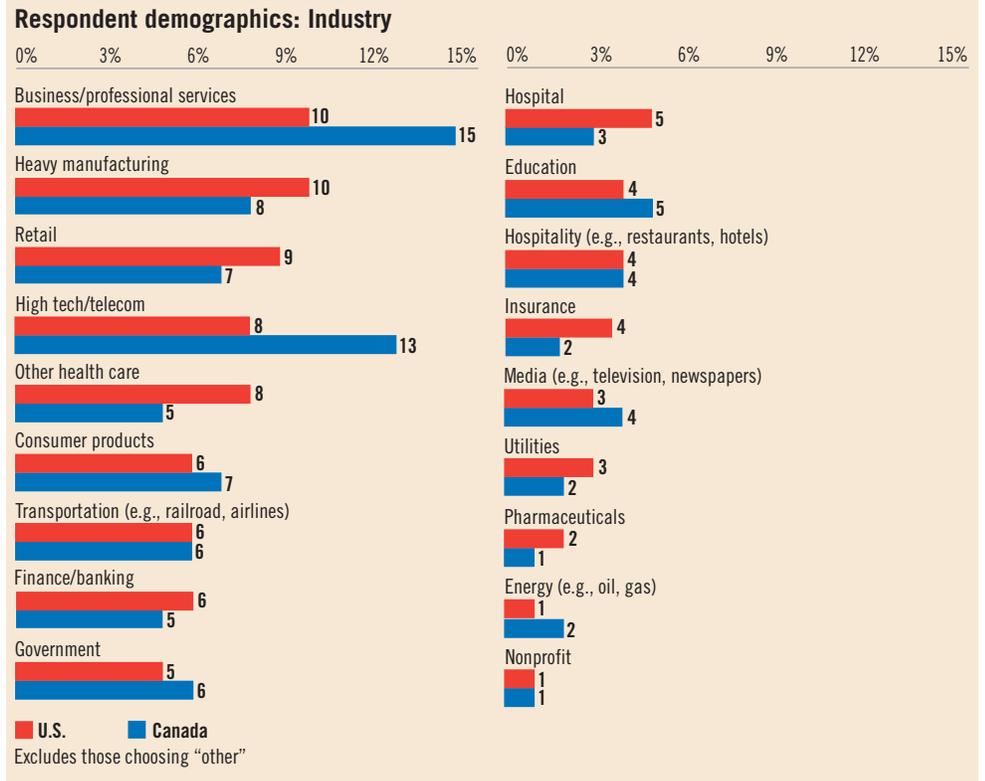
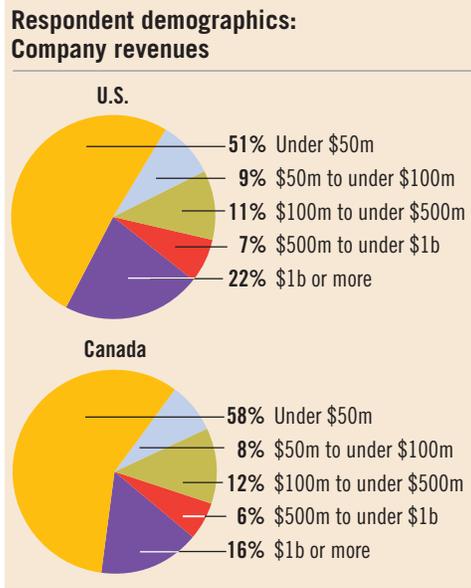
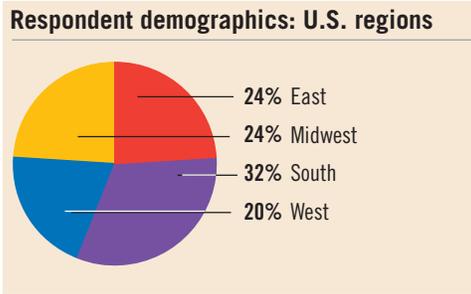


Respondent demographics: Age



Respondent demographics: Job level





OTHER RESEARCH STUDIES

Towers Perrin conducts a variety of research studies with both employers and employees to help track and understand how companies are addressing significant business, people and HR issues today. Our most recent studies are listed below. You can obtain copies of these either through www.towersperrin.com, by calling 1-800-525-6741 or by contacting your Towers Perrin consultant.

