EMPLOYEE ENGAGEMENT CAPABILITIES REPORT 2013

An insight into successful strategies to drive employee engagement.







IT'S A JOURNEY NOT A DESTINATION

The golden rules

Three years and almost three thousand survey responses later we are getting closer to a 'holy grail' for extraordinary levels of Employee Engagement. The Engagement Capability study enables us to better understand the characteristics shared by highly engaged, high performance organisations and provides us with actionable insights to improve from wherever we are on our journey.

What we have in the findings is a guide; what to do to give you the best chance of having high employee engagement and exceptional business results; an organisation of 'True Believers'.

We've dug deeper

This year we asked more questions to learn specifically about the impact of a tough economic climate on engagement strategies, who in the organisation is accountable for employee engagement and what employees should or could do to take responsibility for their own engagement. The results are both hard facts and opinions of the leaders and managers in the c.1500 organisations that participated.

Relationships matter

The results confirm that a highly engaged workforce is a highly productive workforce. Organisations getting the relationship they have with their employees right are not just 'good blokes' within our corporate community. They are reaping the commercial benefits of 'doing the right thing' too.

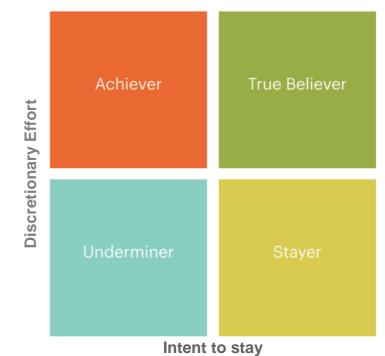
The key ingredients

What continues to be at the core of high levels of engagement is not a list of 'extras' and 'benefits' that require significant financial investment. It is more a set of key ingredients, collective behaviours and 'ways of being' supported by some essential activities to deliver, maintain and enhance an environment in which employees are able to deliver their best work and flourish both professionally and personally.

Tools to benchmark

Our goal as the owners of the research and providers of engagement enhancing services, is to provide a tool for business leaders and human resources professionals to quickly and cost-effectively benchmark their organisations against others in order to make decisions about where to focus their efforts and resources to improve organisational performance through higher levels of employee engagement.

Engagement Mix





2013 WINNING MOVES

The relationship between Engagement Capability, Employee Engagement and Organisational Performance continues to hold strong. If your organisation does not yet measure engagement, it needs to act quickly. A capability assessment is confirmed as a reliable way of quickly determining the areas to focus on to give you some quick performance and engagement wins.

Capability within the top performing and average organisations continues to rise albeit slowly, whilst capability within organisations with the lowest levels of engagement has fallen significantly. It would appear that in a tough operating environment those organisations at the lowest rungs on the engagement ladder have been quick to drop the ball on the basics.

'Culture', 'KPIs' and 'Purpose' are the areas in which highly performing and highly engaged organisations have the most capability. Get these right and everything else starts falling into place.



The difference between the top performers and the rest is that they have better skills and practice their skills to drive the transference of strategy, processes and desired behaviours through their organisations. Think mentoring, buddying, coaching, recognition and internal networks built on strong foundations of a clear sense of purpose, well understood targets along with strong recruitment, training and development programs.

The secret is in driving skills and capability deeper to frontline people leaders and direct to employees; ownership of individual initiatives and the engagement agenda more generally needs to be shared to succeed.

WHAT IS ENGAGEMENT CAPABILITY?



ENGAGEMENT CAPABILITY

- Engagement Capability is the ability and readiness of an organisation and its managers to successfully engage their staff.
- Within the survey we ask organisations to rate themselves for 20 capabilities on a scale from 1-5 to assess the level of understanding, depth and mastery an organisation has in these areas. We can use an assessment of capability to determine appropriate areas for organisations to deepen their skills and increase their capability to drive employee engagement and performance results.
- Our research indicates again that the top performing companies have the highest level of capability within their organisation and as the capability drops so does the level of engagement. The assessment tool – Engagement Capability – therefore continues to be a useful and quick, leading indicator for the level of engagement in the organisation.
- After surveying almost 3000 organisations over the past three years, we can also say that businesses that don't measure engagement are at best, as capable as companies that achieve average levels of engagement and performance.

LEVELS OF CAPABILITY

- 1. Vision Idea in someone's head
- 2. Documented Plan Training
- 3. Plan gets implemented
- 4. Managers become Mentors
- 5. Integrated and Leveraged

Reported Level of Employee Engagement	2011 Capability Score*	2012 Capability Score*	2013 Capability Score*
80%+	72	72	73
60 – 80%	64	67	64
40 – 60%	56	57	59
<40%	55	51	46
Don't measure	55	51	55

20 CORE CAPABILITIES

PURPOSE, INTENT, CAUSE

•Why we do what we do – the business has a clear purpose beyond making money that all employees can engage with.

CULTURE

•What is important to the people in the business and what guides their behaviour – capability to express the culture, manage it and bring it alive.

COMMERCIAL VISION

• Describes the 3-5 year vision of the organisation. Understanding the key drivers that build equity and value in the business.

INNOVATION

· Ability of the organisation to innovate.

BRAND ENERGY

 The perception and reputation of the organisation and the people in it that attracts clients and staff.

MANAGING CAPACITY AND WORKLOAD

• Planning and managing workload and growth in the capacity of the team, the division and the organisation in accordance with the risk profile.

FUNCTIONAL STRUCTURE / RESOURCE ALLOCATION

• Organisational structure that is functional, provides clear roles and responsibilities and leverages the current resources for maximum profitability. The business has the right resources and right systems and processes.

KEY PERFORMANCE INDICATORS

• Defining and managing meaningful KPIs that help drive the vision and strategy of the organisation – clear accountability.

