



The Multiplier Effect: Insights into How Senior Leaders Drive Employee Engagement Higher

It's not getting any easier! The majority of organisations are still fighting for resources, reputation and market share. Our HR colleagues recognise the importance of employee engagement in helping to create resilient organisations that thrive in challenging conditions and are equipped to take advantage of more buoyant circumstances when they present themselves.

In all industry sectors, turbulent times call for bold leadership. The role of managers and leaders will continue to be an area of focus. Last year, Aon Hewitt looked at the role of managers as a whole in improving engagement¹ in our report *Managers – The Strongest (or Weakest) Link in Employee Engagement*. This paper – *The Multiplier Effect* – will provide new evidence that demonstrates the tremendous impact the top, executive level of management has on engagement.

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1 – Introduction

Employee engagement is fundamentally a measure of employees' willingness to give their discretionary effort to help the organisation achieve and exceed its goals. In the last few years, we have observed a phenomenon that we called "engagement recession": increased economic uncertainty leading to anxiety and confusion on the part of employees, accompanied by growth in unproductive behaviours and a strong decline in engagement.

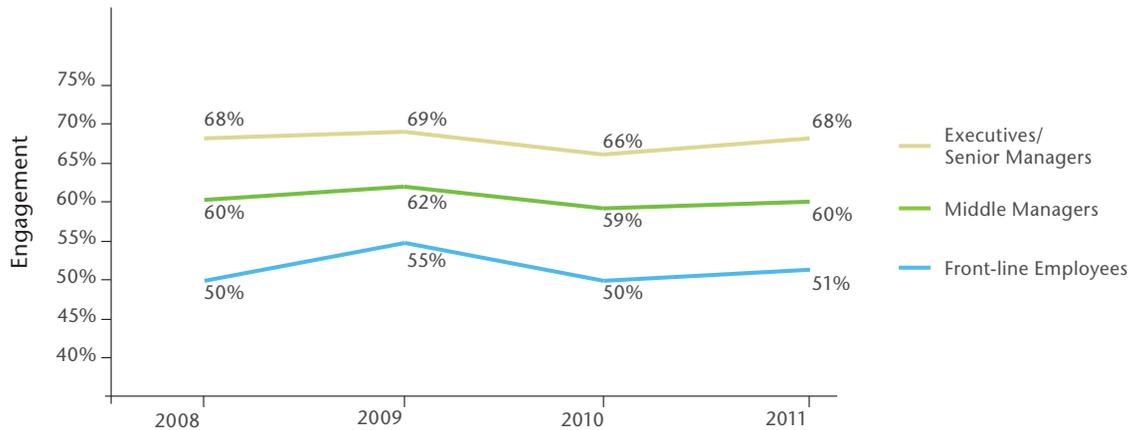
While leadership has always played an important part in building employee engagement, we have observed that, under exceptional conditions, their role is even more crucial.

The good news is that we have recently observed the first positive signs that the engagement recession is coming to an end; employee engagement seems to be stabilising. Whilst it is early days,

¹ "Managers: Your Strongest (or Weakest) Link in Driving Employee Engagement?" Aon Hewitt 2011

this encouraging picture suggests that many organisations and their employees have become more resilient to challenging work and economic environments. Our client experience leads us to believe that many organisations have learned from their recent mistakes and, even in the face of continuing uncertainty and pressure, are working hard to maintain the psychological contract. From an employee perspective, they, themselves, are looking for ways to be innovative and make change happen.

