

An Overview of Employee Confidence

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Employee Confidence is an action-focused, performance oriented construct that can be used to forecast and enhance the success of the organization by measuring key components of the workplace environment and individual employees within that environment. Employee Confidence is measured by asking the employees of an organization about their perceptions within four key areas—two related to organizational performance and two related to the individual’s personal situation within the organization.

The basic premise behind Employee Confidence is that employees know how their organization is faring, each from their own unique perspective. No employee, including the CEO, has a comprehensive or total understanding of how the organization is doing. By collecting Employee Confidence information from the employee population, or a significant cross-section of the employee population, the information, in aggregate, represents a “group intelligence.” If asked the right questions, employees can shed light on organizational performance related issues, offering an accurate predictor what is actually happening within the organization and a roadmap for organizational improvement.

The four perceptual areas, or sub-dimensions measured by Employee Confidence, individually and in aggregate, have been shown to relate to an organization’s business metrics. When aggregated across a large cross-section of organizations, other broader measures of economic performance have been shown to relate to change in GDP at the country level and bankruptcy rates at the industry level. Employee Confidence is not a “fixed,” unchangeable measure. Rather, Employee Confidence can be enhanced if the organization takes specific strategic steps tailored to the environment that managers at all levels in the organization can be trained to identify and implement.

Individuals outside the organization, such as people considering employment, potential investors or customers, can also use the

Employee Confidence framework as an organizational assessment tool, enabling them to make better, more informed decisions regarding their interactions with the organization.

A high level of Employee Confidence is achieved when employees perceive that their organization is effectively managed with good business processes and competitively positioned with attractive products, believe they have a promising future within their organization, and if needed, possess transportable skills that would be attractive to other employers.

Why Perceptions Matter

Imagine you had an opportunity to buy one of 10 lottery tickets to be sold to 10 different individuals for \$20 a ticket. Because this lottery is part of a charity event, a corporate sponsor is giving coupons for \$100 worth of free pizza at the local pizza parlor. If your ticket is the winning ticket, you will claim the entire \$300 prize. Would you spend \$20 for a one out of 10 chance to win \$300? That doesn't sound too bad does it?

Now imagine that one thing is changed. Instead of the 10 tickets being sold to 10 different people, the tickets are sold to only two people. You get to buy one ticket and another person buys the other nine. This individual now has a nine out of 10 chance of winning and you have a one out of 10 chance. Would you spend the \$20 now? Doesn't sound as attractive does it?

When describing these two scenarios to a group of people, typically half of the group raises their hands when asked who would take the gamble in scenario one. This number drops to just a hand or two in scenario two. But your chances of winning under these two scenarios are identical. You have a one out of 10 chance when there are 10 participants in the lottery and you have a one out of 10 chance when there are only two participants in the lottery. But with only one individual owning nine of the 10 tickets in scenario two, the whole

situation is less attractive and less fair—you perceive the deck as being stacked against you. But it is not stacked any higher in the second scenario than it was in the first.

People’s behavior is dependent upon their perceptions of what is going on, how they feel they are being treated and how well they perceive that the organization is being run.

The point of this story is that people make decisions and determine the course of behavior they will pursue, not based on what others “know” or “believe to be true.” People are not guided by equations—the mathematics of the situation—but they will make decisions and determine courses of action based upon what they “perceive” and how they feel about the situation.

People’s behavior is dependent upon their perceptions of what is going on, how they feel they are being treated (not how management feels they are being treated) and how well they perceive that the organization is being run (processes, competitiveness, relevance and quality of products/services, etc). Examples of this include whether individuals stay or leave the organization, whether they provide discretionary effort, whether they interact with customers in a positive fashion or speak highly about the organization to others.

Relationships to Employee Confidence

The evidence clearly demonstrates that organizational and individual behaviors are driven both by market fundamentals, and individual psychology, expectations, fears and concerns. The systematic measurement of Employee Confidence has shown that employee responses from an individual organization can be aggregated upward, creating larger measurement groupings (industry, country, etc.) becoming a broad indicator of financial and economic performance. Measures of Employee Confidence can also be disaggregated providing sub-unit managers within an organization a very good depiction of how their piece of the organization is performing.

