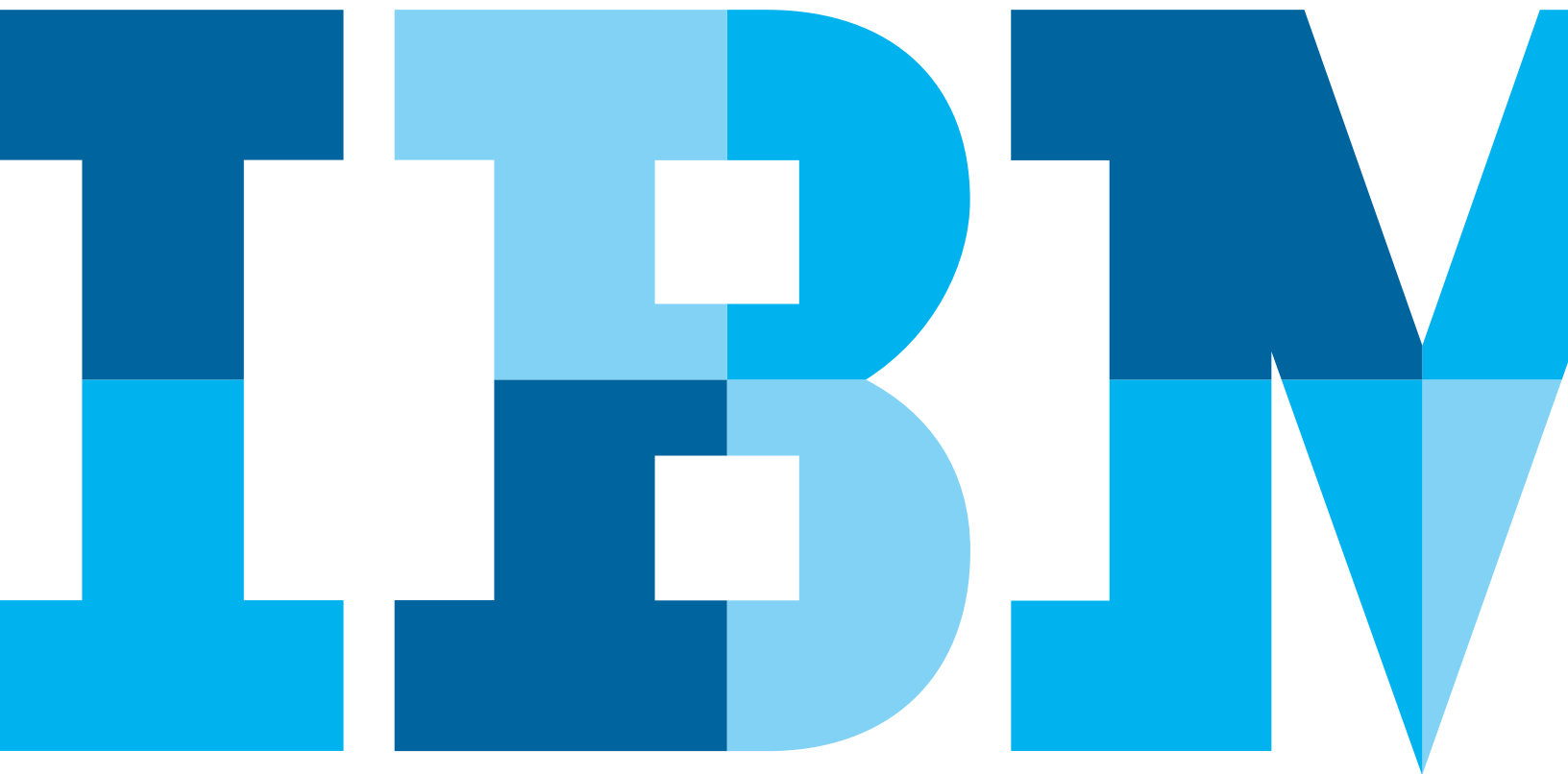


Leadership and engagement in tomorrow's organizations

How an engaged workforce and distinct leadership behavior can create organizational success



Employee engagement is an organizational imperative. Our evidence-based research shows that organizations with a more engaged workforce consistently outperform their competitors. If your employees are motivated and willing to put in extra effort, your organization can benefit from improved bottom-line business results.

A key challenge in bringing this to fruition is that specific leadership behaviors, which were once sought after and rewarded, are no longer relevant. If you are a leader you need to understand that new behaviors are now required. You need to learn exactly what high performing leaders do and how you can be more effective. This paper provides useful insights and practical strategies that can help you improve organizational performance by optimizing employee engagement.

