



# Debunking the **Myths of Employee Engagement**

**2006/2007**

WorkUSA<sup>®</sup> Survey Report



# Debunking the Myths of Employee Engagement

## 2006/2007 WorkUSA Survey Report

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## Executive Summary

WorkUSA® 2006/2007 research suggests that employee engagement has a strong impact on an organization's bottom line. Unfortunately, a number of myths, misconceptions and false assumptions are leading employers down the wrong path when it comes to building employee engagement. As a result, many are investing time and money in ways that will do little to increase engagement levels. In doing so, these employers are missing out on an opportunity to motivate and focus employees in ways that have a real impact on productivity and financial performance.

In particular, many companies overestimate the importance of the supervisor in driving engagement. In fact, senior leadership and the frequency with which senior managers communicate with employees are far more important drivers of engagement. Understanding this and acting upon it can deliver substantial improvements in financial performance and productivity.

The study also shows that while employee engagement provides a solid foundation for financial success, employers should look beyond engagement if they are going to achieve *superior* financial performance. The ultimate goal should be employee *effectiveness*, which builds on the engagement foundation by giving employees the training, resources, tools and equipment to work effectively and by creating an environment where the organization demonstrates its values, and creates a culture of trust and ethical behavior.

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### Key Findings

- Engagement is a leading indicator of financial performance. Companies that increase their engagement levels can expect to significantly improve their subsequent financial performance.



- Despite the conventional wisdom that immediate supervisors play a key role in driving retention and engagement, strong senior leaders who communicate effectively and frequently are a far more important factor.

- Senior management is receiving lower marks than in the past from employees on instilling confidence in long-term business success, making decisions in a timely manner, making changes to enhance competitiveness and grow the business, and controlling costs.
- Communication makes a positive difference in employee engagement. High-engagement employees receive communication from their supervisors and senior management far more frequently than low-engagement employees.
- Employees are concerned about changes to health care benefits and pension plans. Top-performing employees are far more likely to cite benefits as an important reason for leaving than employers realize.
- Organizations that have created strong engagement shouldn't rest on their laurels. By going beyond engagement to employee effectiveness, these organizations can continue to earn superior total returns to shareholders.

## About the Survey

Watson Wyatt conducts an ongoing series of studies about employee attitudes around the globe. This report is based on the latest WorkUSA research, which was conducted in 2006. WorkUSA is one of the largest and most current statistically representative surveys on the attitudes of workers in the United States. Scientific sampling techniques ensure that the margin of error is less than one percent and that results can be generalized to the U.S. workforce.

In the 2006/2007 study, Watson Wyatt surveyed 12,204 full-time U.S. workers across all job levels and in all major industry sectors, such as health care, retail, consumer products, financial services, telecommunications, high tech and manufacturing. The surveyed employees work for nongovernmental organizations with at least 1,000 workers, with the exception of health care organizations where the threshold was 500 workers.

We asked participants to answer nearly 150 questions that focused on:

- Commitment
- Communication
- Compensation and benefits
- Customer focus
- Diversity
- Hiring and advancement
- Line of sight
- Performance leadership
- Process improvement and innovation
- Strategic direction and leadership
- Supervision
- Training and development
- Trust and ethics
- Values
- Work environment and team
- Work/life balance

Definitions for Terms Used in This Report	
<b>Total Returns to Shareholders (TRS)</b>	The change in a company's share price over a period of time, plus dividends, expressed as a percentage of the share's initial value
<b>Market Premium</b>	The extent to which the market value of a company exceeds the cost of its assets or the market's assessment of the company's ability to generate future profits from intangible assets, such as brand equity and human capital
<b>Productivity</b>	Revenue per employee
<b>Leading Indicator</b>	When the change in one variable tends to precede a change in another variable, the first variable is said to be a leading indicator of the second
<b>Commitment</b>	Motivation on the part of employees to help the organization succeed; the first factor in the Watson Wyatt Four-Factor Model of Employee Effectiveness
<b>Line of Sight</b>	Focus and direction that enable employees to understand what to do to make their organizations successful; the second factor in the Watson Wyatt Four-Factor Model of Employee Effectiveness
<b>Engagement</b>	The combination of commitment and line of sight
<b>Enablement</b>	Giving employees the training, resources, tools and equipment they need to do their jobs; the third factor in the Watson Wyatt Four-Factor Model of Employee Effectiveness
<b>Integrity</b>	Creating an environment where the organization demonstrates its values, and creates a culture of trust and ethical behavior; the fourth factor in the Watson Wyatt Four-Factor Model of Employee Effectiveness

# Introduction

Companies that have employees with high engagement levels typically have better financial performance. But what do we mean by **engagement**? Engagement is a combination of commitment and line of sight.

Committed employees are proud to work for their companies and motivated to help drive success. Commitment is essential to retaining high-quality employees and delivering long-term financial success. But commitment alone is not enough. Employees also need focus and direction – what Watson Wyatt calls *line of sight* – so that they understand the organization’s business goals, the steps that must be taken to achieve those goals and how they can contribute to achieving these goals. Figure 1 quantifies the impact of engagement on financial performance. The most engaged employees work at companies that deliver higher returns to shareholders, make better use of assets and have more productive employees.