Back to the Future: Redefining Retirement in the 21st Century: 2003 Retirement Study

This study of 2,000 U.S. employees and over 350 HR and benefit managers looks at changing views about retirement and the implications for employer plans now and in the future.

Enhancing Corporate Credibility: Is It Time to Take the “Spin” Out of Employee Communication?

This study of 1,000 U.S. employees examines the impact of too much internal “spin” on employee trust in leadership and suggests some ways companies can reestablish credibility and reconnect with their workforce.

HR on the Web: The Investment Is Paying Off

This study of 180 organizations examines the latest trends in employee and manager self-service and the results companies are seeing from their investment in Web technology.

Keeping Employees Engaged About Health Care

This study of 1,000 employees of large companies explores current views about health care and some of the steps companies need to take to engage people to take more responsibility for managing their own care and the programs available to them.

Rewards and Performance Management Challenges: Linking People and Results

This global study of 1,300 organizations from Asia, Europe, North America and Latin America explores changes in reward and performance management programs and processes from both a strategic and tactical standpoint.

TP Track: Managing Performance and Rewards in a Challenging Business Environment

This study of 240 senior HR decision makers at North American organizations examines how cost pressures are affecting approaches to reward investments.

TP Track: Tougher Times, Tougher HR

This study of 265 senior HR decision makers at North American companies examines how key business and people challenges are affecting HR objectives, activities and budgets, as well as the mood and morale of HR staff.

Working Today: Exploring Employees’ Emotional Connections to Their Jobs

This unique study, conducted in conjunction with Gang and Gang Research, gauges the emotional state of the North American workforce and identifies 15 key workplace elements that shape a positive work experience (and help drive performance).

ABOUT TOWERS PERRIN



Towers Perrin is a global professional services firm that helps organizations around the world optimize performance through effective people, risk and financial management. The firm provides innovative solutions to client issues in the areas of human resource consulting and administration services; management and actuarial consulting to the financial services industry; and reinsurance intermediary services.

The HR Services business of Towers Perrin provides global human resource consulting and administration services that help organizations effectively manage their investment in people. We offer our clients consulting and related administration services in areas such as employee benefits, compensation, communication, change management, employee research and the delivery of HR services.

Argentina

Buenos Aires

Australia

Melbourne

Sydney

Belgium

Brussels

Bermuda

Brazil

Rio de Janeiro

São Paulo

Canada

Calgary

Mississauga

Montreal

Toronto

Vancouver

China

Hong Kong

Shenzhen

France

Paris

Germany

Cologne

Frankfurt

Ireland

Dublin

Italy

Milan

Rome

Japan

Tokyo

Malaysia

Kuala Lumpur

Mexico

Mexico City

The Netherlands

Amsterdam

Rotterdam

New Zealand

Auckland

Wellington

Singapore

South Africa

Cape Town

Johannesburg

South Korea

Seoul

Spain

Madrid

Sweden

Stockholm

Switzerland

Bern

Geneva

Zurich

United Kingdom

Bristol

London

Newbury

St. Albans

United States

Atlanta

Austin

Boston

Charlotte

Chesapeake, Va.

Chicago

Cincinnati

Cleveland

Columbia, Md.

Dallas

Denver

Detroit

Hartford

Houston

Irvine, Calif.

Jacksonville

Los Angeles

Memphis

Miami/

Ft. Lauderdale

Milwaukee

Minneapolis

New York

Parsippany, N.J.

Philadelphia

Phoenix

Pittsburgh

St. Louis

San Antonio

San Diego

San Francisco

Seattle

Stamford

Tampa

Valhalla, N.Y.

Voorhees, N.J.

Washington, D.C.