For Human Resources (HR) practitioners, this paper provides practical steps that can drive engagement to a higher level and reveals where you should focus your leadership development initiatives in order to create a high-achieving workforce. With profound implications for your HR strategy, it also explains how a global Leadership Effectiveness Index can provide the essential link between leadership behavior and the drivers of engagement.

Virtually every organization has multiple stakeholders, including customers (for non-profit organizations, read citizens or patients), financial analysts, suppliers, the local community and, of course, employees. One of the greatest challenges for organizations is to meet the often conflicting demands of its stakeholders. It is possible for an organization to make a financial return at the expense of customers and employees. It is also possible to meet the needs of customers, but not make a financial return. The best organizations will aim to satisfy each of their stakeholders. The question is: how do they do it?

Over the past 25 years IBM has conducted empirical research worldwide proving that the priority stakeholder group is employees. Satisfying them can, in turn, enable you to satisfy each of the other stakeholders. Because when your employees are engaged they will not just perform – they will go the extra mile for you.

Our research shows that employee engagement is linked to improved productivity and commitment, higher levels of individual and team performance, increased employee retention and reduced absenteeism, not to mention enhancements in service quality, customer satisfaction, and bottom line financial performance.

These are tangible benefits that no organization can afford to ignore. So, what is it that motivates and engages employees?

Measuring engagement

Let us start by defining the term. At IBM, we see employee engagement as:

“The extent to which employees are motivated to contribute to the organization’s success and are willing to apply discretionary effort to accomplish tasks that are important for achieving the goals of the organization.”

In order to measure engagement levels, we break employee engagement down into a combination of:

- **Pride:** I am proud to work for my organization.
- **Satisfaction:** I am satisfied with my organization as a place to work.
- **Advocacy:** I would recommend my organization as a good place to work to a good friend or family member looking for employment.
- **Commitment:** I rarely think about looking for a new job with another organization.

The rationale is straightforward: Employees who have pride in and are satisfied with their organization also tend to advocate for and remain with their organization.

By asking employees whether they agree with these statements, and by averaging out the percentages of favorable responses in each, it is possible to create an Employee Engagement Index (EEI) score measuring the level of engagement in an organization.

Using this EEI measure (Pride + Satisfaction + Advocacy + Commitment), we have surveyed over 200,000 employees in 24 countries around the world. The results have been enlightening.

Higher Scores	Above Global Average Scores
<ul style="list-style-type: none"> • Denmark • India • The Netherlands 	<ul style="list-style-type: none"> • Brazil • Mexico • US • Canada • Indonesia • Turkey • Spain • Switzerland • Sweden
Below Global Average Scores	Lower Scores
<ul style="list-style-type: none"> • Australia • South Africa • Argentina 	<ul style="list-style-type: none"> • Germany • Russia • China • Italy • UK • Finland • France • Korea • Japan

Figure 1: Employee engagement index scores by country

Figure 1 shows that different countries have different levels of engagement. Denmark, India, the Netherlands, Brazil and Mexico have the highest scores; Italy, the United Kingdom, Finland, France, Korea and Japan have the lowest scores. More importantly, by using advanced statistical analysis, these results give us an insight into what causes people to feel engaged.

Top 10 drivers of engagement

Our study shows that around the world – across different countries, different industries and different job roles – what people want most from their work is:

- To feel confidence in the future of their organization.
- To feel they have a promising future.
- To feel their organization supports work-life balance.
- To feel that their contribution is valued.
- To feel excited, fulfilled and motivated by their role.
- To have opportunities to improve their skills.
- To feel that safety is a priority for their organization.
- To have leaders who can communicate a motivating vision.
- To work in an organization that is committed to corporate responsibility.
- To work in an organization where quality and improvement are top priorities.

If you believe that driving engagement scores higher in your organization will have a positive impact, then these are the top 10 areas on which you need to concentrate.

The “four pillars” of engagement

The 10 drivers can be combined to give us just four macro drivers of employee engagement. These are:

- Leaders who inspire confidence in the future.
- Managers who recognize employees and emphasize quality and improvement as top priorities.
- Exciting work and the opportunity to grow and develop.
- Organizations that demonstrate a genuine responsibility to their employees and communities.