Moreover, Watson Wyatt analyses show that employee engagement is a *leading* indicator of financial performance: Companies that take steps to improve engagement levels can expect to experience higher subsequent financial returns. The challenge is determining which steps to take. Misconceptions about what drives engagement have resulted in many programs that consume time and money without delivering increases in engagement levels. As organizations embark on programs to enhance employee engagement, they need to re-evaluate their beliefs and understand the commonly held misconceptions about what factors affect attitudes and behavior.

In this 2006/2007 WorkUSA report, we help employers tackle this challenge. The report examines the conventional wisdom about employee attitudes and perceptions and debunks some common myths. As a result, it provides insight into the true drivers of engagement, in particular the key role that senior leadership and rewards play.

**Companies that take steps to improve engagement levels can expect to experience higher subsequent financial returns.**

**Figure 1** | Engagement Has a Dramatic Impact on Key Performance Indicators

Engagement	5-Year TRS	Market Premium	Productivity
High	20%	22%	\$276K
Low	0%	14%	\$236K

*In this and subsequent figures, high represents the top 25 percent and low represents the bottom 25 percent.*

## Debunking the Myths

### Myth #1: Committed Employees Ensure Success

There's no doubt that committed and motivated employees are necessary in creating business success. However, companies need to look beyond commitment and seek to build *engagement*. Engagement happens when the company provides line of sight to a committed workforce. Engaged employees not only are motivated to help drive success but also know what actions they must take and choices they must make to help their company achieve success. The financial impact of an engaged workforce can be dramatic.

The typical employee in the WorkUSA survey worked at a company that earned a 12 percent TRS over the past 5 years. Companies that are represented in the survey by employees with high commitment – but high commitment only – outperformed the typical company by 50 percent. These companies might be satisfied that they are doing so much better than their peers. Instead, however, they should consider that they might have missed an opportunity for even better financial performance. Companies that also achieved high line of sight, as indicated by employees who participated in WorkUSA, enjoyed a 26 percent TRS – more than 100 percent higher than the typical firm.

### Fact #1: Providing Focus and Direction to Committed Employees Improves Financial Performance



## The Value of Engagement

*By Ilene Gochman, Ph.D., Practice Director,  
Organization Effectiveness,  
Watson Wyatt Worldwide*

This is the first time since we started doing the WorkUSA survey in 1987 that we've focused a report primarily on employee engagement. We chose this topic because of the vital role engagement plays in financial success.

More and more companies are recognizing the value of engagement and the importance of measuring it internally. Some leading-edge companies are already incorporating an engagement index into their company-wide scorecards – with standards for how they want the company to perform based on that metric. Scorecard results may also feed into the funding of incentive plans.

Readers should keep in mind that the drivers of engagement vary from one industry to another, from one organization to another and even from one employee group to another. Companies need data that reflect the realities of their own environments. That means managers and senior leaders need to measure engagement within their own organizations and identify the specific drivers for their own employees.

One of the most important things our research shows is that there is a gap between the design of programs and how well those programs are implemented. By measuring engagement over time, organizations can leverage their own data to design programs that have a real impact on engagement. They can also pinpoint differences among employee groups, business units and locations so they can better tailor and target these programs. The result of this measurement process is an enhanced ability to design human capital programs that achieve desired results and deliver a solid return on investment.

## Myth #2: Financial Success Creates an Engaged Workforce

Which comes first, financial success or engagement? Conventional wisdom says that superior financial performance creates an engaged workforce: Employees at highly successful companies feel more secure in their jobs and are happy to be working for a winner, particularly a winner that can afford to spend more on its people. To some degree, this “virtuous cycle” does exist.

### Engaged Employees – The Hidden \$150 Million Asset

Organizations in which employees are more engaged outperform their peers. But how much are engaged employees worth to an organization?

Watson Wyatt analyses show that a significant improvement (one standard deviation) in employee engagement is associated with a 1.9 percent increase in revenue per employee. To put this in perspective, the typical employee in our sample works at a firm where productivity equals about \$250,000 per employee. That means a significant improvement in engagement is associated with an increase in revenue per employee (productivity) of \$4,675. For the typical S&P 500 organization, which employs about 20,000 people, this represents an increase in revenue of \$93.5 million.

There are other ways to increase productivity. For example, a firm can increase capital investments. The typical employee in our sample works for a firm with about \$321,000 of assets per employee. Our analysis shows that a 1.0 percent increase in assets per employee is associated with a 0.78 percent increase in output per employee.

To achieve the same 1.9 percent increase in employee productivity that could be earned by increasing employee engagement, the typical firm would have to increase assets per employee by almost \$7,700 – for the typical S&P 500 organization, an increased investment of nearly \$154 million.

Financially successful companies have more resources, so they can spend more money on their employees, which makes employees even happier and more engaged.

In truth, however, engagement is a *leading* indicator of financial performance. The link between past engagement and current financial performance is stronger than the link between past financial performance and current engagement. In other words, engagement tends to lead to success.