REWARDS AND RECOGNITION PROGRAM

• A program that reinforces chosen values and behaviours as well as commercial KPIs.

COMMUNICATION

• Ability to communicate effectively with anyone in the business, effective meetings and communication structures.

COACHING

•Ability to deliver learnings through coaching to bring out the best in people.

MANAGING EXPECTATIONS

•Setting, managing and resetting expectations proactively to maintain high standards.

WORK-LIFE BALANCE

•Understanding what work life balance means in the organisation and how it can be achieved.

COMPENSATION AND BENEFITS

•Fair, transparent remuneration packages.

RECRUITMENT

•Based on values, attitudes and behaviour first, and skills and experience second, to create an aligned culture.

ON-BOARDING

• Providing clarity and connection for new employees and raising awareness around the importance of their role in relation to the vision.

PERFORMANCE MANAGEMENT

Proactive performance management and the ability to have hard conversations.

DEVELOPING PEOPLE

• Growth opportunities for staff, personalised development plans and managers giving opportunities to staff.

DECISION MAKING

 Effective and timely decision making in alignment with the agreed direction of the business.

EFFECTIVE MEETINGS

• Ability to run effective, time efficient and relevant meetings where everyone has their agenda addressed and clear actions are driven.



WHAT HAVE WE LEARNED?



CAPABILITY SCORES ORGANISATIONS WITH 80%+ ENGAGEMENT

Results:

- Focussing on just a few key areas makes all the difference to outcomes. The depth of capability high performers experience in the areas of 'Culture' and 'KPI', in contrast to that experienced by the average performers, is considerable.
- This year the top performers are again standing tall across all capabilities. The biggest capability gains were achieved in the areas of 'Recruitment', 'Onboarding' and 'Performance Management'.
- The 'best' still have a significant opportunity to continue to improve their outcomes. They lost capability in the areas of 'Communication', 'Expectation Management' and 'Reward and Recognition' and their weakest scores are in the areas of 'Innovation', 'Coaching', and 'Expectation Management'. It just goes to show that even once you have become a grand master, you have to keep working for it.

Key Performance Indicators Performance Management Compensation & Benefits Expectation Management Reward & Recognition Brand & Brand Energy ⁻unctional Structure Managing Capacity Developing People Commercial Vision Effective Meetings Worklife Balance **Decision Making** Communication Recruitment Onboarding nnovation Coaching Purpose Culture 73/100

Top Ten Capability Scores out of a possible 5 for organisations reporting 80%+ levels of Employee Engagement:

Culture	Recruitment	КРІ	Performance Management	Purpose	Compensation	Developing People	Commercial Vision	Brand & Brand Energy	Reward & Recognition
4.0	3.9	3.9	3.9	3.9	3.7	3.7	3.7	3.6	3.6



Engagement Score 80%+

CAPABILITY SCORES ORGANISATIONS WITH 40-60% ENGAGEMENT

Results:

- Organisations reporting average levels of • engagement that want to close the gap between themselves and the high performers need to focus on deepening capability in the areas of 'Commercial Vision', 'Reward & Recognition', 'Purpose', 'Developing People' and 'Brand & Brand Energy'.
- The average performers will benefit most by spending time and effort driving capability deeper into frontline leaders. Both formal coaching and mentoring programs coupled to buddying and improved internal networks are at the core of this transformation.
- The worst performers know what to do to get better results. 'Culture', 'Purpose' and 'KPI' are their biggest gap. What is preventing the transformation of their substandard cultural experience?

Key Performance Indicators Performance Management Expectation Management Compensation & Benefits Reward & Recognition Brand & Brand Energy Functional Structure Managing Capacity Commercial Vision Developing People Effective Meetings Decision Making Worklife Balance Communication Recruitment Onboarding Innovation Coaching Purpose Culture 59/100

Engagement Score 40-60%

Top Ten Capability Scores out of a possible 5 for organisations reporting 40-60% levels of Employee Engagement:

Culture	Recruitment	КРІ	Performance Management	Purpose	Compensation	Developing People	On Boarding	Commercial Vision	Brand & Brand Energy
3.5	3.3	3.3	3.3	3.2	3.1	3.0	3.0	2.9	2.9





CAPABILITY SCORES ORGANISATIONS WHO DON'T MEASURE ENGAGEMENT

Results:

- The message for companies who don't measure employee engagement has been consistent for the last three years. Their overall capability score is not measuring up to that of average engagement performers and is only slightly better than those achieving less than 40% engagement. With some targeted investment in the right capabilities, there are big opportunities to make a positive impact on business results as well as on employee engagement.
- Their biggest skill gaps sit in the same place as those of the worst performers; 'Culture', 'Purpose' and 'KPI'. Like with the worst performers there is also a theme around 'Work-life Balance', which no doubt means that there are some great opportunities to achieve better company performance by working smarter not harder through increasing their overall capability.
- To catch up with their next closest group, the key areas of focus are in 'Recruitment', 'Onboarding', 'Performance Management' and 'Developing People'. All of which are key capabilities to ensure that you choose your company culture consciously and don't end up with a possibly limiting culture.