We call these the “four pillars” of engagement. In short, building an engaged workforce takes inspiring leaders, effective managers, a good job-person fit and a caring organization. When these factors prevail, employees become more motivated to contribute to the organization’s success and more willing to put in extra effort to accomplish tasks that are central to the goals of the organization. Listed below are practical actions, targeted at each specific pillar, that can enable HR practitioners, line managers and organizations to improve employee engagement. Ten actions for leaders are detailed at the end of this paper.

To encourage “inspiring leaders,” HR practitioners should:

- Review the way they assess, select and promote executive talent.
- Use best practice programs to develop the necessary skills and behaviors.
- Evaluate leaders using employee, customer and financial metrics.
- Encourage leaders to model the desired behavior (being respectful, considerate, open, encouraging and organized).

To create “effective managers,” HR practitioners should:

- Assess and select the right candidates.
- Develop the necessary skills, competencies and abilities.
- Implement effective performance and talent management systems.
- Put in place initiatives that support quality and improvement.
- Encourage managers to collect and act upon feedback from customers and employees.

To instigate “exciting work,” line managers should:

- Use job profiles and assessments to ensure an appropriate person-to-job fit so the right candidate is recruited for each position.
- Explain to employees what is expected of them and provide the information and resources they need.
- Empower employees, provide the necessary training and development, and give them “stretch assignments”.
- Involve employees in decision making.
- Try to ensure that each employee’s job is challenging, interesting and fun. Employees want a sense of accomplishment and to feel that the time they spend at work is worthwhile.
- Recognize and celebrate the achievements of individuals and implement effective performance management reviews.

To be seen as more “caring,” organizations should:

- Show genuine responsibility to employees and the communities in which they operate.
- Put in place effective safety procedures, training and compliance.
- Provide genuine support for flexible working and work-life balance programs.
- Invest in corporate responsibility, and use public relations techniques to change external attitudes and to raise employee awareness of their community activities.

Impact of engagement

When employees are engaged they lead more fulfilling and rewarding lives. This extends outside of the workplace as people often become better parents, friends, partners and neighbors when they feel more engaged at work. What is more, each stakeholder of the organization can benefit when employees care more, perform better and stay longer.

To prove the financial value of employee engagement, we have correlated engagement data from over 100 companies worldwide against three financial metrics: diluted earnings per share, total shareholder return and annual net income (see Figures 2-4). The sample companies represent major industries in all major economies around the world including retail, finance and banking, manufacturing, hospitality, healthcare, and business services.

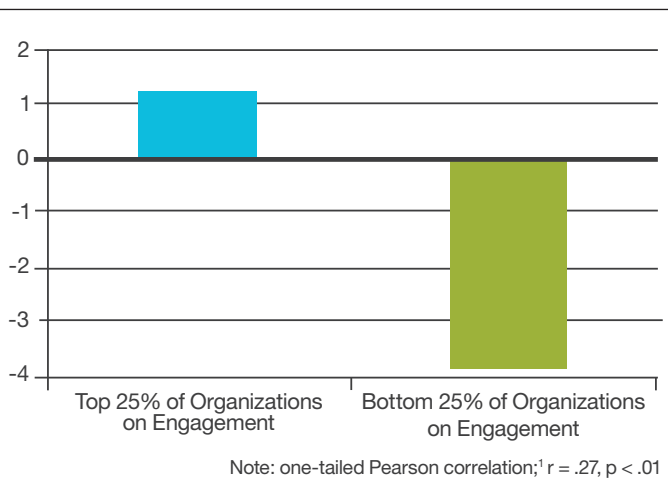


Figure 2: Engagement and DEPS

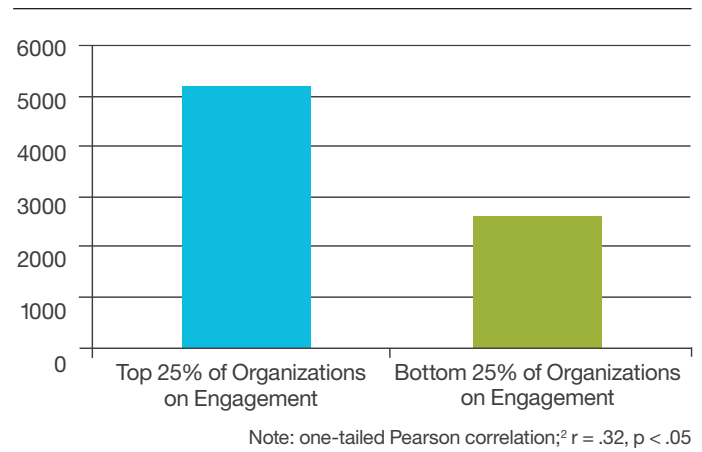


Figure 3: Engagement and annual net income (\$US in millions)