To quantify this relationship, we performed an analysis to explain current financial performance (measured as the company’s market premium) as a function of various factors. We found a significant relationship between current financial performance and past engagement *even after* controlling for past financial performance, industry and other considerations: A significant (one standard deviation) increase in the level of past employee engagement is associated with a 1.5 percent increase in current market premium, holding all other factors, including past market premium, constant. For the typical company in our sample, with a market value of \$14 billion, that represents an increase in market value of 1.7 percent or more than \$230 million.

**Fact #2: While Financially Successful Firms Might Create Engagement, Engagement Is Much More Likely to Create Financially Successful Firms**

### Myth #3: People Join a Company but Quit Their Supervisors

According to conventional wisdom, supervisors play a vital role in engaging and retaining top talent. As Figure 2 shows, employers believe that the relationship with the supervisor is one of the top reasons people leave. Employees, however, are significantly less likely to cite their supervisor as a reason for leaving than employers believe. The key factors employees cite for leaving are pay and benefits, the nature of the work, promotion/career development, stress and work/life balance.

In most companies, relatively high turnover at the supervisory level means that employees who are unhappy with a direct supervisor can wait it out until the supervisor is promoted, transferred or leaves. Additionally, employees themselves have transfer or promotion options. Team members also enter and leave the work group during the year, which changes the dynamics with the supervisor and team. And in matrixed organizations, employees have more than one supervisor. All these reasons reduce the power of an individual supervisor to directly affect employee engagement and retention.

From Fact #1, we saw that true success requires going beyond commitment to engagement. Watson Wyatt research shows that supervisors play an indirect, not a direct, role in engaging employees. The “Driving Engagement – Insights and Actions That Deliver Results” section on page 14 of this report provides additional information on the major factors that influence engagement, which include a sense that the company is customer focused, the quality of senior leadership and bread-and-butter issues such as pay and benefits.

### Fact #3: People Stay With a Winning Company That Is Focused on Customers, Has Clear Direction and Rewards People Fairly

Figure 2 | Employers Overestimate the Importance of the Supervisor in Retaining Employees

Ranking of Manager/Supervisor Relationship as Reason for Leaving	Ranking
Employers	3 <sup>rd</sup>
Employees	11 <sup>th</sup>

Ranking: Ranking is based on frequency of citation. All rankings are out of 14 choices.  
Source: Watson Wyatt, Strategic Rewards® - 2006/2007 Survey Report

#### Myth #4: No News Is Good News

More and more companies are putting internal communication programs in place to disseminate information about corporate strategy and direction, company benefits, change and other issues that affect employees. Intranets, e-mail and the Internet have made reaching employees faster and easier than ever, enabling companies to complement traditional forms of communication with anytime/anywhere access to information. Despite the spending on these technologies, however, employee perceptions regarding communication have not improved. This suggests that companies may be relying too much on technology as a substitute for frequent communication from leadership.

**Effective communication from senior management fuels excitement about the company's future and its progress toward goals.**

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Aside from the mode of communication chosen, the frequency of communication makes a big difference in engagement. Unfortunately, employees today say that senior management isn't doing as good a job in this area as in the past. When asked whether senior management takes an active, visible role in communicating to employees, 45 percent of participants responded favorably in the 2004/2005 survey, compared with 43 percent in 2006/2007. The contrast between high- and low-engagement employees is striking: 56 percent of those in the high-engagement group receive communication from senior management at least monthly, while 42 percent of low-engagement employees say communication is annual or never.

Our research indicates that senior management needs to communicate at least monthly – in messages that are aligned with corporate strategy – and that information should be available in multiple formats, including print, electronic and face-to-face. Effective communication from senior management fuels excitement about the company's future and its progress toward goals. It promotes a sense of being part of a *team* – where the team is the organization as a whole. Good senior management communication keeps people apprised of the vision, strategy and goals as well as the successes the “team” is achieving.

**Fact #4: Frequent Communication From Senior Management Boosts Employee Engagement Significantly**

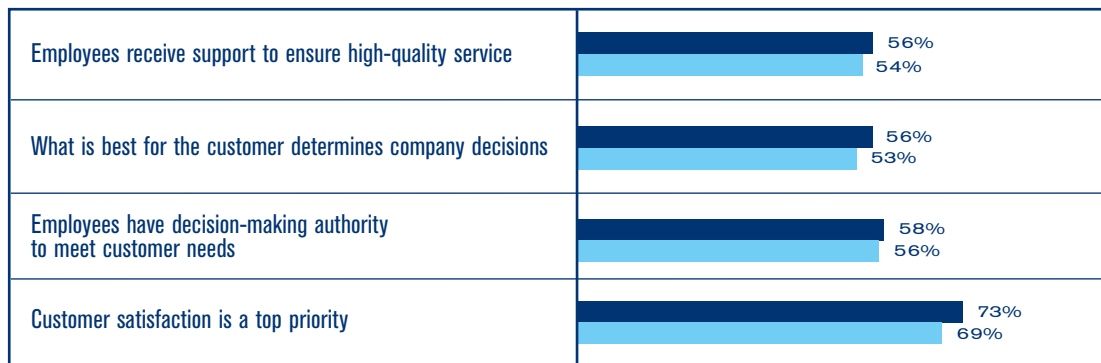
## Myth #5: The Customer Comes First

The mission statements, web sites, corporate brochures and other external communications of virtually every company today include language about putting the customer first. At too many organizations, however, the talk appears to be nothing more than lip service. All customer-focus items in the WorkUSA study declined in 2006/2007. The rating of several of these items is surprisingly low. For example, only about half of all employees surveyed believe their companies base decisions on what is best for the customer.