The measures of Employee Confidence when examined within the organization, the organization as a whole, the industry in which the organization is embedded and, more broadly, the country level, will affect and reflect:

- The employee’s own behavior
- Organizational performance
- Industry trends
- Country level macro-economic factors

Employee Confidence has been found to relate to multiple business performance outcomes and economic measures. Indications show that it is also predictive of both consumer confidence and unemployment levels.

For instance, organizations in the top quartile in Employee Confidence averaged about a three percent total rate of return over the last five years, while those in the 25th percentile or below averaged -16%. Employee Confidence, when aggregated to the country level, has shown to be correlated with change in GDP at the .87 level and that finding was replicated at the .77 level. In other words, those countries with higher levels of Employee Confidence are more likely to be ones with healthy growing economies. At the industry levels, those industries with lower levels of Employee Confidence have greater company failure rates when contrasted against those with higher levels.

Measuring Employee Confidence

There are two sub-dimensions to Employee Confidence, Organizational Confidence and Personal Confidence. Each of these sub-dimensions has an internal and external factor. The internal part of Organizational Confidence focuses on the internal functioning of the organization (e.g. managed well, effective business processes and financial health). The external part of Organizational Confidence focuses on the environment in which the organization operates (e.g. industry health, competitiveness, attractiveness of products and services).

The internal part of Personal Confidence focuses on the employee’s future with his/her current employer and is the traditional driver of how employee loyalty was generated from the employee’s perspective (e.g. job security, promising future, preparation for future). The external part of Personal Confidence asks about the employee’s perception of what would happen to him/her if he/she had to go into the job market (e.g. skills would allow him/her to find a similar job with similar pay and others are hiring people with similar skill sets). The Employee Confidence concept is best depicted in Figure 1.

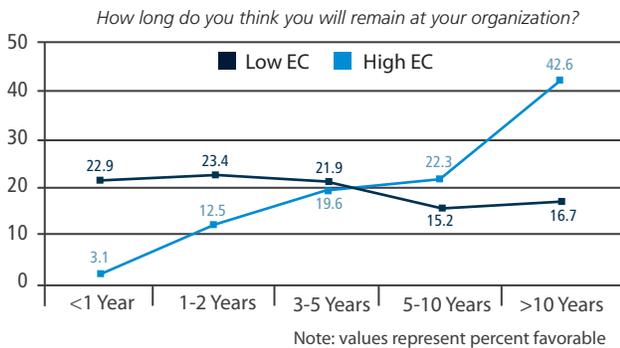
Figure 1: Employee Confidence Concept



Employee Confidence and Employee Loyalty

As seen in Figure 2, those employees in the 25th percentile or lower on Employee Confidence are more likely to indicate that they will be leaving the company in the short term than those employees at the 75th percentile or higher.

Figure 2: U.S. Employee Confidence and Expected Tenure



Valuable insights can be gained from the Employee Confidence model, such as how an organization can impact employee loyalty and how traditional benefits can be accrued from having a highly engaged workforce that is willing to give discretionary effort in all aspects of its work.

Being a “company man” used to mean that once you left school, you joined the organization where you were likely to remain for your entire career. The typical stereotype was of someone toiling away while seated in a sea of gray metal desks, wearing a dark suit and white shirt, with an old fashioned adding machine in one corner. When the whistle blew, the company man would take his lunch out of the paper bag, pour a cup of coffee out of his thermos and relax until the end of his break, at which time he would return to his assigned tasks. Uncomplaining, literally cranking out work, working in relative obscurity, the company man put the company first—ahead of family, friends and personal interests.

If by staying at the current employer employees perceive they are losing their skills and losing their employability, the first phone call they receive, even if the offer is not a perfect fit, they will leave.