Culture	Key Performance Indicators	Commercial Vision	Purpose	Reward & Recognition	Communication	Decision Making	Performance Management	Developing People	Recruitment	Brand & Brand Energy	Compensation & Benefits	Effective Meetings	Onboarding	Expectation Management	Coaching	Worklife Balance	Innovation	Managing Capacity
							5	5										

No Measure of Engagement Score

Top Ten Capability Scores out of a possible 5 for organisations who don't measure Employee Engagement:

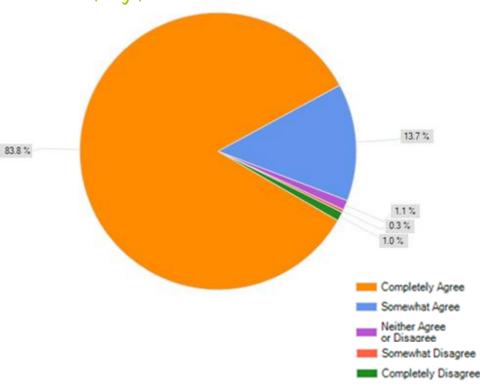
Culture	КРІ	Purpose	Commercial Vision	Brand	Decision Making	Performance	Recruitment	Compensation & Benefits	Communication
3.1	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.8	2.8



CULTURE IS KING

- For the third year in a row, 'Culture' features as the capability where the top performers have the most depth. An overwhelming majority of our participants also report that culture is the key to company performance, especially in tough times.
- Despite this acknowledgment and belief that culture is the number one contributor to company performance, it seems that only the best performers are fully committed to driving depth in their culture as they not only have the most depth, but also name culture as their most important capability to invest in in tough times.
- It is the area that represents the biggest gap in capability between those scoring 40% or less engagement and those that don't measure engagement at all. It seems like most companies will wait until their performance gets better before they invest in their people and their culture.

"Company culture has a direct impact on company performance."



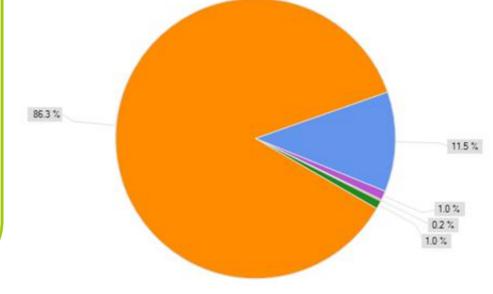


Five tips for a solid culture:

- 1. Shared Values
- 2. Lived Behaviours that match the values
- 3. Unique Rituals and Practices that bring them alive
- 4. Language and Stories to help you remember them
- 5. Visual Identity that makes you feel and look like them

Altus Q

"A strong company culture becomes even more crucial in tough times."



REWARD & RECOGNITION "HOW THE BEST MAKE IT WORK"

- Despite being one of the areas in which the top performers have seen a drop in overall capability in 2013, 'Reward and Recognition' offers some interesting insights. The detailed questioning in this year's survey allows for a comparison of the types of program being operated by our participants.
- In 2011 and 2012, Reward and Recognition was the fifth most significant capability for organisations with the highest levels of employee engagement.
- Reward and Recognition is undoubtedly a major contributor to engagement outcomes; delivered well it allows an organisation the opportunity to reinforce and embed desired behaviours which contribute to higher levels of capability elsewhere and organisational performance. It's part of the hidden wiring that ensures success for the high performers.

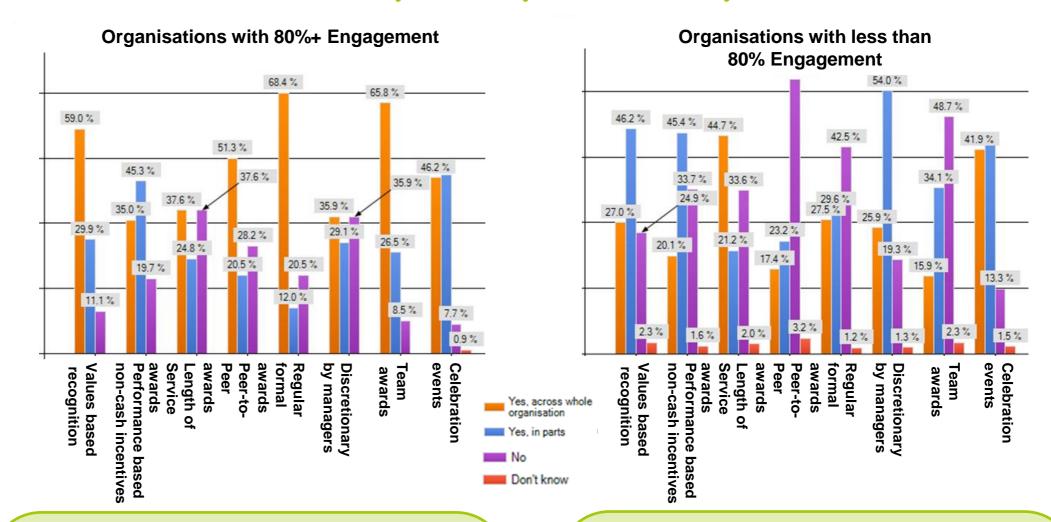
80% compared to 40 - 60% Engagement		80% compared to Don't Measure Engagement			
Type of Activity	Increase in Likelihood	Type of Activity	Increase in Likelihood		
Team Award	84%	Peer to Peer	151%		
Celebration Events	69%	Regular Formal Awards	142%		
Discretionary by Managers	46%	Team Award	134%		
Values Based	42%	Values Based	131%		
Regular Formal Awards	40%	Discretionary by Managers	84%		
Performance Based	31%	Performance Based	80%		
Length of Service	27%	Length of Service	78%		
Peer to Peer	14%	Celebration Events	68%		

Differences in Reward and Recognition



REWARD & RECOGNITION GOLDEN RULES

"What are organisations doing for reward and recognition?"