Customer focus is a critical driver of engagement. Yet many employees seem unconvinced that companies are doing all they can to ensure quality and to put customers first. When asked if people are held accountable for the quality of products and services provided to customers, only 58 percent responded favorably in the 2006/2007 survey. When asked if management demonstrates a commitment to customer service, 65 percent responded favorably. Moreover, in the 2004/2005 survey, 73 percent of employees responded favorably when asked if their companies make customer satisfaction a top priority. That number dropped to 69 percent in the 2006/2007 survey.

## Fact #5: Many Employees Believe That “Put the Customer First” Is Just an Empty Slogan at Their Company

Figure 3 | Employees Today Are Less Inclined to Believe Their Companies Are Customer Focused



■ Favorable 2004/2005   ■ Favorable 2006/2007

## Myth #6: Empowered Employees Don't Need Hands-On Supervision

Companies are focusing much attention these days on empowering employees. Investments in training and self-service tools are giving employees greater freedom to make decisions – and that's a good thing.

The spotlight on empowerment, however, may be leading some companies to think that empowerment means less frequent interaction with direct reports. The reality is that employees need ongoing feedback from their supervisors.

Performance reviews are a good example. Many organizations require annual meetings for setting goals and reviewing performance against those goals. This formal process is important for documenting performance and determining merit increases and bonuses.

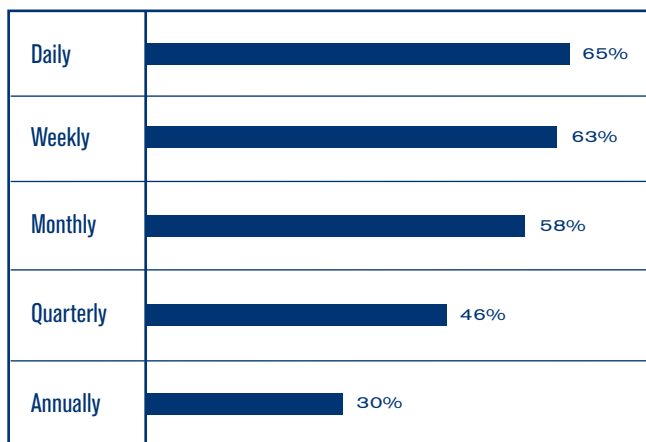
WorkUSA findings indicate that these annual reviews are far more effective when done in the context of informal feedback throughout the year. Figure 4 shows that 30 percent of employees who received feedback only during their annual performance reviews responded favorably when asked how much the review

helped them improve performance. Of those who had at least monthly conversations, 58 percent had favorable ratings. Frequent performance feedback also improves engagement levels, as Figure 5 suggests. Moreover, it affects employee perceptions of the supervisor. When asked to rate the overall effectiveness of the immediate supervisor, 75 percent of employees who receive monthly feedback responded with a favorable rating, compared with 46 percent who receive only annual communication.

The bottom line is simple: Annual reviews are beneficial, but companies should encourage supervisors to talk with their employees about performance at least monthly.

For topics such as performance, it's about frequency. For topics such as career development, it's about ensuring that supervisors have these discussions with employees and that the discussions are effective. Only 12 percent of employees who have not had career development discussions with their supervisor during the last year have a high level of engagement. In cases where employees had the discussion but perceived it as "not effective," only 20 percent had high engagement. The percentage jumps to 53 percent for employees who felt that the discussion was effective.

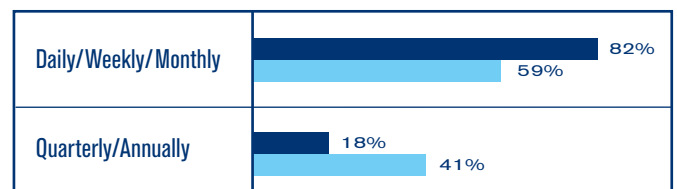
**Figure 4** | Employees Who Receive Frequent Performance Feedback Find Performance Reviews More Valuable



■ Saying the Review Helped Improve Performance

## Fact #6: Regular Performance Feedback and Effective Career Development Discussions Promote Engagement

**Figure 5** | Frequent Feedback on Performance Drives Up Employee Engagement



■ High Engagement ■ Low Engagement

## Myth #7: Employees Don't Stay or Leave Because of Benefits

The barrage of media reports on pension reductions and freezes and cutbacks in health care benefits are causing many employees to worry about what might happen in their own companies. As Figure 6 illustrates, the vast majority of employees are concerned that benefit changes will affect them within the next three years.