What did company people receive in return for subsuming their personal interests and desires for those of the company? They got a stable job, good benefits, yearly salary increases and the comfort of knowing that they could provide for their families. While comfortably anchored in the middle class, they also got the carrot dangled in front of them, reminding them if they should continue to work away, performing well, demonstrating that they put the company ahead of all else, future opportunities and rewards—possibly a promotion—might be there for them.

The company man died in the 1970s and 1980s amid business process re-engineering, layoffs, mergers, reorganizations and general turmoil. Was it an illusion all along, an illusion that could be maintained as long as companies continued to prosper? Cradle-to-grave employment and the culture around it were firmly ensconced in our society. The

death toll of the concept resounded loudly when the vernacular of “company man” went from a term indicating positive characteristics of loyalty and faithfulness to one with negative characteristics. The “company man” became known as a “yes man,” or a “brown-noser.” Years went by. Many pieces were written and much thought given to the concept of employee loyalty. What could replace the broken employee compact was a common topic seen in many publications. Companies still wanted their employees to be loyal, but could not or were not willing to pay the traditional cost.

Indications show that generating high levels of Employee Confidence is another way for some organizations to establish employee loyalty. If the organization can no longer supply the traditional carrots that lead to loyalty, job security and a long-term bright future, what the organization can supply is a new carrot—transportable skill development. This will help employees feel that by working for the organization, they are keeping themselves marketable and attractive to others. Instead of simply offering job security by providing employment, the organization is offering job security by offering skill set development and experiences that provide employability.

While it may sound somewhat counter-intuitive, employees who are attractive to your competition are also more attractive to you. They are less likely to jump to the competition with the first phone call from a headhunter, unless other conditions are truly onerous. They are less likely to jump because they know that if they stay, the only thing they may lose is some time. They are being kept sharp, are having great experiences, and will receive additional opportunities down the road. If by staying at the current employer employees perceive they are losing their skills and losing their employability, the first phone call they receive, even if the offer is not a perfect fit, they will leave.

In response to the item “There is a promising future for me at my organization,” 32% of the unfavorable respondents indicated that they were going to leave within one year and 61% within two years. Meanwhile, 79% of those who responded favorably indicated that they were going to stay at least three years.

A similar pattern was found in response to the item “My organization is helping me develop the skills that I will need in the future,” with 24% of the unfavorable respondents indicating they will leave within one year, 52% within two years and 74% of those responding favorably indicating that they would stay at least three years. A perceived risk may be that by increasing an employee’s Employee Confidence on the Personal sub-dimension, making him/her more marketable, there may be a corresponding increase in the likelihood that he/she will leave the organization. Would it be a waste of the company’s money if an organization were to provide training and developmental experiences to its employees so that they had higher skill sets and then they simply left?

In response to the item “If I left my current job, my skills would allow me to find a similar job,” 11% of those who responded unfavorably indicate that they will be leaving within a year; this number changes to only 13% for those who respond favorably. In other words, there is very little difference on intention to leave between those who feel that their skills have been kept sharp and those who feel that their skills are somewhat dated. Investing in people and keeping their skills current does not make it more likely that they will jump ship. Those numbers move to 29% and 35%, respectively, for those who say they are leaving within two years. For those who are sticking around for more than three years, 71% of individuals who feel that their skills are diminished, who possibly feel trapped, say that they are not going anywhere, while 65% of those who feel good about their skills say they are there for the long haul. So in the longer-term, those more likely to stay feel less current in their skills.

In the longer term, employees who feel that their skill sets have become obsolete exhibit slightly higher degrees of loyalty and are more likely to stick around.

While it is never entirely one way or the other, but rather varies in the categories that the organization supplies to the employee, the data show that if the organization is a good place to be from, the employee is more likely to stick around rather than jumping at the first opportunity that arises.

The Employee Confidence results reveal that newer employees who receiving training, and feel capable of moving around, are no more likely to do so and have approximately equal amounts of employee loyalty compared to employees who feel trapped in their jobs based on how they view their current skill sets. However, in the longer term, employees who feel that their skill sets have become obsolete exhibit slightly higher degrees of loyalty and are more likely to stick around.