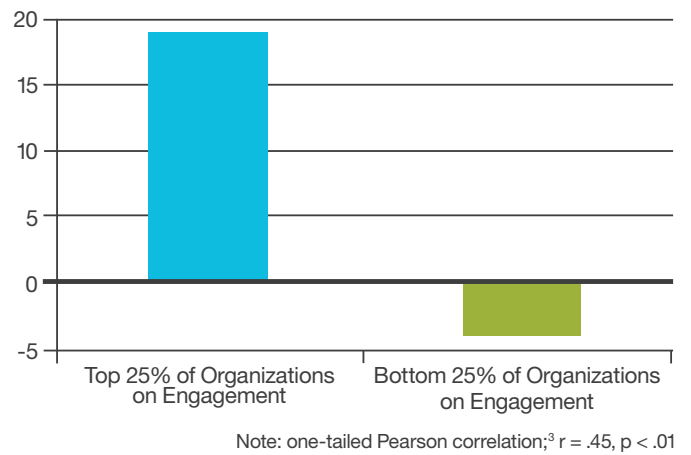


Figure 4: Engagement and total shareholder return

Diluted earnings per share takes into account standard earnings per share (income divided by outstanding shares), but also accounts for what earnings would be if all outstanding stock options and warrants were exercised. Analysts see it as an accurate assessment of the health and profitability of an organization. Total shareholder return is a measure of the change in a company's stock price plus dividends paid. Annual net income is the difference between total sales and total costs and expenses.

This analysis shows that the top 25 percent of companies on engagement (those with the highest engagement levels) outperformed the bottom 25 percent of companies (those with the lowest engagement levels) by significant margins in all three of these measures of financial performance.

The simple truth is that engaged employees make a difference, particularly those in customer-facing roles. Our research shows that when engagement is low, customer satisfaction and organizational performance tend to be low. But when engagement levels rise, these factors also improve. In other words, employee engagement has a direct correlation with customer satisfaction, job productivity and organizational performance.

Our research also shows that employees who are not engaged are much more likely to consider leaving their organization. As opportunities start opening up elsewhere for employees, this could prove costly for organizations with a less engaged workforce.

The role of leadership

While each of the "four pillars" of employee engagement is important, our research reveals that the role of leaders is crucial in terms of driving employee engagement. In other words, leaders themselves have a significant impact on whether or not employees will be engaged. In fact, employees who perceive

their leaders as effective have engagement levels that are three to five times higher than those who feel their leaders are ineffective. This means that you can drive employee engagement higher in your organization by making your leaders more effective.

Logically, the next question is: What causes employees to view their leaders as effective?

Through a research program at IBM, involving a global study of more than 29,000 employees in 21 countries, we have created a metric called the Leadership Effectiveness Index that measures the extent to which employees believe their leaders communicate their vision, handle challenges, value employees, are committed to improving quality and inspire trust.⁴

Our Leadership Effectiveness Index was originally created by analyzing employee perceptions of these five areas. We asked individuals whether they would strongly agree, agree, neither agree nor disagree, disagree, or strongly disagree with each of the following statements:

- Vision: Have the senior leaders of my organization communicated a vision of the future that motivates me?
- Ability: Do senior leaders at my organization have the ability to deal with the challenges we face?
- People: Do senior leaders demonstrate that employees are important to the success of the organization?
- Quality: Are senior leaders committed to providing high quality products and services to our customers?
- Confidence: Do I have confidence in my organization's senior leaders?

Thirty percent of employees in the study rated their leaders as effective on all five of these items (by agreeing or strongly agreeing to all five statements). Nineteen percent of employees rated their leaders as ineffective on all five items (by disagreeing or strongly disagreeing with each statement). The remaining employees (51 percent of the sample) rated their leaders as effective on some points and ineffective on others.

Figure 5 shows the impact of effective and ineffective leadership on each of the four factors that we use to compile our Employee Engagement Index: pride, satisfaction, advocacy and commitment. It also shows that employees who rate their leaders as effective have Employee Engagement Index scores that are more than three times higher than those employees who rate their leaders as ineffective. In some cases, it was up to five times higher.