Big declines have occurred with regard to satisfaction about employee benefits. (See Figure 7.) Moreover, employee attitudes about how their company's benefit package compares with other companies have dropped from a 44 percent favorable rating in 2004/2005 to a 40 percent rating in 2006/2007.

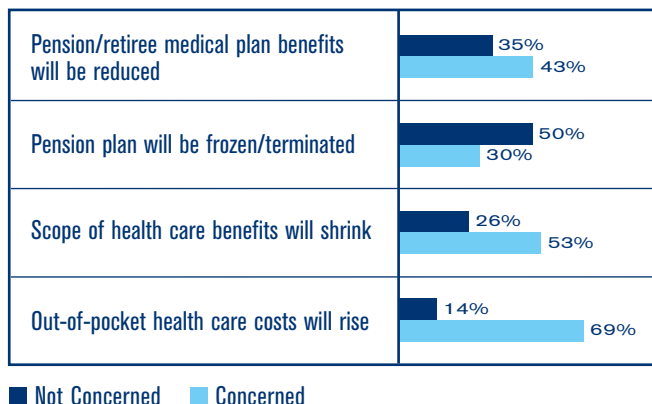
Companies need to pay attention to this trend. Watson Wyatt research shows a significant gap between employer and employee percep-

tions on the role benefits play in retention. While employers don't see benefits as highly important, top-performing employees say benefits are a major reason for staying or leaving. Employers who come up with a compelling benefits package stand to gain in terms of attracting and retaining top-notch employees.

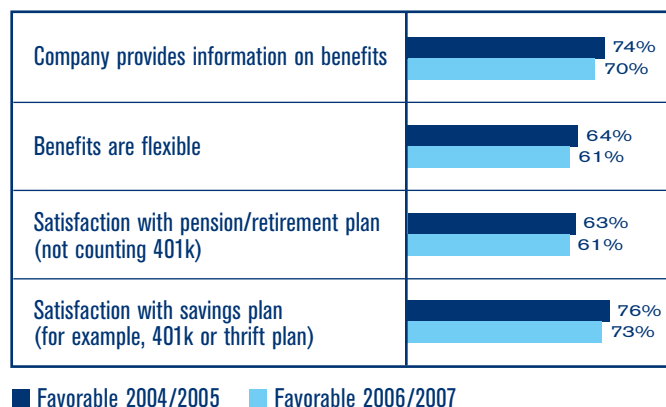
Additional Watson Wyatt research shows, however, that it's not just the quality of the package that matters. How well the company communicates the value of that package and the rationale behind it has a strong impact on employee acceptance. Even when the employer is reducing benefits, effective communication can help employees understand the need for such changes, show how the changes follow current trends and ultimately maximize satisfaction with the company's benefits offering.

**Fact #7: Benefits Are Playing an Increasing Role in Retaining Employees; At the Same Time, Satisfaction With Benefits Is Declining**

**Figure 6 | Employees Are Concerned That Companies Will Reduce Benefits in the Next Few Years**



**Figure 7 | Employee Satisfaction With Benefits Is Declining**



## Myth #8: Engaged Employees Create Superior Financial Performance

In Myth #1, we talked about the importance of going beyond commitment to engagement. Engagement – backed, of course, by a solid, well-executed strategy, quality products and other factors – is necessary for business success. That's not a myth.

As Figure 8 illustrates, however, engagement addresses only two of the factors required to achieve *employee effectiveness* and ultimately promote superior financial performance. Having employees who know what to do (line of sight) and want to do it (commitment) is not enough to sustain high productivity over the long term.

Truly successful organizations also excel at enablement and integrity. Enablement means having the tools, skills, information and resources to perform the job. For example, a store clerk might know his job well and might be highly customer focused and motivated, but

he can't do the job if the point-of-sale register system goes down and he has no knowledge of alternative manual processes.

Integrity is vital because employees simply will not commit to an organization whose actions are in conflict with their stated values. In the last few years we've seen numerous examples of employees whose behavior clearly crossed the line. We've also seen instances of highly engaged employees with the resources to be successful but who "disengaged" after perceiving unethical or questionable practices by senior leaders.

Watson Wyatt's Four-Factor Model of Employee Effectiveness, shown in Figure 8, takes into account these four primary drivers of effectiveness. Employee effectiveness is a leading indicator of financial performance and a *significantly better* predictor of subsequent financial success than employee engagement alone. As we saw in Myth #1, companies that were

**Figure 8** | Watson Wyatt Four-Factor Model of Employee Effectiveness

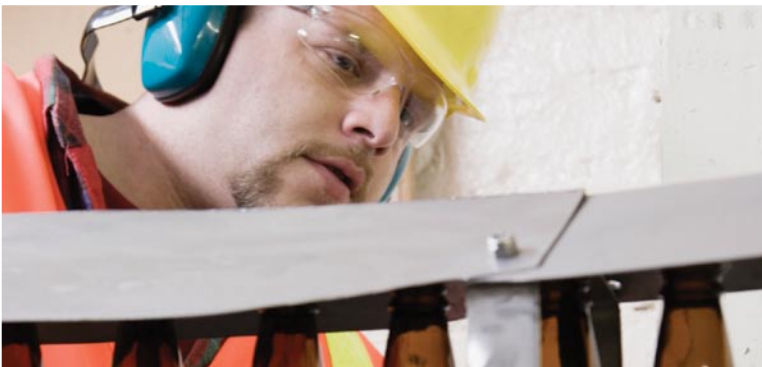


represented by employees with high commitment outperformed the typical company in our survey by only 50 percent. Companies with employees that also had high line of sight enjoyed a 100 percent higher TRS than the typical firm. In both cases, the firms substantially outperformed the market.