Four Tips for high performing recognition:

- 1. Focus on values and service
- 2. Mix of formal and ad-hoc
- 3. Acknowledge teams and individuals
- 4. Celebrate with events

The Golden Rules of Recognition:

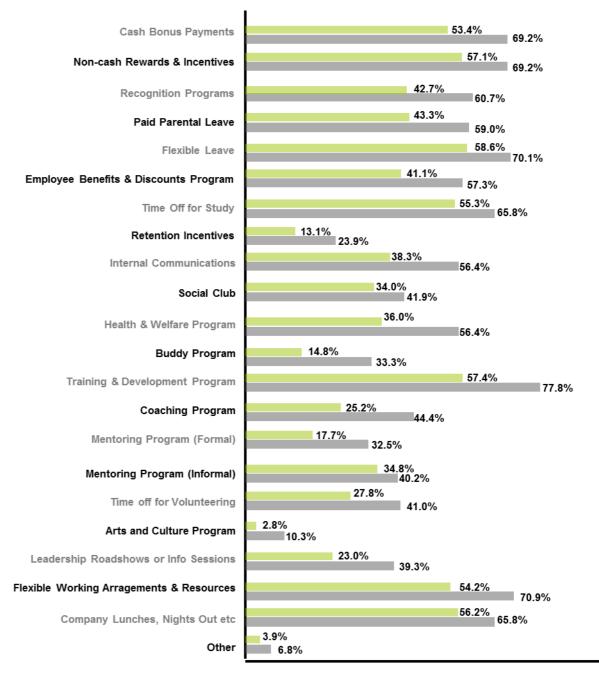
- Act now
- Be super specific
 - Get personal
- Notice it. Praise it

It's all in the delivery

ENGAGEMENT SPEND TRENDS

"Hands up & Hand outs"

- Spend on engagement activities has dropped overall but the trends from previous years holds true.
- When we look in detail at what those with the highest levels of engagement are doing that the average group are not, we discover that the best are:
 - Operating a Buddy Program (33% vs 17%)
 - Using Cash Bonuses more regularly (69% vs 39%)
 - Investing in a Coaching Program (44% vs 29%)
- When we compare what those that don't measure engagement spend their money, on with the high performers, we find that the high performers are twice as likely to be using mentoring and coaching in their organisations.
- The 2013 data suggests the vast majority of organisations with less than 80% engagement have slashed their training and development, coaching, incentive and reward budgets.



Overall Comparisons:

Organisations with less than 80% Engagement Organisations with 80%+ Engagement

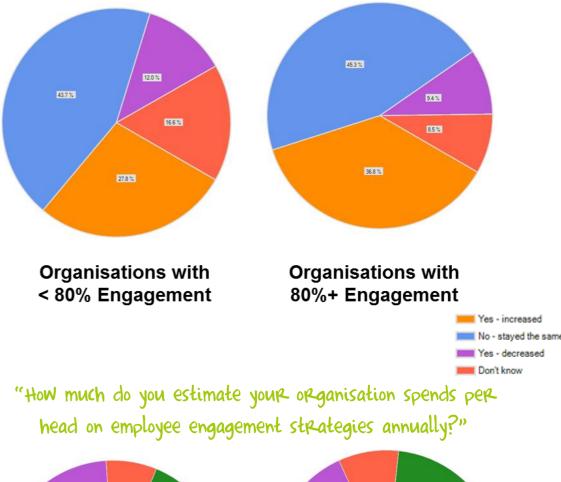


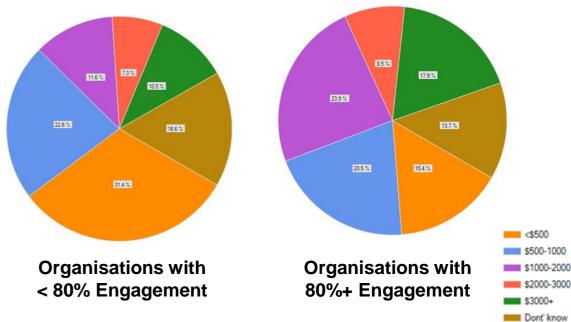
ENGAGEMENT SPEND TRENDS

What to spend?

- The Engagement Capability survey results continue to maintain that it is not as simple as spend X to get Y.
- Engagement outcomes are as much about where funds are invested and how capability is leveraged through embedded learning, soft skill development and social networks within an organisation than simply program budgets alone.
- There is evidence to support that you are far more likely to achieve a high engagement outcome if your spend is at least \$1000 person per year. 50.3% achieve high outcomes against 29.4%.
- If we compare the proportion of those achieving 80%+ engagement spending \$2000+ per person per year with those that are below 80%, it's 26.4% vs 17.8%.
- Those with an engagement score of less that 80% were twice as likely to have cut their spend on engagement activities in the last 12 months.

"In the last 12 months, has your organisation's spend on employee engagement changed?"







WHOSE JOB IS IT ANYWAY?

- The research suggests that employee engagement takes a joint effort and full participation from all parties and that when one party is solely responsible the results are likely to be below average.
- Except for the top performers, all companies measuring employee engagement think that HR has a bigger responsibility than the CEO in making employee engagement happen. The gap is the biggest with the worst performers where only 47% have the CEO responsible or involved against 84% for HR. The top performers however see CEO (74%), the Leadership Team (80%) as well as HR (74%) all carry equal responsibility.
- Only 28% of high performers think employee engagement is one party's sole responsibility which means that 72% believe that it needs a joint effort of sorts to achieve high engagement levels. In fact over half of the highly engaged companies say that everyone including the managers and the employees are responsible. This stands in stark contrast to the worst performers (16%) and the organisations not measuring engagement (25%).
- Nearly twice as many companies not measuring engagement believe that one party is solely responsible with 19% of them saying it is the sole responsibility of the CEO to drive engagement.