March 2009 Employee Confidence Findings

Since June 2008, Employee Confidence has been measured quarterly by obtaining the perceptions of a sample of workers in Brazil, Canada, China, France, Germany, India, Italy, Japan, Russia, Spain, the United Kingdom and the United States, which in aggregate represent 73% of the world’s GDP. In one analysis methodology, the June 2008 results for each country were normalized and set to equal 100 so that every country from a trending standpoint had the same starting position. Subsequent scores are reported in percents above or below that starting point. The second method examines each country’s Employee Confidence raw score. While a country such as India, for instance, may have a high raw score, it has dropped significantly against its June 2008 baseline.

Figure 3: Employee Confidence Scores as a Percentage Against June 2008 Baseline

	Δ Q109-Q408	Q109EC Rank	Q109EC	Q408EC	Q308EC	Q208EC
U.S.	-7.8	5	93.6	101.4	103.4	100.0
UK	-8.2	4	94.4	102.6	103.0	100.0
Germany	-9.9	10	91.4	101.3	100.7	100.0
France	-8.5	6	93.0	101.5	99.6	100.0
Canada	-2.6	2	97.3	99.9	105.4	100.0
China	-10.9	11	89.8	100.7	99.9	100.0
India	-7.8	9	91.5	99.3	100.1	100.0
Russia	-9.4	12	88.9	98.3	101.6	100.0
Brazil	-6.0	1	100.4	106.4	105.7	100.0
Japan	0.9	3	94.5	93.6	99.5	100.0
Spain	-8.4	8	92.1	100.5	100.1	100.0
Italy	-7.5	7	92.8	100.3	101.3	100.0

In Figure 3, you can see that Brazil is the only country to remain roughly stable on Employee Confidence overall since June 2008. A lot of movement in Employee Confidence was seen between Q4 2008 and Q1 2009, with the largest decline seen in China with almost an 11% fall off. Germany was off almost 10% and Russia was off 9.4% in that same time period. The only country to move in the positive direction was Japan, which was up about one point from the fourth quarter of 2008 to the first quarter of 2009.

Figure 4: Employee Confidence Raw Scores

	Q109EC Rank	Q109ECRS	Q408ECRS	Q308ECRS	Q208ECRS
U.S.	4	146.6	158.9	162.0	156.6
UK	6	139.0	151.0	151.6	147.2
Germany	7	137.9	152.8	151.9	150.8
France	9	133.7	145.9	143.2	143.8
Canada	3	149.3	153.3	161.7	153.4
China	5	144.4	162.0	160.7	160.9
India	1	159.4	173.1	174.4	174.2
Russia	5	144.4	159.8	165.1	162.5
Brazil	2	155.8	165.2	164.0	155.2
Japan	11	112.7	111.6	118.6	119.2
Spain	8	135.2	147.5	146.9	146.8
Italy	10	127.4	137.7	139.0	137.3

In Figure 4, you can see that India, Brazil, Canada, the United States, China and Russia make up the top six scoring countries. The so-called BRIC countries, Brazil, Russia, India and China, the fastest growth economies globally, hold four of the top six positions.

By examining the absolute ratings and the results from a directional standpoint—the countries that are moving upward or downward and how fast the movement is occurring—a more comprehensive picture of the global Employee Confidence picture emerges. Compared to June 2008, employees in Brazil have remained the most stable with respect to Employee Confidence, while on an absolute basis, the employees in India have the highest score. In the first quarter of 2009, the level of Employee Confidence in the United States has fallen to 93.6% of where it was in June 2008; however, more drastic declines are seen in seven of the 12 countries and only four countries outperformed the U.S. including Brazil, Canada, Japan and the UK. Japan represents an interesting case with a very low absolute score compared to the other 11 countries, coming in third in rank stability against the baseline and showing a slight uptick against Q4 2008. This trend perhaps sounds a cautious note of optimism if additional countries move positively in the next administration.

