

EMPLOYEE WELL-BEING: TAKING ENGAGEMENT AND PERFORMANCE TO THE NEXT LEVEL

Karen, a manager at a communications company, wasn't surprised when her company announced layoffs and furloughs.

"The rumors had been going around for weeks. The only question was how bad it would be. I guess I was lucky to keep my job, but we were hit with a two-day-a-month furlough plus a salary cut. The worst part was the way they told us: by e-mail. My manager couldn't even answer any of our questions. She was in shock, too. Talk about feeling like management couldn't have cared less."

Not just companies, but employees, too, have been hit hard by the recession. Even with increasing signs of economic recovery on the horizon, unemployment rates are at their highest in decades in industrialized countries, ranging from 9.7% in the U.S., to 7.8% in Britain, to 5.7% in Japan, according to the Department of Labor.

But laid-off workers are not the only ones who are suffering. Those still employed have faced pay freezes, furloughs, elimination of bonuses, reevaluation of benefits, reduced training budgets and even wage reductions at the same time that they've been under pressure for increased efficiency and productivity.

And that pressure appears to be taking a toll on people's focus on health care. A recent survey by the American Academy of Family Physicians reported that more than half of its member-respondents were seeing fewer patients since the recession began in January 2008. Almost 60% said appointment cancellations had increased. They also reported seeing more health problems in their patients as they eliminated or postponed preventive care checkups and tests.

Not surprisingly, the economic situation has built fear, resentment and, often, reduced levels of engagement among employees fortunate enough to remain on the job. As Claire, a magazine editor, said of her enforced two-day-a-month furlough and loss of bonus, "Even when the economy improves, I doubt the company will give us back what we had because we just don't seem very important to them. The whole experience has left me so demoralized that, when things get better, I'm looking for another job."

Contrast Karen's and Claire's experiences with that of Bonnie, a senior manager at technology developer and manufacturer EMC and a single mother whose child has special needs. In her story, which was featured in *Closing the Engagement Gap*,* by Towers Perrin Managing Directors Julie Gebauer and Don Lowman, she describes

how her boss of 10 years treats employees. "Frank is just great at stopping by the office, asking how it's going, or if he sees you're a little distressed, he just sort of lets you know he's there...he doesn't forget to say 'thank you.' If he recognizes something I did, you better believe I want to work harder. That means more than money."

The difference in these experiences can be summed up in one phrase: the organization's concern for employee well-being.

What do we mean by well-being? Towers Perrin defines it as encompassing three interconnected aspects of an individual's "work life":

- *Physical health* — overall health, energy/stamina
- *Psychological health* — stress/anxiety, intrinsic satisfaction, accomplishment, optimism, confidence, control, empowerment, safety
- *Social "health"* — work relationships, balance in work and personal life, equity, fairness, respect, social connectedness.

Because time spent at work is such a huge part of modern life, the workplace has become a major factor in individual health and well-being. People's experiences at work affect how they feel about themselves, how they interact with their

*Julie Gebauer and Don Lowman, *Closing the Engagement Gap: How Great Companies Unlock Employee Potential for Superior Results*, December 2008

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families and friends, how they use their leisure time, how anxious they are about the future and so on. On the flip side of the coin, employee health and well-being have a significant effect on organizational performance. Add to this the impact of well-being on employee engagement and retention, and there is clearly a need for greater focus on this issue.

While management at many companies is concerned about employee well-being because it's the right thing to do, the benefits to both employer and employee go far beyond altruism. For the employee, the rewards are clear: a sense of balance between work and home life, meaningful work that's appreciated by the employer, overall good health and a feeling of control over one's life. For the employer, the benefits are also significant: higher levels of sustained engagement and lower turnover. In short, it's the advantage of having the whole employee on the job, contributing high levels of sustained engagement.

Although the recession and its effect on the workforce and workplace are bringing the issue to a head, employer concern about employee well-being shouldn't be driven by the economy. Rather, it should be an integral part of an organization's culture, reflected in its benefit design, training and development policies, its employees' ability to create work/life balance and in the way managers are expected to interact with and manage employees. Employees' concerns about their well-being may be exacerbated by the recession, but as the economy improves, those concerns aren't going away.

“Senior leadership's demonstrated interest in employees' well-being is a key engagement driver at many organizations

and in most countries,” says Julie Gebauer. “Employees don't give leaders a free pass because of the economy. In fact, they become more focused on it. Employees understand the need to address economic conditions, but they watch closely to see if business and people decisions are thoughtful, balanced and fair.”