Wha is responsible?	Engagement Score							
Who is responsible?	80%+	60-80%	40-60%	<40%	don't measure			
CEO	8%	6%	7%	5%	19%			
Leadership Team	10%	16%	8%	11%	11%			
HR	6%	9%	6%	21%	7%			
Manager	2%	1%	2%	0%	3%			
Employee	2%	0%	2%	0%	2%			
Combined effort but not everyone	21%	26%	32%	47%	32%			
Everyone	51%	42%	43%	16%	25%			

WHOSE JOB IS IT ANYWAY?

- Is the responsibility matched with the level of enthusiasm? The research shows that the CEO of the top performing companies is even more enthusiastic about employee engagement than the Leadership Team and HR. So when we mix enthusiasm with responsibility we get an employee engagement program that is lead from the front, achieving better results.
- In average company's HR is the most enthusiastic about employee engagement which is almost a given since they are also seen as the most responsible (74%). But with less enthusiasm and less responsibility at CEO and Leader level these companies are not achieving to the same standard as the top performers.
- The worst performers have an enthusiastic CEO with little responsibility, as HR is seen to have the most responsibility. To add to this mix we have employees who think more engagement would be a good idea but there are leaders and managers who are the least enthusiastic in the company. The CEO of these companies, like with average companies, needs to take more responsibility and be more involved in this topic, especially to make sure that leaders and managers are on board and have the right tools to drive depth into the employee engagement conversation.

Rank 1 – 5 for their enthusiasm for employee engagement – compared by actual engagement score											
80%+ 60-80% 40-60% <40%											
CEO	1	2	2	1	1						
Leadership Team	2	3	3	4	2						
HR	3	1	1	2	3						
Manager	4	5	4	5	5						
Employee	5	4	5	3	4						

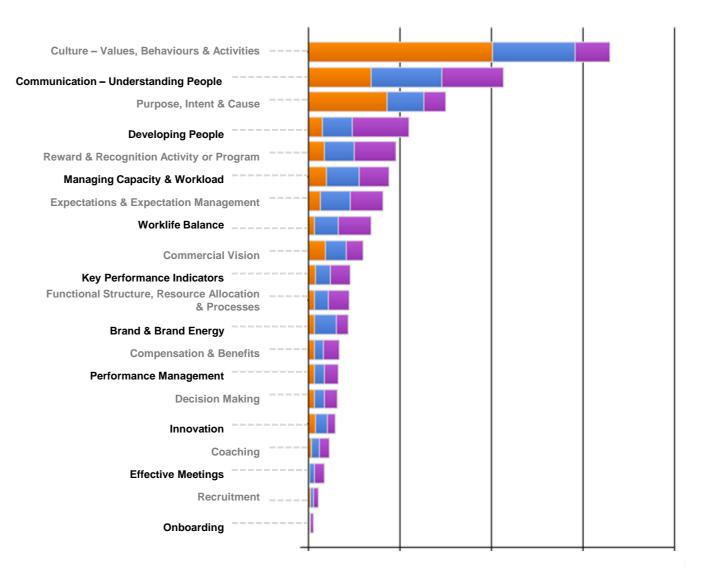


WHAT TO FOCUS ON IN TOUGH TIMES

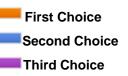
We asked our survey participants which three of the twenty capabilities they felt were the most important to focus on during tough times. The results here mirror the areas in which the highly engaged organisations have the most skill regardless of the economic climate.

What's interesting, is that all organisations across the board clearly agree on what to focus on, most are not doing it as well as they could as seen from the Engagement Capability results. The only difference in the answers was the level of certainty in how these top five were picked. Highly engaged companies were less likely to have picked other capabilities and with the rest of the participants there was a slightly wider spread.

Overall, everyone agreed. 'Culture', 'Communication' and 'Purpose' are the clear front runners with 'Developing People' and 'Reward & Recognition' being close to follow. The top performers achieve an average capability score of 3.8 across all five capabilities compared with a 2.2 by the worst and a 3.1 by the average performers.





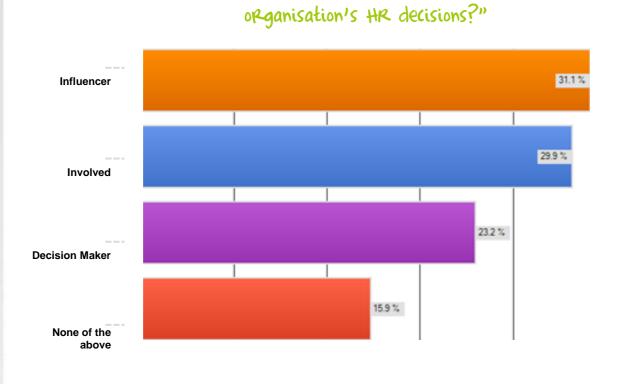


WHO DID WE SPEAK TO?



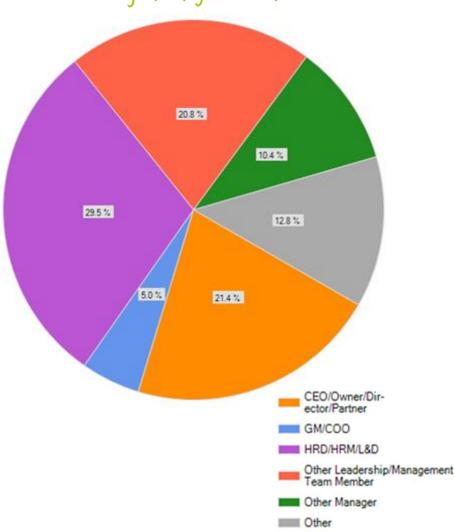
PARTICIPANTS

- 1550 organisations took part in the 2013 Engagement Capability Survey. As in previous years, responses were generated through targeted requests of databases owned by AltusQ and RedBalloon, social media and direct response marketing.
- 85% of respondents are either influencers, are involved, or are the decision makers in regards to employee engagement.
- There is an fairly equal number of HR, CEO and Other Leadership or Mangement Team Members who contributed to this survey together making up 72% of the responses. GM's, Other Managers and Others made up the rest.