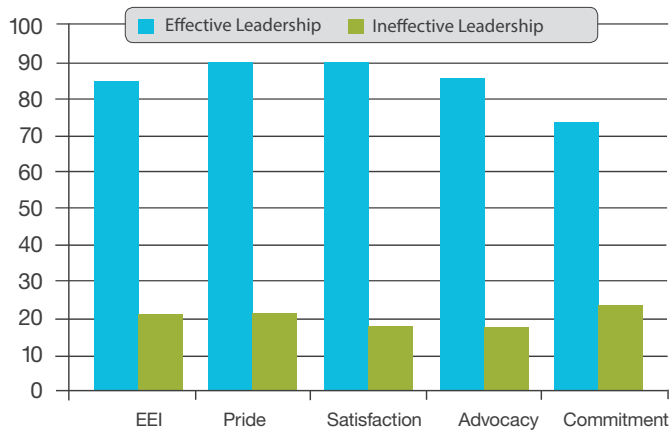


Figure 5: The impact of leadership on engagement

Interestingly, our study also showed that leadership effectiveness differs across different industries. As Figure 6 shows, effective leaders are more readily found, around the world, in the manufacturing, financial services and retail sectors. Government and healthcare services have the lowest rankings of leadership effectiveness.

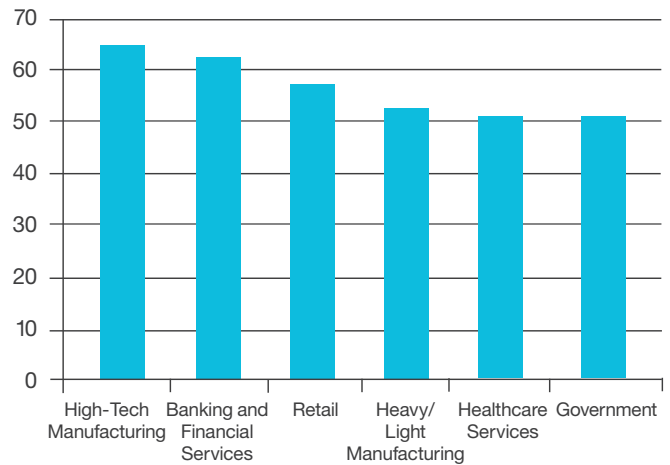


Figure 6: Leadership effectiveness by industry

Establishing a link to performance

Taking this research further, we wanted to find out whether there is a direct link between the perceptions that employees have of their leaders and the performance of the organization. In a study of 143 multinational companies,⁵ we found that there is indeed a tangible relationship between perceptions of leadership effectiveness and business performance.

As Figures 7 and 8 show, leadership effectiveness is positively and significantly related to Diluted Earnings Per Share (DEPS) and Total Shareholder Return (TSR).

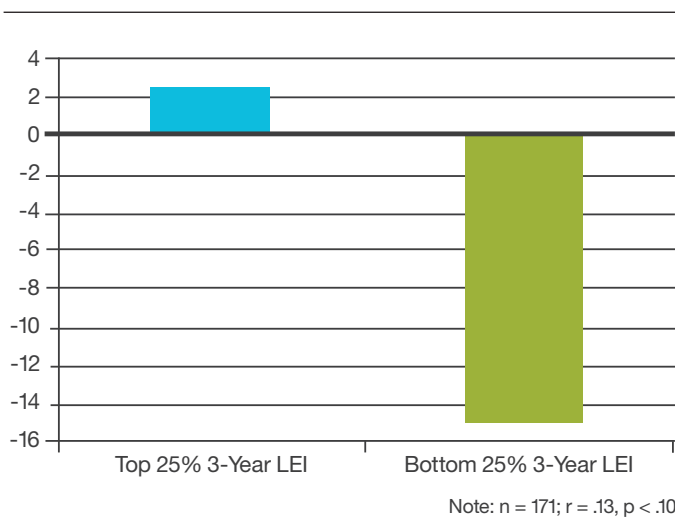


Figure 7: Leadership effectiveness and longer-term business results (3-year TSR)

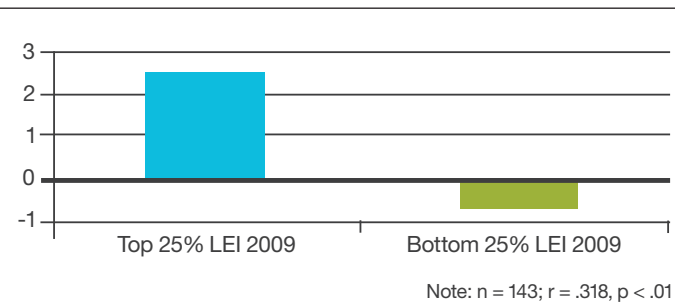


Figure 8: Leadership effectiveness and current business results (2009 DEPS)