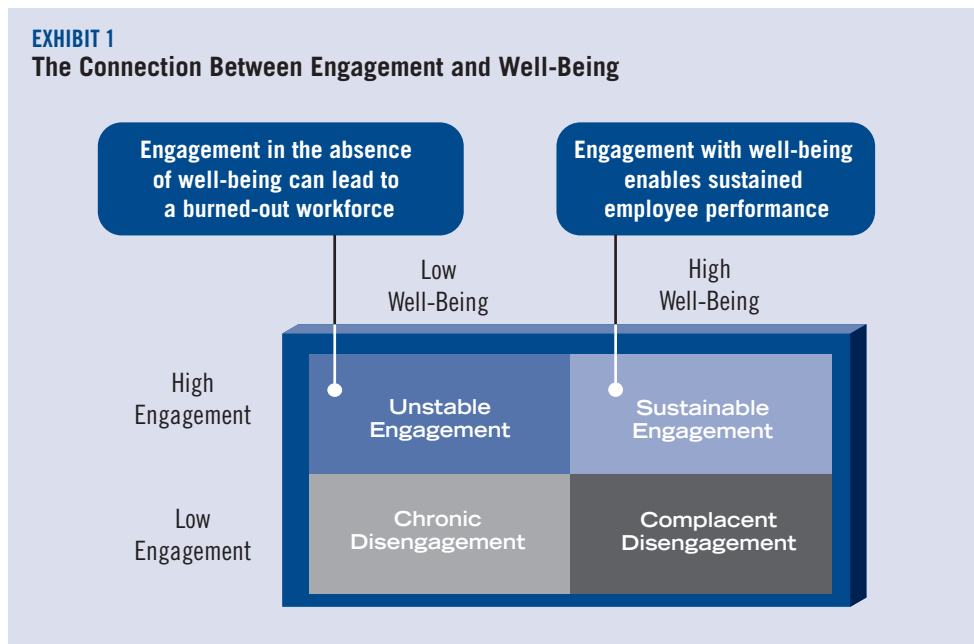
WELL-BEING AND SUSTAINED ENGAGEMENT: A CRITICAL LINK

Why is well-being so important? Because, put simply, employees' level of well-being can sustain — or erode — their level of engagement.

Our research shows that well-being affects engagement in a unique way. As *Exhibit 1* shows, employee engagement

and well-being can move in tandem or in opposition. When both are strong, we see true, sustainable engagement. When one is strong and the other weak, however, we see a range of outcomes at odds with an organization's needs.

Consider, for example, an organization that is struggling to survive, where employees are working hard to keep things afloat. They're staying late, working weekends, skipping the gym, grabbing quick meals, passing up recreational activities and time with family. That kind of effort may help the company achieve its goals over the short term, but it's not sustainable, and the risk of employee burnout — leading to disengagement and outcomes like turnover and chronic underperformance — rises fast.