Rather than rest on their laurels, these firms need to challenge themselves to create effective employees. Effective employees are engaged employees with high levels of enablement and integrity, the two additional factors in Watson Wyatt's Four-Factor Model of Employee Effectiveness. These employees represent companies that achieved a 33 percent 5-year TRS, nearly three times that of the typical firm. In these high-performing firms, the difference between employees who are highly effective and employees who are highly engaged, but not effective, is as large as the difference between highly engaged employees and employees who are "not committed." This suggests that for successful firms with highly engaged employees, one way to continue to beat the market is to enable their engaged employees to become effective employees.

Success comes from thinking in terms of a continuum that starts with building commitment to retain and motivate employees, adds line of sight to provide a compass for moving forward, then enables employees to get the job done by providing the necessary resources – all the while integrating integrity, so people can align their behavior with the values of the organization.

**Fact #8: Companies That Have Achieved Engagement Can Continue to Outperform the Market by Promoting Employee Effectiveness**



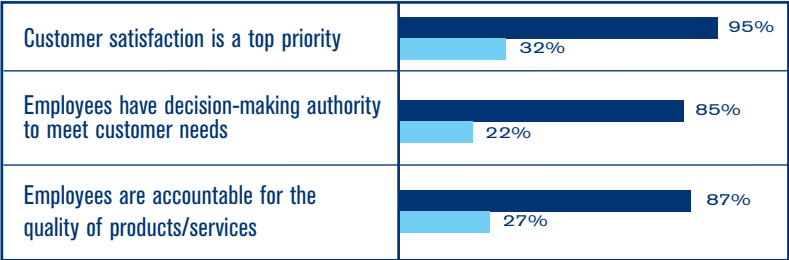
# Driving Engagement – Insights and Actions That Deliver Results

Knowing that engagement is a leading indicator of financial performance, what can an organization do to enhance engagement? A number of dimensions come into play. While the dimensions will vary in importance depending on the organization or the type of employee, three stand out as particularly consequential: customer focus, senior leadership’s ability to establish and communicate strategic goals, and rewards. By understanding these dimensions and taking steps to improve the company’s performance in these areas, an organization can increase engagement levels, thereby improving its chances of achieving financial success.

### Driver #1: Strong Customer Focus

Of all the dimensions that drive engagement, customer focus has the greatest direct effect. Employee perceptions about a company’s customer focus are closely tied to their perceptions about senior leadership. Findings of the WorkUSA study show that engagement is high when senior management demonstrates a commitment to customer satisfaction and customer service, focuses employees and processes around the customer, and holds people accountable for the quality of the products and services the company provides. (See Figure 9.)

**Figure 9** | High-Engagement Employees Believe That Their Company Has a Strong Customer Focus



■ High Engagement (Favorable) ■ Low Engagement (Favorable)

### Steps Organizations Must Take

- Demonstrate a commitment to customer focus by supporting employees in their customer service activities and making them accountable for delivering superior product and service quality.
- Empower people who have direct customer contact to make day-to-day decisions that increase customer satisfaction.
- Encourage managers and employees to set goals around customer service and satisfaction, and tie compensation to achieving these goals.
- Integrate internal and external communication so that employees receive the same messages as customers and partners, ensuring that employees are aware of such attributes as superior engineering, innovations or improvements that demonstrate superior quality and performance.
- Create programs that are built around ensuring quality deliverables to customers.
- Measure customer satisfaction with an eye toward continuous improvement and communicate satisfaction levels to employees.

Why is customer focus so important? Generally, it's a matter of pride and security. Employees want to feel good about the products and services their employer offers. Moreover, they have a sense that companies that provide high-quality products and services are likely to be successful, which helps ensure job security.

## Driver #2: Trust in Senior Leadership and Confidence in Company's Future

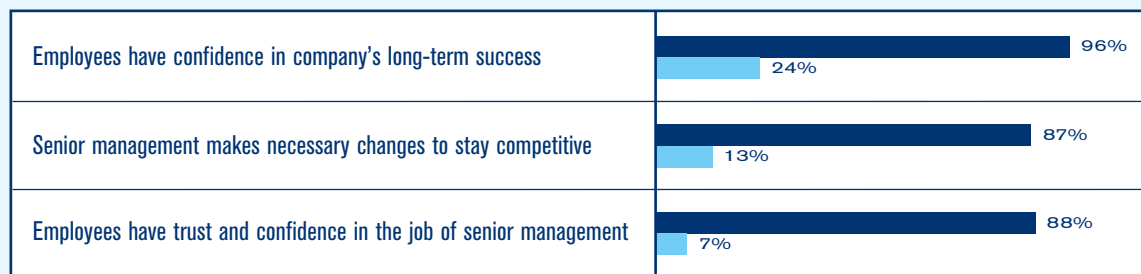
People want to work for companies that are growing, have a clear direction and are successful. They need to have confidence in the future of the organization and trust what senior leadership is doing. Figure 10 compares trust and confidence levels among high- and low-engagement employees. Clearly, highly engaged employees have substantially more favorable attitudes than their low-engagement peers.