"Do you have involvement or influence in your

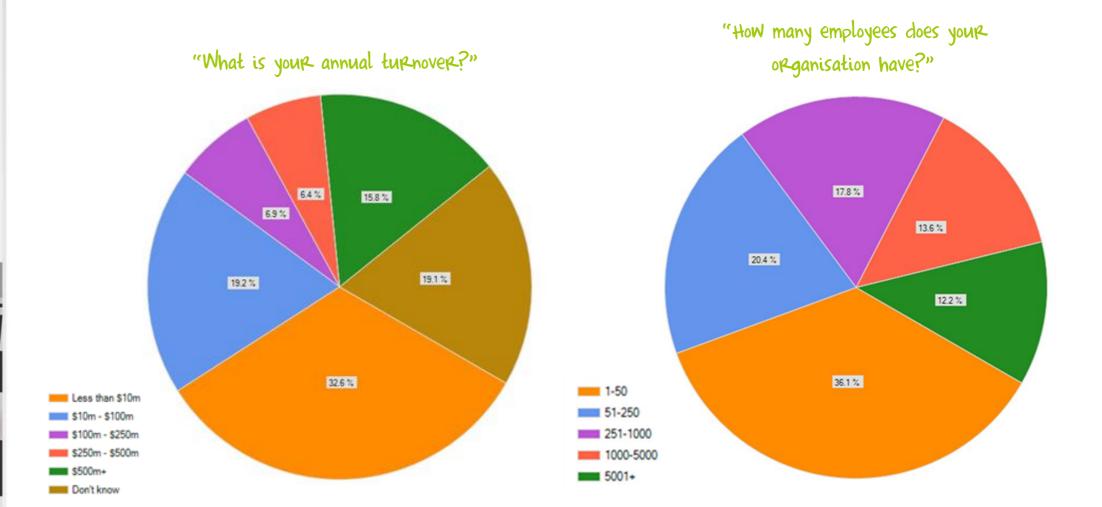






PARTICIPANTS

- 84% of those organisations that took part are Australian headquartered with 71% of responses coming from NSW, VIC and QLD.
- Participants from all sectors were represented in the survey. The largest contributing sectors were Professional Services (17%), Manufacturing and Technology (7%) and Banking (6%). Professional Services is the only group with more than 10% participants; all other sectors were fairly equally represented, all contributing between 2-5% of the total each. As with previous years there were no significant differences in the data across sectors.
- In terms of company size by employees there is an equal spread with no group producing more than 36% (1-50 employees) of the responses. 26% of the answers came from companies with more than 1000 staff. Company size by turnover shows a similar picture. It's fascinating though that almost 20% of the respondents don't know what their company turnover is.