The first positive signs: Engagement stabilising at all levels



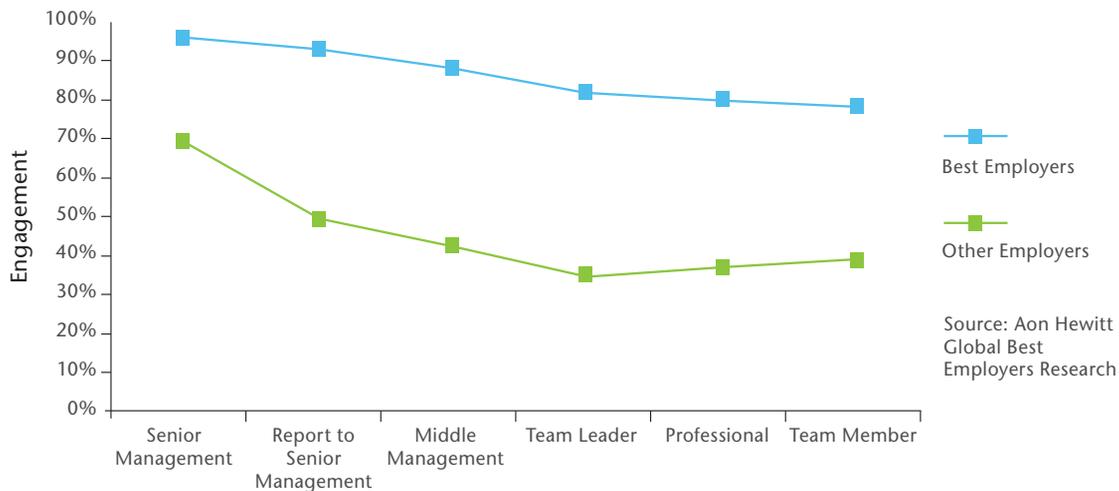
Despite the fact that employee engagement appears to be stabilising, the difficult times are probably not over. As Europe faces another challenging year economically, companies continue to struggle, employee engagement is still at risk and leaders have an ongoing key role to play.

Aon Hewitt’s research specifically demonstrates the important role played by top-level management in driving employee engagement.

2 – The cascade effect: Engagement starts at the top

Aon Hewitt analysis of companies with strong financial results shows that one distinguishing feature is the quality of their senior management. In particular, we see that senior managers’ levels of engagement are high and their ability to engage others in the organisation, particularly those in middle management, is strong. And it does not stop there: engaged managers are more likely to build engaged teams. In short, engagement starts at top, and without engaged senior leadership, companies will not be able to engage the hearts and minds of their employees.

Engagement by Level in Organisation



3 – The direct effect: Building trust and honest communication

In highly engaged organisations, leaders are perceived as significantly more effective (by roughly 1.7 times ²) than their counterparts at low engagement organisations. These leaders set the right direction and mobilise the workforce.

Communication is an important element in building the perception of leader effectiveness. Leaders must communicate the reality of the business and the impact it has on the organisation, while recapturing employees' hearts and minds. Strong leadership and frequent communication are always important, but they are crucial during difficult times in order to even maintain employee engagement at current levels, let alone drive it higher. What is really important with respect to leadership communication is that it be frequent and forthright, answering the questions employees are asking. Even if the response is "We don't know", employees appreciate that their concerns are being heard.

Aon Hewitt's research and experience indicates that talent is more successfully managed in organisations where:

- Senior leaders take active ownership of the leadership/people agenda
- HR priorities are clearly embedded in the business strategy
- Employee communication is constantly open, honest, and transparent
- Leadership strategy is measured by outcomes
- Key talent is built by experience, exposure, and feedback
- Talent is more built than bought (75% internal; 25% external)

² Source: Aon Hewitt's Best Employers research

There are certainly other leadership behaviours that influence employee engagement, beyond regular and direct communication. Looking again at our Best Employers research, we can narrow this down to three additional distinctive practices:

1. They come across as more **connected with employees**
 - a. Effectively communicate the organisation's goals and objectives
 - b. Consistently demonstrate the organisation's values in all behaviours and actions
 - c. Appropriately balance employee interests with those of the organisation
 - d. Fill employees with excitement for the future of the organisation
2. They are very **performance focussed**
 - a. Effectively communicate the organisation's goals and objectives
 - b. Empower managers and employees and instil a culture of accountability
 - c. Set aggressive goals at all levels of the organisation
3. They are genuinely **future and development oriented**
 - a. Communicate the importance of spending time on feedback and provide performance coaching
 - b. Fill employees with excitement about the future of the organisation
 - c. Effectively communicate the skills/capabilities employees must develop for future success
 - d. Invest in long-term growth opportunities, even during difficult times

What is immediately clear is that, as well as contributing significant time and effort, there is a strong emotional component to how senior leaders drive engagement within organisations. They are personally aligned with the organisation's values and utilise various initiatives to bring employees closer to the goals and outcomes of the organisation.