It's up to senior management to instill that confidence. Yet, as Figure 11 shows, trust and confidence in the job senior management is doing has declined since the previous study.

### Steps Organizations Must Take

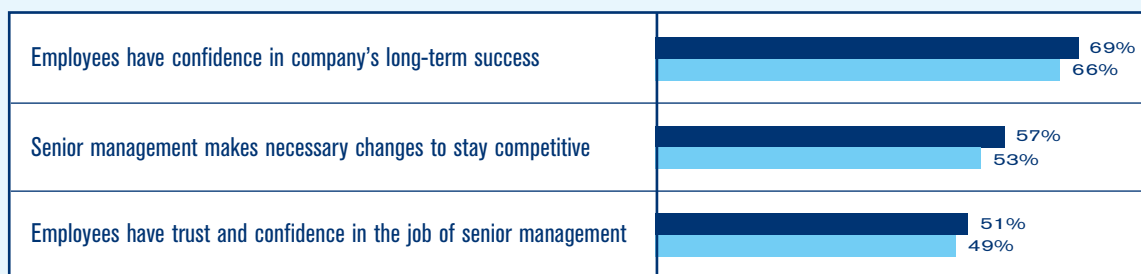
- Be clear about the company's strategy and goals, and provide frequent updates on progress.
- Explain the rationale behind strategy and goals.
- Make sure goals are clearly communicated to all employees and that employees understand what they have to do to help achieve those goals.
- Provide frequent, candid communication, particularly during difficult times such as restructuring or downsizing.
- Remember that actions speak louder than words; encouraging employees to own company stock while senior executives are selling off most of their own can reduce trust in senior leadership.
- Ensure that senior leadership maintains a high profile with employees and communicates in a way that is energetic, upbeat and compelling.

**Figure 10** | High-Engagement Employees Have a Higher Level of Trust and Confidence in Senior Management



■ High Engagement (Favorable) ■ Low Engagement (Favorable)

**Figure 11** | Employee Trust and Confidence in Senior Leadership Are Declining



■ Favorable 2004/2005 ■ Favorable 2006/2007

### Driver #3: Effective Reward Systems

Rewards, that is, compensation and benefits, represent some of the strongest drivers of engagement. People often wonder if high-performing companies – the companies that have more productive employees, make better use of their assets and deliver greater shareholder returns than their peers – have an advantage because they have more to spend on employees. Theoretically, they can pay more and offer more benefits, which translates into higher engagement and even more financial success.

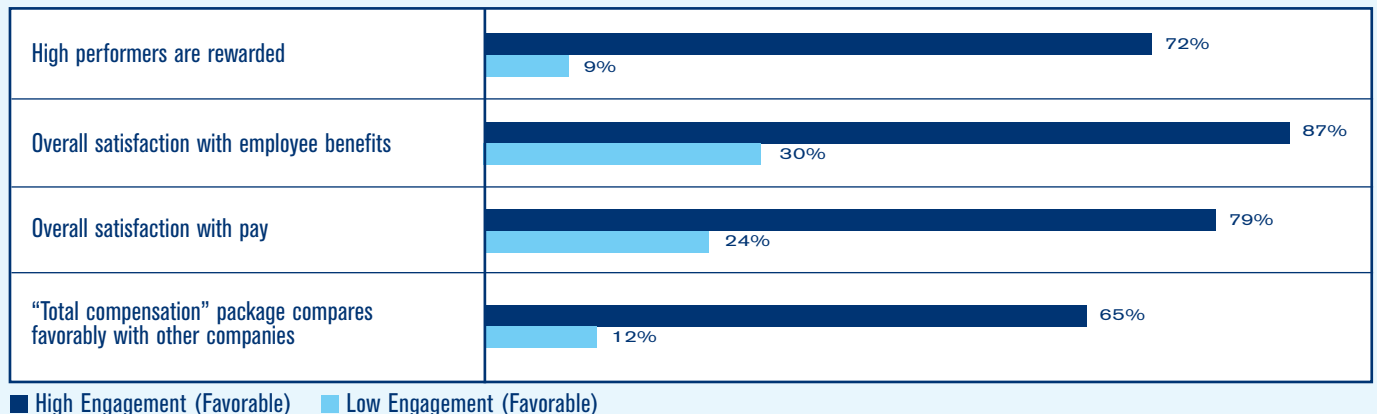
High-performing companies do not just uniformly spend more than other companies, they spend more wisely. Perhaps their strength is that they allocate dollars more effectively, and don't overspend in the wrong areas. The data show that they communicate more effectively. For example, high-performing companies do a better job of communicating the link between job performance and pay. Forty-eight percent

of employees in high-performing companies responded favorably to this question, compared with 37 percent of employees in the remaining companies. Likewise, high-performing companies do a better job of rewarding performance. When asked if high-performing employees are rewarded for their performance, 50 percent of employees in high-performing companies responded favorably, compared with 38 percent in the remaining companies.