ENGAGEMENT INSIGHTS FROM THE LEADERS

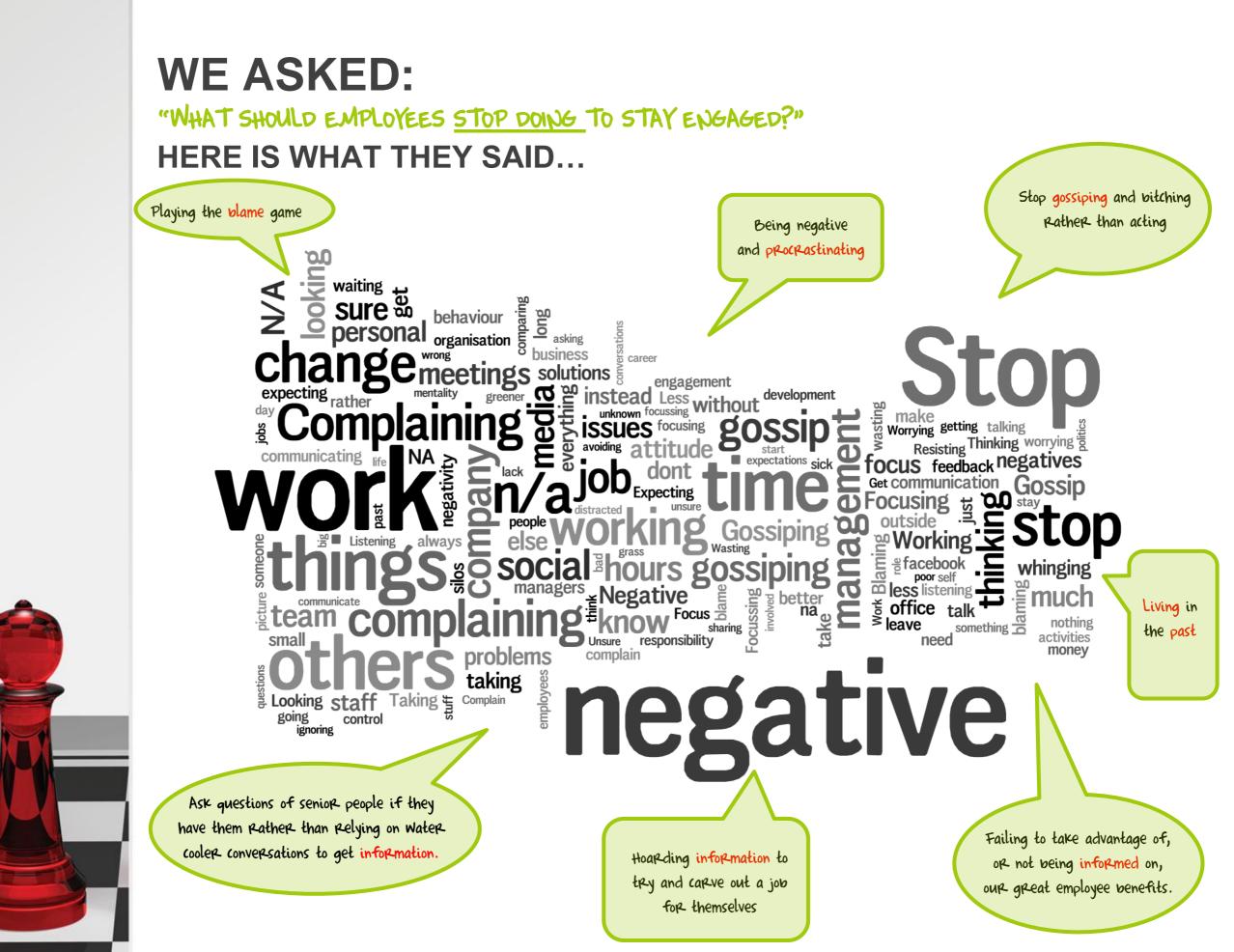


WE ASKED:

"WHAT SHOULD EMPLOYEES DO MORE OF OR START DOING TO STAY ENGAGED?"

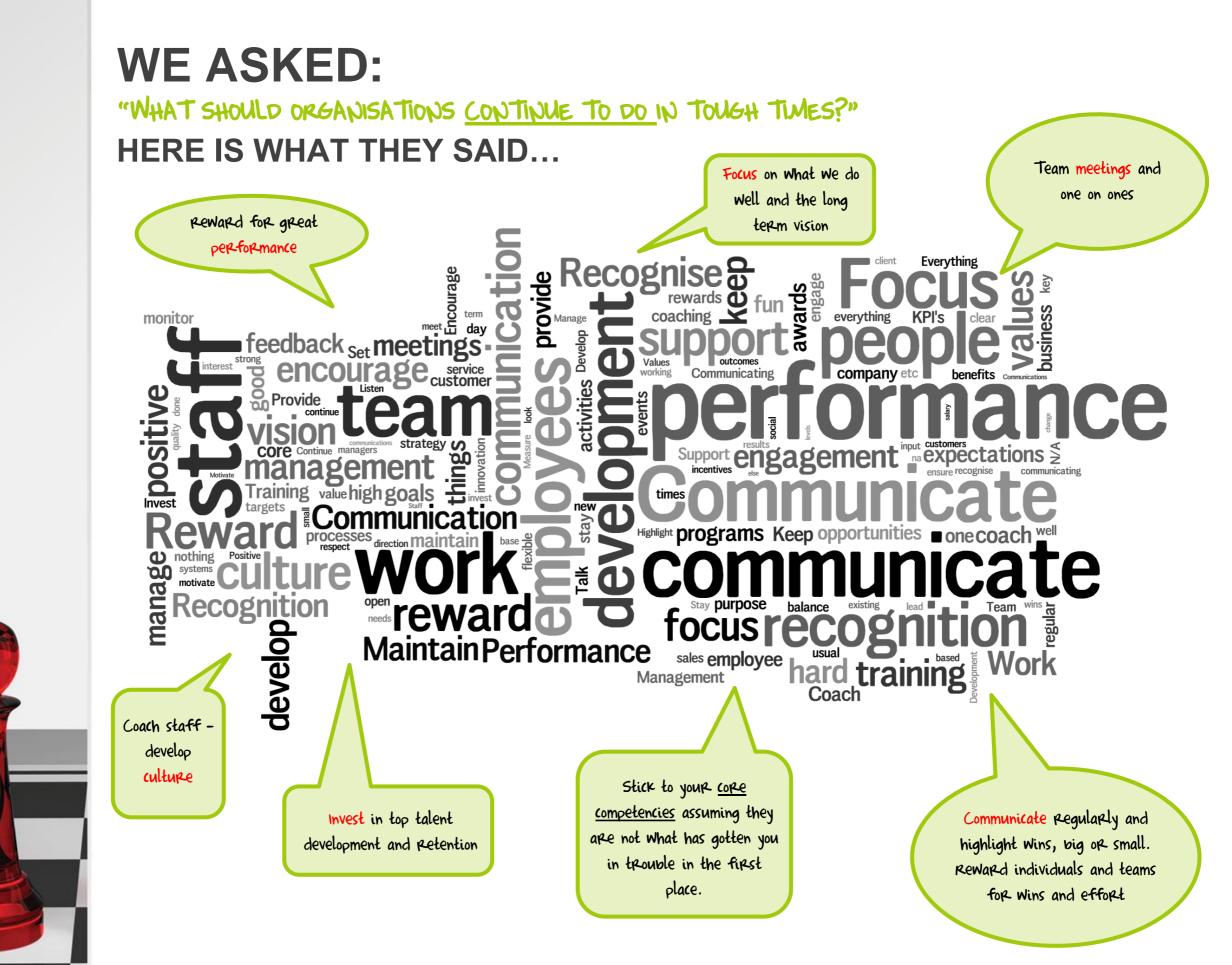
HERE IS WHAT THEY SAID ..