Linkage of Employee Confidence to Performance Measures

In order to determine linkages of Employee Confidence to performance metrics at multiple levels, Employee Confidence was examined for linkages to change in GDP at the country level, to the number of bankruptcy filings at the industry level, to the total rate of return at the individual organizational level and to other metrics such as consumer confidence and unemployment. In each case, linkages were found.



A strong relationship is seen between the rank order of GDP growth and the rank order of Employee Confidence from high to low. In other words, those countries with higher growth are also the ones with higher Employee Confidence scores. The relationship was determined by Spearman's Rank Order Correlation (rho) and was .87. The finding was replicated with March 2009 Employee Confidence results and December 2008 GDP growth results in the six countries where it was available and the relationship was .77.

Figure 6 shows the relationship between year over year (January 2007–April 2007 versus January 2008–April 2008) bankruptcy filings, as reported by Dun & Bradstreet, and the level of Employee Confidence in industries with higher versus lower levels.

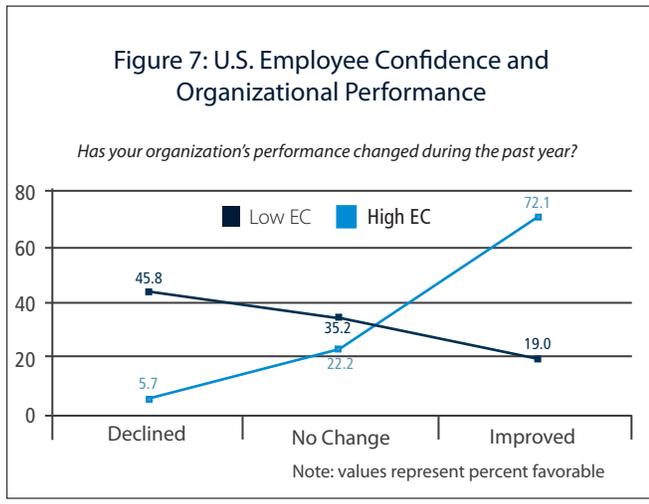
Those industries with higher levels of Employee Confidence (e.g. agriculture) tend to be the ones with less of an increase in bankruptcy filings when compared to those with lower levels of Employee Confidence (e.g. mining).

Figure 6: U.S. Employee Confidence by Industry and Bankruptcy Filings (D&B)

	2007 Jan-Apr Filings	2008 Jan-Apr Filings	% Change BF	Rank % Change BF	Dec 08 ECI	Dec 08 ECI Rank
Agriculture, Forestry & Fishing	395	410	104	1	102.9	1
Services	2,646	3,162	120	5	101.1	2
Retail Trade	1,587	1,851	117	4	100.2	3
Transportation, Communication & Utilities	503	753	150	7	100.1	4
Wholesale	306	346	113	2	99.3	5
Finance, Insurance & Real Estate	441	705	160	8	97.9	6
Construction	1,497	1,857	124	6	97.2	7
Manufacturing	400	463	116	3	96.4	8
Mining	10	54	540	9	92.8	9

Figure 7 examines those employees at the 75th percentile on Employee Confidence, contrasting them against those employees at the 25th percentile, to determine if those two groups feel differently about seeing an improvement or decline in their organization's performance.