Employers should be concerned that favorable ratings related to rewards declined overall. Of particular note is that while 56 percent of employees are satisfied with their stock programs, which include stock option and stock purchase plans, this represents a five percentage point decline from 2004. Favorable ratings are now below 1999 levels. Satisfaction with profit-sharing plans also declined by five percentage points.

The survey uncovered anxiety among employees about pensions, retirement and retiree

**Figure 12 | High-Engagement Employees Are More Satisfied With Pay and Benefits**



medical benefits. Forty-three percent of employees worry that these benefits will be reduced in the next three years. In addition, 53 percent expect the scope of health care benefits to shrink in the next two years, and 69 percent expect their out-of-pocket health care costs to rise in the next three years.

Employees have favorable attitudes toward rewards when they think they receive fair and competitive compensation – both monetary and nonmonetary – and when they understand the value of the total rewards package they receive. It's up to organizations to communicate the value of that package to employees.



### Steps Organizations Must Take

- With reductions in benefits and smaller pay increases becoming a fact of life, organizations should deal openly and honestly with employees and explain the rationale behind decisions.
- Clearly communicate the value of the employee's total rewards package, and show how it stacks up with what other companies offer.
- Examine how performance is determined, and make adjustments to ensure that top performers are rewarded appropriately.
- Make sure to invest total rewards (pay and benefits) dollars wisely.

## The Age Factor

Do the drivers of engagement vary by age? As shown in Figure 13, Watson Wyatt's analyses found no major differences with regard to the strongest and second-strongest drivers. The third strongest, however, differs for each group and aligns with what might be expected as people progress through their careers. For the under-30 group, people who are relatively new to the corporate world, training and development are important, since these employees set their sights on learning. As employees move into their 30s, getting feedback on performance and progress toward goals become significant drivers. Employees in their 40s start looking at innovation and perhaps "making a difference." The over-50 group, as can be expected, has an eye toward retirement, and benefits become a more important driver of engagement.

**Figure 13** | Drivers of Engagement Vary by Age

Key Drivers	Age			
	Under 30	30-39	40-49	50+
<b>Strongest</b>	Customer Focus	Strategic Direction/ Leadership	Customer Focus	Strategic Direction/ Leadership
<b>2nd Strongest</b>	Strategic Direction/ Leadership	Customer Focus	Strategic Direction/ Leadership	Customer Focus
<b>3rd Strongest</b>	Training and Development	Performance Leadership	Process Improvement/ Innovation	Benefits
<b>Large Direct Impact</b>	Pay and Benefits	Pay	Pay	Pay

## Conclusion

Companies that increase employee engagement position themselves to deliver higher returns to shareholders, make better use of assets and benefit from a more productive workforce. To enhance engagement, however, companies should rethink their beliefs related to what drives engagement and take actions based on reality, not popular myths.

Moreover, companies need to understand that as important as engagement is, it's not the end game. Engagement provides a solid foundation for financial success. But companies should look beyond engagement and set their sights on employee *effectiveness*, which requires excellence in four critical areas: commitment, line of sight, enablement and integrity. The top financial performers are more likely to excel in all four areas.

Companies that improve their performance in these four factors stand to gain far greater financial success in the future.



## Global WorkAttitudes

Since the initial WorkUSA survey in 1987, Watson Wyatt Worldwide has been expanding the study's coverage to include employees around the world. Our research shows that employee engagement and effectiveness are concepts that apply worldwide. The data we have collected provide organizations with insight into employee concerns and perceptions within individual regions as well as on a global scale. As a result, these organizations can make informed decisions about programs that drive employee engagement and effectiveness.

The Watson Wyatt WorkAttitudes reports include:

- WorkAsia
- WorkCanada
- WorkEurope
- WorkUSA



## About Watson Wyatt Worldwide

Watson Wyatt is the trusted business partner to the world's leading organizations on people and financial issues.

Our client relationships, many spanning decades, define who we are. They are shaped by a deep understanding of our clients' needs, a collaborative working style and a firm-wide commitment to service excellence.

Our consultants bring fresh thinking to client issues, along with the experience and research to know what really works. They deliver practical, evidence-based solutions that are tailored to your organization's culture and goals.

With 6,000 associates in 30 countries, our global services include:

- Managing the cost and effectiveness of employee benefit programs
- Developing attraction, retention and reward strategies that help create competitive advantage
- Advising pension plan sponsors and other institutions on optimal investment strategies
- Providing strategic and financial advice to insurance and financial services companies
- Delivering related technology, outsourcing and data services

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**For more information** on how to build employee engagement and increase financial performance, call Watson Wyatt at 800/388-9868 or visit [watsonwyatt.com](http://watsonwyatt.com).

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