4 – The multiplier effect: Senior leadership impacts engagement through different levers

Given the impact senior leaders typically have on employee engagement, it may seem incongruous that perceptions of senior leaders often do not feature in the top drivers of employee engagement in organisations (career opportunities, organisational reputation, and innovation in Europe in 2011)³. From a psychological perspective, however, this result is not surprising as people tend to focus on factors that directly impact them and are perceived to be somewhat within their control. Clearly, effective senior leadership does not fit these criteria, especially in driving engagement amongst the highly populated lower levels within organisations, where senior leaders often aren't highly visible and are considered to be far removed from the operational side of the business.

Taking this information at face value, it makes sense to focus on activities that improve organisational practice in the top drivers areas mentioned above. However, meaningful impact in these areas will require the involvement of senior leaders on some level (see table next page).

³ Based on analysis of Aon Hewitt's employee research database (see Trends in Global Employee Engagement for more information)

European Top Driver

Activity where involvement of senior leaders is key

Career Opportunities

- Provide formal mentoring/coaching programmes
- Make time for employees to spend with senior leaders
- Establish and communicate clear career paths and a critical talent management strategy
- Encourage managers to highlight the opportunities and skills developed through project work

Organisational Reputation

- Clearly communicate the organisation's employee value proposition
- Develop corporate social responsibility programmes
- Invest in people development
- Conduct research to understand the reasons employees join the organisation and why they leave

Innovation

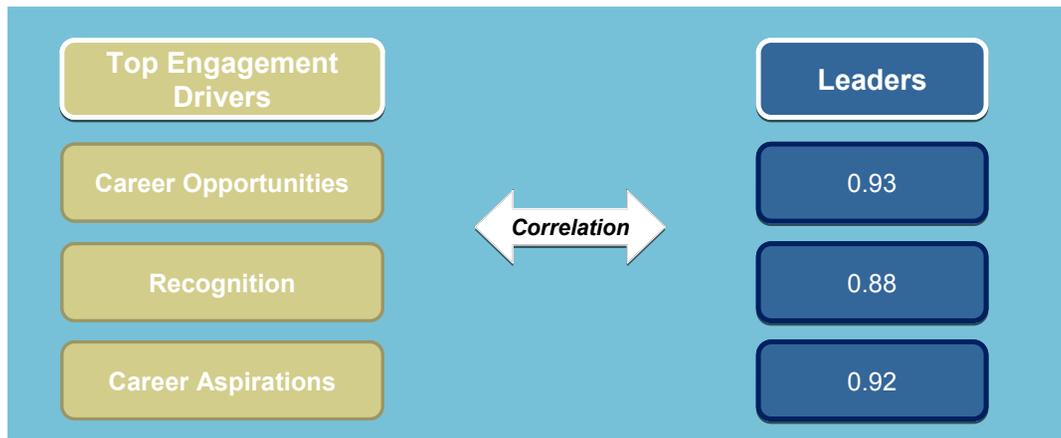
- Create a culture of innovation through leadership style
 - Reward innovation financially and through performance management
 - Empower individuals/teams to make decisions and take action
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It would be hard to provide employees with exposure to senior leaders or revise an organisation's rewards strategy to promote innovation without leadership buy-in. In fact, successful, long-term implementation of such initiatives requires visible investment and commitment from senior leaders. With that support, however, these practices often become embedded in the culture of the organisation; and so we come full circle to focussing on leadership behaviour.

Aon Hewitt's ongoing Best Employers research reinforces the value of focussing on leadership behaviour. This research shows a high correlation (over 0.9) between senior leadership and some of the other drivers of engagement. This finding suggests that improving perceptions of senior leaders will have a positive, indirect impact on other drivers as well – something we refer to as the multiplier effect.

Whilst organisations may implement some initiatives successfully without the involvement of top leaders, doing so misses the significant multiplier effect senior leadership involvement will bring. Senior leadership involvement demonstrates the organisation's commitment and brings to life initiatives that drive employee engagement.

The **impact** of the multiplier effect on career opportunities, recognition and career aspirations⁴



It makes sense that, with limited resources, energy should be focussed on the areas that will demonstrate the biggest return on investment. Senior leadership effectiveness is one of these areas due to the direct impact it has on driving engagement, as well as its indirect influence through the multiplier effect.

5 – Senior leadership in the spotlight: What engages them?