Figure 7: U.S. Employee Confidence and Organizational Performance

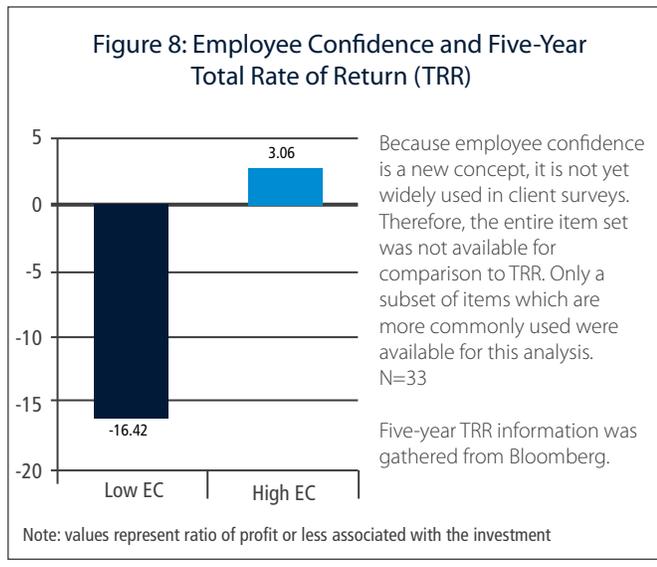


It is clear that those employees with higher levels of Employee Confidence are more likely to indicate that they have seen improvement in organizational performance over the last year.

To determine if employee perceptions of performance match the reality of performance, Total Rate of Return for publicly held companies was examined in conjunction with a subset of Employee Confidence items that have been more commonly used (not all of the items are in common usage because it is a new concept).

Very strong relationships were found between employee perceptions of improvement and Total Rate of Return for an investor. Those organizations in the top quartile on Employee Confidence items vastly outperformed those in the bottom quartile on Total Rate of Return (see Figure 8).

Figure 8: Employee Confidence and Five-Year Total Rate of Return (TRR)



Employee Confidence and Consumer Behavior

It could be logically argued that the source of consumer confidence comes from what is happening to the individual employee at work. If a worker is concerned about losing his/her job or has other reasons to doubt the health of his/her organization, he/she is likely to put off buying that new car, refrigerator or home. The perception of current financial well-being and people with low versus high levels of Employee Confidence was examined to see if differences would emerge in their anticipated consumer spending.

It is very clear that those with lower levels of Employee Confidence are much more worried about their personal financial well-being and this worry carries over to consumer spending patterns.

Employee Confidence was found to mirror the pattern seen on the monthly measure of consumer confidence put out by the Conference Board.

Creating Employee Confidence

Given all the evidence regarding the implication of higher versus lower levels of Employee Confidence, a natural question that arises is, "What could be done to affect the levels of Employee Confidence within an organization?" The findings so far suggest that by concentrating on four key areas, an organization can impact the degree of Employee Confidence that its employees exhibit. Those key areas are:

- Improving on the Way Business is Conducted**

Use the current situation as a window of opportunity to improve internal processes/relationships and tackle issues that will increase effectiveness, but have been put off, and do so in a visible/communicative fashion.
- Reinvigorating the Organization's Competitiveness**

Ensure that your services/products are competitive, current and better than the competition. Understand the market and the demand for your products/services and deliver a product that will meet those needs.
- Providing Current Reassurance**

Assure that organizational members can thrive in the current environment, providing reassurance where possible and communicating extensively. Create an environment of fairness and equality.
- Providing Longer-Term Alternatives**

Provide mechanisms (e.g. experiences, training) where individuals feel equipped to thrive/prosper in alternative environments to the current organization. The value proposition to employees is to provide skills and experience that equips them for life and a meaningful career, not for a specific job.

An Employee Confidence Intervention

Employee Confidence as a concept is most powerful when an organization approaches it from two distinct perspectives. First is assessment—discovering where the organization is relative to the standards that have been developed and where the organization needs to be strategically. Second is development of a solution plan—developing and implementing specific steps that the organization can take to improve in areas where Employee Confidence is low. ■

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Figure 9: Employee Confidence and Consumer Behavior in the U.S

To what extent are the current economic conditions causing you to worry about your personal financial well-being?

To what extent are the current economic conditions causing you to delay or cancel purchases you were anticipating making?

	Low EC	High EC		Low EC	High EC
Little	17.1	33.8	Little	21.0	33.3
Great	53.2	32.6	Great	47.7	36.0

Note: values represent percent favorable

Figure 10: U.S. Consumer and Employee Confidence