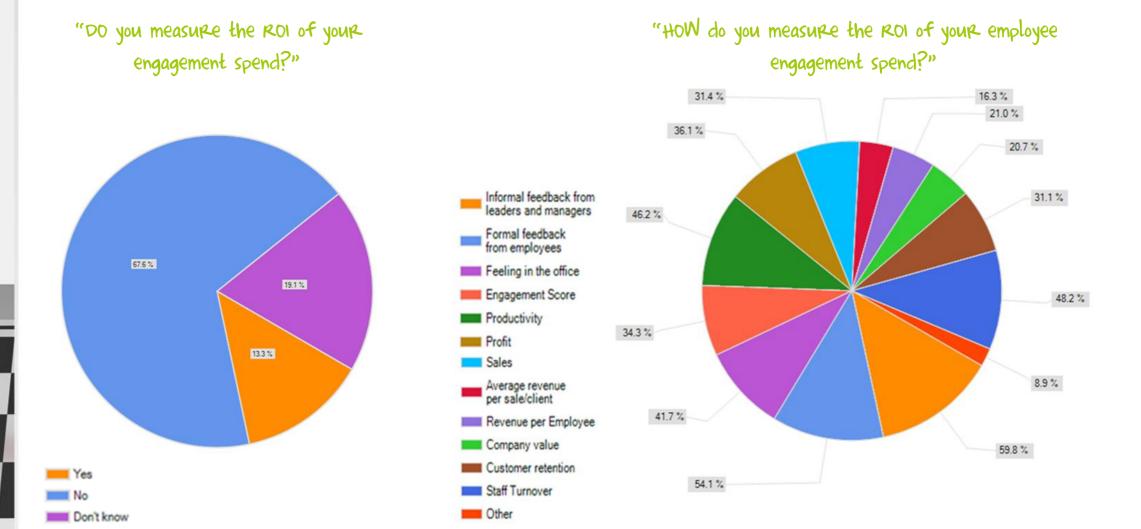


WHAT ARE THE BENEFITS?



RETURN ON INVESTMENT

- The few participants that measure the return on investment of their engagement spend use an average of 4.4 ways to measure the ROI with informal feedback being the most popular, followed by formal feedback and reduction of staff turnover.
- Only if the combination of ways used to measure includes commercial factors (reduction in staff turnover, productivity, profit, sales per client, client retention etc) as well as softer measure, can an organisation truly understand and value the ROI they achieve as a result of their employee engagement spend.
- Until more organisations start to acknowledge employee engagement as a performance lever, and start to make appropriate associations between program spend and outcomes, we will continue to experience 'engagement as a nice to have' rather than 'engagement as must have'. Do those with average levels of engagement or below and those that don't measure really believe in its impact yet? Are they True Believers in the power of engagement?



THE BEST REAP THE REWARDS

- The 2013 results confirm last year's story. Those with the highest levels of engagement outperformed other organisations in every commercial metric.
- Best Perfomers have clearly swayed the balance in their favour with staff retention. Average organisations experienced increases as well as decreases. The worst performers were twice as likely to have had a decrease in staff retention.
- Whilst all organisations seem to have experienced increases in most metrics during the last 12 months the contrast between increase vs decrease is a lot more significant with the best performers. Best performers for instance were more than 11 times more likely to have had an increase in productivity last year (68% increase vs 6% decrease) compared with 49.5% to 15% for everyone else.
- The worst performers had equal numbers of participants quote increases and decreases in most metrics; in Productivity for instance 42% had an increase and 37% a decrease. They had more participants experience decreases in staff retention, customer satisfaction and loyalty as well as profit.
- It is also interesting to see that the awareness of relevant organisational metrics is slightly higher in the best performers as the organisations with less than 80% engagement consistently have a higher level of 'don't know' answers.

"In the past 12 months, what has been the experience on the following metrics in your organisation?"

	Increase	No Change	Decrease	Don't know
Staff Retention	50.4%	30.8%	13.6%	5.2%
	32.3%	36.3%	25.6%	5.9%
Attraction of Key Talent	60.7%	31.6%	2.6%	5.1%
	46.2%	35.4%	12.1%	6.3%
Productivity	68.4%	17.1%	6%	8.5%
	49.5%	26.1%	15.0%	9.4%
Customer Loyalty	50.5%	36.8%	6.9%	5.8%
	41.4%	32.5%	13.2%	12.9%
Customer Satisfaction	63.2%	24.8%	5.1%	6.9%
	47.0%	30.3%	10.6%	12.1%
Sales & Turnover	63.2%	11.1%	16.3%	9.4%
	47.2%	17.5%	19.9%	15.4%
% Profit	64.1%	7.7%	17.1%	11.1%
	44.7%	16.8%	21.5%	17.0%
Sick days taken	14.5%	40.2%	35%	10.3%
	19.9%	44.1%	18.2%	17.8%

Organisations with 80%+ Engagement

Organisations with less than 80%Engagement

WHAT'S YOUR NEXT MOVE?

We've listened.

This year the results are intentionally presented with more graphics and in less detail than previous years' reports. We understand that you want data that supports the education of those around you in a highly accessible format, that enables your leadership teams to make quick decisions. If you would like more detailed data, do let us know and we can work with you to provide even more insights.

Both AltusQ and RedBalloon have teams in Australia and New Zealand available to work with you on assessing the level of Engagement Capability in your organisation. An assessment means that together we are able to establish what the specific opportunity is in your organisation to achieve better results. We do this by advising on the how and then supporting you to drive depth in specific capabilities and developing engagement programs and initiatives driven by insights and benchmarking.



AltusQ is a coaching firm like no other. With an energetic, practical and passionate team, AltusQ's leadership, mentoring and business coaching creates greater choice for businesses and their people, stimulating stronger commercial returns and building robust cultural environments that attract and retain the best talent.

www.altusq.com.au | ph: 1300 996 918



RedBalloon is Australia's biggest experiential gifting retailer and a 2010 Hewitt Best Employer with an engagement score of 90%+ for the last three years. RedBalloon's corporate team supports organisations large and small to develop reward and recognition strategies and non-cash incentive programs that drive engagement.

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