In our study,⁶ the financial performance of organizations in which employees believe their leaders are effective is at least five times greater than organizations where leaders are seen as ineffective. Clearly, a number of factors such as your marketing approach, the quality of your products, and the level of competition will impact your organization's ability to deliver earnings per share and total shareholder return. However, it has been estimated that up to 40 percent of the success of an organization is down to the capabilities of its leaders. In whatever organization you are in, leadership effectiveness will undoubtedly make a significant contribution to your success.⁷

Establishing a link to performance

According to our research, effective leaders are those who:

- Inspire trust and confidence.
- Value quality and customer service.
- Are open and communicative.
- Hold a multi-stakeholder perspective.
- Hold lower-level managers accountable for being good managers.

HR practitioners can assess employee perceptions of their leaders by asking the following questions:

- Do employees trust the organization's leadership?
- Do leaders emphasize quality and improvement as top priorities?
- Is communication open and two-way?
- Does the organization only serve the interests of financial stakeholders or does it also serve the interests of employees, customers, suppliers and the local community?
- Are employees recognized for delivering exceptional customer service?
- Is action taken on new ideas?
- Are employees motivated to work hard?
- Do employees have confidence in the organization's future?
- Are productive employees recognized?
- Is performance evaluated fairly?

In which areas would your organization be strong? Where would it be weak? For those involved in coaching or developing leaders, the answers to these questions can act as a “training needs analysis.”

What constitutes exceptional leadership?

As we have seen, the behavior of leaders, from the C-suite down to first line managers, can create an engaged workforce and drive bottom line improvements. So, what do high performing leaders do that makes them so effective? What specific behaviors impact the drivers of employee engagement?

First, let us look at how the environment in which leaders operate has changed. Much of the wealth of the Western world has been built on a traditional organizational model, as shown in Figure 9.

Standardize
Specialize
Align goals
Hierarchy
Plan
Control
Comply
Reward

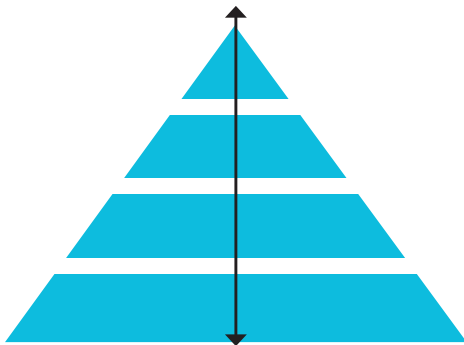


Figure 9: The traditional management paradigm

Leadership was through command and control. Decisions were made at the top and passed down the line, employees worked in functional silos, there were rules and precedents to follow, and work was predictable and could be organized. The way to improve performance was to improve efficiency.

Today’s environment is more dynamic and less predictable. There is a greater need to collaborate, adapt, innovate and move faster. As a result, a very different organizational model is evolving, as shown in Figure 10. In this new management paradigm, the way to improve performance is through employee engagement. One consequence of this is that traditional organizations are vulnerable to their more modern counterparts. Fundamental issues can arise for organizations when their external environment becomes more complex and dynamic, yet their underlying principles and practices remain akin to those of traditional organizations.

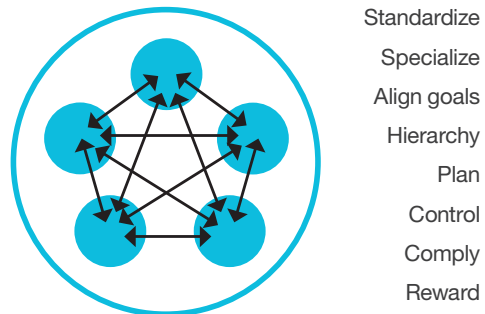


Figure 10: The new management paradigm

The main point is that leadership behaviors that were once sought after and rewarded are no longer relevant. A different style of leadership is required in modern organizations. In particular, leaders need to be able to inspire people to achieve action, rather than simply rely on their hierarchical authority to get results.

The more complex, dynamic and challenging your environment is, the more the contribution of your leaders matters. It is, therefore, crucial to understand what your leaders need to do to be effective.