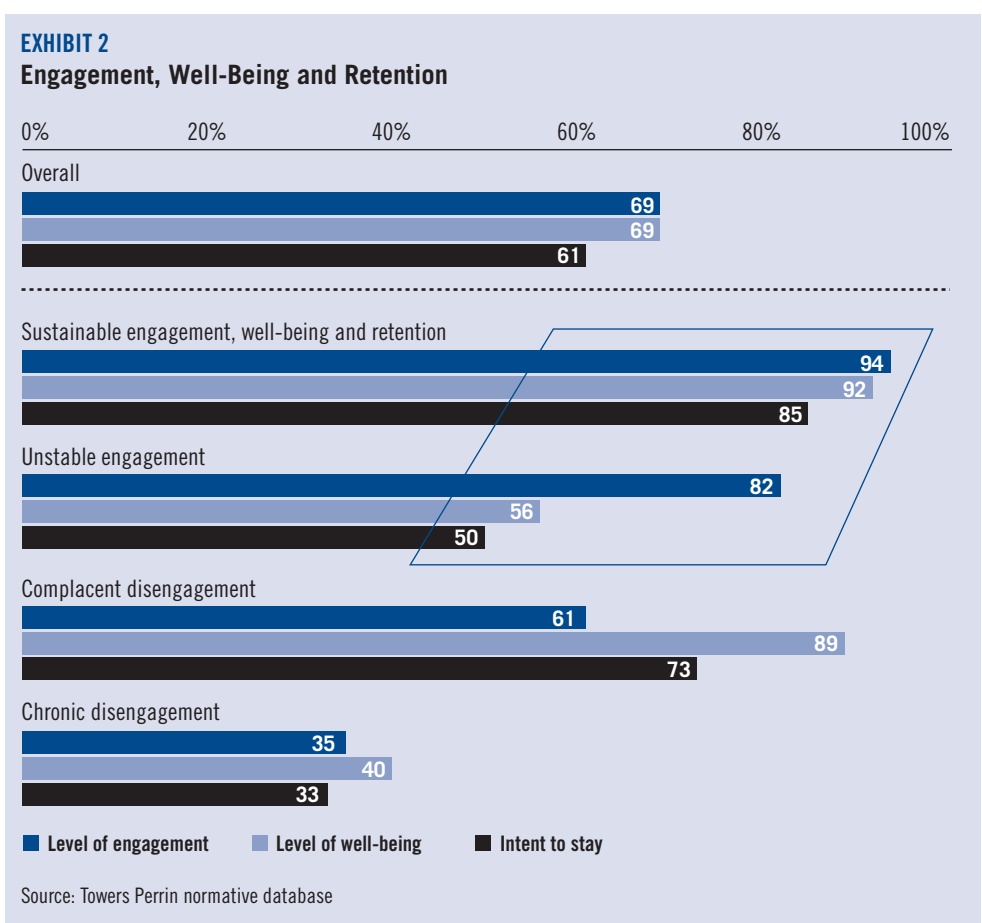


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Exhibit 2 demonstrates the turnover risk in particular, showing engagement, well-being and retention metrics for one organization. The first set of bars shows the “scores” for the entire employee population. The four set of bars below show how the employees group into the four categories shown earlier. Note that highly engaged employees with low levels of well-being are more likely to leave their company than are those who are both highly engaged and feel a strong sense of well-being. On the other hand, note also that those who feel a strong sense of well-being but are not highly engaged (the complacent disengaged) have a greater tendency to stay, creating a different, but equally challenging, situation for a company, since it is not likely to see much discretionary effort from these individuals. Without strong employee well-being, employee engagement declines, retention suffers, and motivation and performance are affected over time.

The mandate for organizations is clear — sustaining employees’ discretionary effort and retaining key talent depends on:

- understanding well-being and identifying ways to measure and track it (see page 6)
- developing targeted strategies and interventions to address — and if necessary correct — levels of workforce engagement and well-being.



FORGING THE CRITICAL LINK

As organizations ramp up for growth while continuing to manage costs tightly, they need to understand the impact these pressures will have on employees, both short term and long term. That understanding starts with examining both employer measures (such as turnover rates) and employee measures (such as views on the various elements that impact their sense of overall well-being).

To what extent do your current workplace practices either support or hinder strong feelings of well-being among your workforce? Our research shows that certain aspects of culture have the highest impact on employee well-being. These include the physical environment, leadership effectiveness and working relationships, as well as people’s sense of competency, their aspirations and need for personal growth, and their views about access to, and fairness of, performance-based rewards.

Because well-being covers multiple facets, enhancing it requires strategies that differ from those for enhancing engagement, so companies need to focus on both. This dual approach will ensure engagement is not only high, but also sustainable.

Employee health is also a critical factor in overall well-being, and companies need to invest in ways to support better health, through both individual programs and a commitment to a sustained “culture of health.” This approach combines employee responsibility for managing individual health, health care and benefits with extensive company monitoring of health plan performance, and use of support tools for employees, including health risk assessments, special care and coaching for chronic illnesses, and online tools to help employees shop for the most appropriate health benefits.

For example, EMC uses aggregate information from its extensive data warehouse to pick topics for its on-site health management workshops that would most appeal to employees and their families. “We get ‘standing room only’ attendance for these workshops because employees relate to the topics,” said Delia Vetter, the company’s Senior Director of Benefits.

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Among the areas critical to engendering feelings of well-being among employees are giving them opportunities and support

for career development, ensuring immediate managers create a supportive work environment and recognize employee achievements, fostering collaboration and a sense of belonging, and taking steps to keep employees from feeling overwhelmed. Below are an initial set of actions:

- 1. Understand and measure both engagement and well-being, as well as the way the culture supports or inhibits either or both.** While we can draw generic conclusions from global research, over 30 years of working on employee engagement and more recent experience with well-being confirms there is no “one size fits all” solution to building an effective work environment and experience. Companies that examine and measure their own cultures, and how those cultures in turn affect engagement and well-being, will understand their “hot spots” and their critical issues in rich detail, paving the way for rapid, cost-effective and targeted solutions.
- 2. Focus on effective leadership.** The role of leadership in employee engagement is always critical, but never more so than in times of change and uncertainty.