The writing is on the wall: as only engaged leaders can create engaged teams and they have a privileged role in engaging others through the cascade and multiplier effects, they deserve focussed attention. This conclusion is reinforced by findings from Aon Hewitt's Top Companies for Leaders Study⁵. This research suggests that 86% of Top Companies for Leaders have a specific strategy for improving leadership engagement versus only 65% of other companies, and that they continue to invest in leadership development. Top Companies take leadership seriously and are reaping the rewards.

Leaders are closer to the organisation's strategy and feedback loop, whether they have played a direct part in building it or not. It therefore makes sense that the drivers of engagement may differ at the top of the organisation compared to those for the body of employees, given that leaders have direct access to the information that is subsequently shared with the workforce at large.

Three key elements emerge from our research that organisations need to engage leaders:

- 1. Strategy Connect:** Leaders have to be passionate about what the organisation is aiming to achieve and driving this should give them a sense of accomplishment.
- 2. Culture Connect:** An alignment of personal and organisational values and ways of working. In order for any particular leader to be engaged, the organisation must share his or her personal values and ways of working and the leader must be allowed to further propagate them, e. g. diversity, risk-taking, innovation.
- 3. Top Team Connect:** Engagement is derived from the way a senior leader connects with other senior leaders in the organisation and how effective and accountable they are as a unit.

⁴ Source: Aon Hewitt's Best Employers research

⁵ www.aon.com/topcompanies

6 – Conclusion

Many organisations have learned to deal with economic uncertainty over the last few years, resulting in more stable employee engagement. However, stability is not something employers can take for granted; they must remain focussed on driving employee engagement higher. While managers play a significant role in the day-to-day work experience of their direct reports, the importance of effective senior leadership on employee engagement cannot be underestimated. When senior leaders are themselves engaged, they are more likely to positively affect the engagement of other staff. When they communicate frequently and honestly, clearly charting the course for the organisation and letting employees know what is required of them to help make the business successful, employee engagement increases. And when leaders actively endorse initiatives that drive engagement, the effect is multiplied.

Given that leader engagement has such a tremendous impact on overall engagement, it is imperative to determine and focus on the factors that engage leaders. While the exact approach may differ from one organisation to the next, leader engagement is generally dependent on a strong connection with the organisation's strategy, culture and other members of the leadership team.

When it comes to employee engagement, organisations often focus their efforts solely on the broad employee population. However, Aon Hewitt's research indicates that investing in initiatives designed to drive leader engagement yields high returns. After all, engagement starts at the top.

Facts and perceptions about senior leaders

- Senior leaders are typically more engaged than other employee groups
- The gap between engagement levels at the top of an organisation and those lower in the organisation is smaller in high performing organisations
- Employees' perceptions of senior leaders tend to be less positive than their perceptions of middle or immediate line managers
- Engaged senior leaders improve engagement at lower organisational levels, particularly the critical middle managers who in turn build engaged teams

Aon Hewitt's Engagement Consulting Capabilities

At Aon Hewitt, employee engagement is a performance metric measuring organisational sustainability. We define "engagement" as the emotional and intellectual involvement that motivates employees to contribute to organisational success. It's a critical component of performance and we identify a strong relationship between employee engagement behaviours and key metrics of employee retention, productivity, and customer service leading to improved financial performance. For example, a disengaged employee costs an organisation an average of \$10,000 in profit annually; as a result organisations with high engagement are 78% more productive and 40% more profitable.

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About the Top Companies for Leaders Study 2011

With more than 50,000 data points and 900 executive interviews, the Aon Hewitt 2011 Global Top Companies for Leaders Study is the most comprehensive, global research on leadership in the market, examining the link between leadership practices and financial results. This study explores how organisations assess, select, develop, and reward leaders, and examines the execution of leadership practices, as well as the strategy that guides it.

About Aon Hewitt

Aon Hewitt is the global leader in human resource solutions. The company partners with organisations to solve their most complex benefits, talent and related financial challenges, and improve business performance. Aon Hewitt designs, implements, communicates and administers a wide range of human capital, retirement, investment management, health care, compensation and talent management strategies. With more than 29,000 professionals in 90 countries, Aon Hewitt makes the world a better place to work for clients and their employees. For more information on Aon Hewitt, please visit www.aonhewitt.com.