High performance behaviors

The “Four Pillars” of engagement introduced on page 2 correspond with the behaviors to look for in leaders who can drive performance through engagement. Again, they are:

- Leaders who inspire confidence in the future.
- Managers who recognize employees and emphasize quality and improvement as top priorities.
- Exciting work and the opportunity to grow and develop.
- Organizations that demonstrate a genuine responsibility to their employees and communities.

Figure 11 outlines the specific behavior that influences each engagement driver.



Figure 11: How the 12 high performance behaviors (HPBs) link to the drivers of engagement, via the four macro drivers

Four clusters

The 12 high performance behaviors can be grouped into four clusters: Creating Strategy, Achieving Excellence, Engaging Talent and Inspiring People.

Creating strategy

Gathering intelligence, generating ideas and accelerating innovations are the behaviors that make up the creating strategy cluster. These behaviors make the highest contribution to an organization's performance in strategy formation, planning and big-picture thinking.

Engaging talent

Establishing trust, fostering collaboration and developing talent are the behaviors that make up the engaging talent cluster. Exceptional leaders seek to understand perspective, build relationships, encourage and develop people's talents. These behaviors are essential to improving performance and creating an atmosphere of learning.

Inspiring people

Influencing people, building confidence and communicating effectiveness are the behaviors that make up the inspiring people cluster. Exceptional leaders inspire and excite. These behaviors relate particularly to building confidence and excitement in a team and are crucial for achieving support for ideas.

Achieving excellence

Implementing change, improving performance and winning customers are the behaviors that make up the achieving excellence cluster. These action-oriented behaviors are how we break down barriers and make things happen. As leaders, it is our responsibility to help ensure tasks are structured, plans and ideas are implemented, and we continually improve business performance.

Different leaders will use these 12 behaviors to different levels at different times. For example, in a crisis there might be less time for flexible thinking and more of a focus on influencing others or making things happen.

Bear in mind that no single leader will have strengths in all of these areas. However, every leadership team should include a combination of individuals who, together, have strengths in all 12 behaviors. If the leadership team does not have this blend, you can guarantee the organization will be found wanting at some stage in the future.

Figure 12 shows the extent to which these behaviors are understood and developed in today's organizations. We can see that leaders are adept at searching for information, creating ideas, building confidence, making things happen proactively and communicating with impact. These behaviors are well developed, possibly because they reflect the way that individuals have been assessed and rewarded in traditional organizations. However, other behaviors such as developing people, fostering collaboration and building customer value are less developed and, perhaps, undervalued.

The profile of the behavioral strengths of leaders and their development areas, shown in Figure 13, is typical of what we see across many different types of organizations. Where would your leaders be strong and where would they be weak? What implications would that have for your organization? HR teams should assess their leaders against this framework and create development plans to close any gaps.

Are leaders born or bred?

None of us are born with all 12 high performance leadership behaviors, although some people do seem to be naturally gifted in some areas. Each behavior, however, can be learned. The best approach is to use multi-faceted development that involves feedback, assessment, training, coaching, mentoring and stretch assignments.

It would be ridiculous to imagine a surgeon learning to operate simply through observation and trial and error (how would you feel about this person carrying out a procedure on someone you love?). Yet, when it comes to leadership, which is probably one of the biggest challenges for virtually any human being, many organizations seem happy to let their leaders learn by osmosis.

Do not fall into this trap. Prioritize leadership learning, develop the necessary behaviors in your leadership team and encourage senior leaders to model these behaviors.

Are these behaviors future-proof?

What will be the biggest challenge for your organization's leaders in 10 years? What skills and behaviors will they need to meet this challenge?

The first question is tough, as we can not predict the sociological, technological, economic, political, environmental and competitive changes that will unravel over the next decade. The second question, however, is much easier to answer.