In *Closing the Engagement Gap*, Julie Gebauer and Don Lowman offer commonsense approaches for senior management in laying out a road map for a high-performance work environment:

Know them. Being as familiar with employees as you are with customers helps shape workplace programs that win people’s hearts and minds.

Grow them. People want to learn and excel in their jobs, and they commit to companies that help them do those things.

Inspire them. When their work has meaning, employees are more inclined to do whatever it takes to ensure success.

Involve them. Knowledgeable, empowered workers add more value.

Reward them. When people believe they are treated fairly and appreciated, they give more of their time and creative energy.*

- 3. Reevaluate the value proposition.** Now may be the right time to reevaluate the employee deal — in other words, what the organization expects from employees and what employees can expect from the organization in return. How has the economic downturn affected the employment value proposition? What changes have you had to make in aspects of the deal — such as reducing or eliminating certain benefits or revising incentive criteria — and how have employees reacted? What steps can you take to “rebalance” the deal in ways that meet both the organization’s needs and employees’ as well?

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Acting on the concept of “knowing them,” the first step is determining through surveys and other means what matters to employees, a process that can yield valuable insights. For instance, some of the most “engaging” elements of the work environment that employees consistently rate highly — and see as crucial to their well-being — are relatively low cost. These include providing new challenges on the job, offering work/life balance and flexible work schedules, fostering a strong team culture and creating clear career paths that link with employee goals.

Measuring workforce attitudes and knowing what is more or less important to different segments of the population help organizations to optimize their workforce investments — managing costs without compromising high levels of employee engagement and well-being.

4. Focus on training and development.

Towers Perrin’s global research shows that, in companies undergoing major change, one of the main drivers of engagement continues to be development opportunities and clear career paths. In the current environment, retaining top talent may be even more important than it traditionally is. Because these employees are the most mobile and will

find it easiest to change jobs if workplace conditions aren’t meeting their needs, it’s important to understand the impact of cuts in training and development, and weigh cost savings against loss of key people.

5. Align total rewards. Does your reward philosophy support employee well-being? More specifically, does the deal — and the reward programs that underlie that deal — address all facets of well-being, including the psychological and social?

Are there policies to help employees balance work and personal responsibilities? Do employees have appropriate levels of responsibility and flexibility to make decisions? Do they have opportunities to connect with others and avoid working in isolation? Do you provide variable compensation programs to differentiate performance and reward high performers and those who make consistent contributions to key goals?

On the physical well-being front, do your health benefits offer employees an opportunity to take control of their medical care — and their overall health? While our research says that benefits and compensation are not the most important drivers of engagement or well-being, they are “needed to play” elements of the employment deal. Employees who feel they’re being asked to do more with less will expect reciprocation from their employer at some point.

6. Develop the capabilities of frontline managers. While it’s critical that the organization focus on building the right culture and programs, it’s equally important not to underestimate the role of immediate managers in supporting engagement and well-being, and ensuring that the culture and programs effectively deliver what employees need.

Managers and supervisors are in the best position to understand employees’ workloads, personal issues and day-to-day activities. They can support a culture of well-being, for example, by giving employees flexibility in scheduling when and where they work, recognizing and addressing employees’ challenges and problems, giving effective performance reviews and creating a collaborative team spirit. Because managers are on the front line, they can make decisions that have a real impact on individuals. So it’s critical that they receive training in managerial skills and know the organizational programs available to employees and how people can best access and use those programs.

MEASURING WELL-BEING: A MODEL

Important as well-being is, it can seem elusive. While it's relatively easy to measure aspects of physical health, the other components of well-being have traditionally been harder to define and pinpoint, which may explain why, until recently, few companies have pursued this kind of research.

Building on an enhanced understanding of organizational dynamics and individual psychology, however, we now have the means to evaluate well-being in all its dimensions and draw crucial insights to shape the right practices and programs. As shown below, well-being research involves a series of questions around the three components noted earlier and provides insights into a series of organizational drivers that influence well-being positively or negatively, depending on employees' views.

The illustration below shows how this "ecosystem" works across multiple inputs.