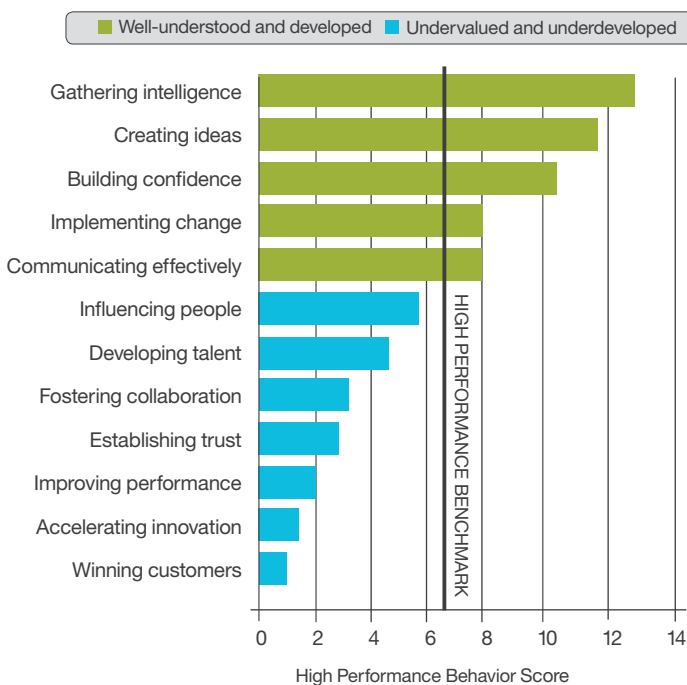


Figure 12: High performance behavior overall scores

The four clusters of our high performance behaviors are completely future-proof. Leaders will always have to create strategy, achieve performance, build talent and inspire people. In the future, the context in which they do these things may change. For example, if people no longer work together in an office it will become harder to build trust in the way that it has been done before. However, doing so will still be an important aspect of leadership.

Creating an organizational success

Whatever happens in the future, leadership and employee engagement will be the key differentiators between successful and unsuccessful organizations. Organizations need motivated and engaged employees to drive higher levels of success. The ultimate insight from our research is that the most effective way to achieve that is to improve the skills of the leaders and managers in your organization.

Gaining an understanding of what fundamentally drives employee engagement, and what behaviors bring about high performance, can help every leader evaluate their own practice, develop their leadership skills and shape their own behavior. This is the fast-track way to create a high-achieving workforce.

The real question for leaders is this: How much competitive advantage can you gain by adopting these behaviors and by improving employee engagement in your organization?

Ten actions for effective leadership

Here are 10 practical actions that can help you to become, and be seen as, a more effective leader:

Inspire confidence in the future by creating a motivating vision, a set of values, well-aligned goals and a sensible strategic plan. Be conscious of the need to appeal to a diverse audience. Show a real interest in employees, customers, suppliers and business partners. Pay close attention to how you are seen by them, not simply how you are seen by the financial stakeholders of the organization. Listen to your colleagues and remain approachable.

Be trustworthy, show integrity and communicate clearly and honestly. Treat people fairly. Behave in ways consistent with the vision and values of the organization. Great leaders inspire trust by being true to their word. Creating an organizational culture of candor, even when it is not easy, is important. Have integrity in what you say and do. Remember, actions speak louder than words. How you “show up” to work is extremely important. When the going gets tough, employees become anxious and fearful for their future. Here, they will take their cue from the organization’s leaders. How you communicate and whether your actions align with your words will send a strong signal to employees. Make sure your nonverbal communication is transparent.

Doing “more with less” is a reality in many organizations. If you have experienced cutbacks or downsizing, you will have to motivate the remaining employees to perform at their best. Try to minimize uncertainty and support the belief that there is a future for the organization.

Tell others what you expect from them. When employees understand how they are expected to focus their time and energy, they are more likely to achieve the desired results. Encourage upward communication. Create opportunities for dialogue with lower-level managers and employees. Their ideas and input will be well worth the effort invested.

Respect employees and recognize their contribution. Highlight the key role that employees play in organizational success. Employees want “a pat on the back” and want their views to count. Essentially, each individual wants to be recognized and appreciated as a valued team member. Ensure line managers in your organization fully understand this.

Give employees what they want. Employees want job security. They want to feel confident about their organization's future, and they want stability and steady work so they can meet their financial obligations. They also want to be compensated fairly for the work they do and the contribution they make (through base pay, bonuses and benefits). Help ensure their work environment is well equipped, comfortable, healthy and safe. For many employees, the social aspects of work are even more important than the physical conditions.

Be committed to things that matter in the organization.

Recognize the value of providing a high quality service. Support employee development initiatives and involve employees in decisions that affect them. If you are committed to being the best, you will inspire employees to achieve the same goal.

Show a sense of urgency. Respond quickly to threats and stay abreast of trends that are driving or disrupting change.

Foster a climate of innovation. The chance to be innovative challenges and motivates employees to perform at their best.

Demonstrate genuine responsibility to employees and the communities in which the organization operates. When employees feel their organization genuinely supports work-life balance initiatives and is committed to corporate responsibility, engagement levels increase.

For more information

To learn how to build a smarter workforce, visit:
ibm.com/smarterworkforce

Notes

Notes



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