ELEMENTS OF AN EFFECTIVE WELL-BEING SURVEY

PHYSICAL

- Overall Health Evaluation
- Energy/Stamina

SOCIAL/RELATIONAL

- Balance in Work/Personal Life
- Equity/Fairness/Respect
- Social Connectedness

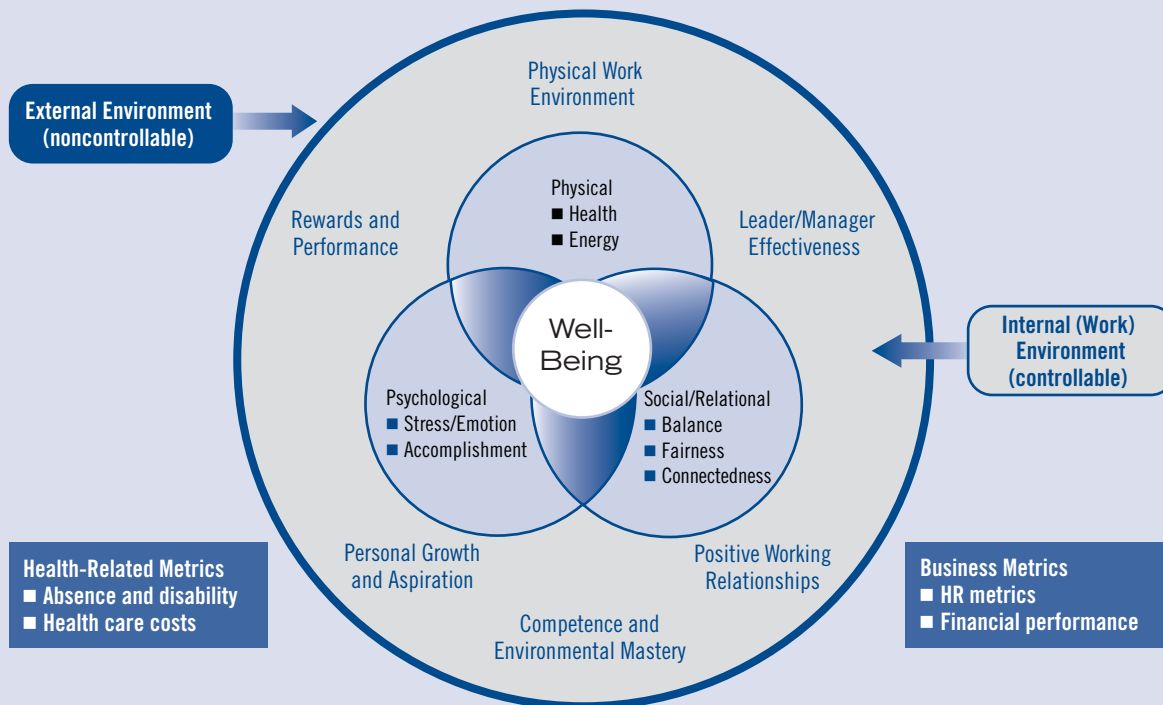
PSYCHOLOGICAL

- Stress/Anxiety/Emotion
- Intrinsic Satisfaction/Accomplishment

DRIVERS OF WELL-BEING

- Leader/Manager Effectiveness
 - A. Immediate Management
 - B. Senior Leadership
- Positive Working Relationships
- Competence and Environmental Mastery
- Sense of Purpose
- Personal Growth and Aspiration
- Rewards, Performance and Security

The Well-Being "Ecosystem"





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Considering the uncertain economic outlook for the months ahead, companies are going to need to work harder than ever to receive the best from their workforce, while continuing to manage bottom-line spending. The challenge in any economy is maintaining high levels of sustainable engagement in the current environment, while retaining the best talent for the future.

As communications manager Karen said, “I understand the need for cutbacks, and I’m grateful that the company decided on furloughs rather than firing even more people. But management needs to understand that this is an enormously stressful time for employees. How hard would it be

for one of the executives to acknowledge that — and just say ‘thank you’ for what we’re giving up and for all the extra work we’re doing?”

Her managers might follow the example, cited in *Closing the Engagement Gap*, of Campbell Soup CEO Doug Conant, who routinely hand-writes more than 100 notes to various employees every week, thanking them for specific actions they’ve taken that improve the company’s business results or make Campbell a better place to work.

Companies that understand the link between well-being and sustained engagement — and take steps to implement well-being strategies to support engagement — will be able to develop a healthy, motivated workforce committed to the workplace, no matter what the economic climate.

ABOUT TOWERS PERRIN

Towers Perrin is a global professional services firm that helps organizations improve performance through effective people, risk and financial management. The firm provides innovative solutions in the areas of human capital strategy, program design and management, and in the areas of risk and capital management, insurance and reinsurance intermediary services, and actuarial consulting.

Towers Perrin has offices and alliance partners in the world’s major markets. More information about Towers Perrin is available at www.towersperrin.com.