



Driving Success Through Performance Excellence and Employee Engagement

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Kenexa is introducing a new model of organizational effectiveness, the High Performance-Engagement Model (HPEM). The model is based on years of research linking organizational values and practices, and leader and manager behaviors, to organizational outcomes (see Figure 1). It asserts that having a high performance organization and an engaged workforce are complementary goals, and both are necessary for maximizing success. However, achieving performance excellence and employee engagement involve different leadership practices and behaviors.

Through surveys of employees, leaders are able to measure these practices and behaviors. By measuring the extent to which these practices and behaviors are felt and experienced by employees, leaders know where to intervene to strengthen performance excellence and employee engagement.

If these leadership practices and behaviors are measured continually and improved, and if consistency across leadership and managerial ranks is achieved, improvements in team productivity, quality and service will follow. These organizational improvements lay the groundwork for improvements in business performance.

High Performance-Engagement Model Background

The model development is based on two streams of research that stretch back over the past 20 years. One stream of research focuses on performance excellence, which tracks employee views of product and service quality and the other stream focuses on employee engagement, which measures employee commitment and willingness to apply discretionary effort. These constructs are measured, respectively, through the Performance Excellence Index (PEI) and the Employee Engagement Index (EEI). In combination, these two indexes are potent leading indicators of business success.

These constructs have been linked to a host of positive outcomes. They better predict these outcomes when combined, rather than when used alone. In other words, organizations must optimize both constructs in order to perform at optimal levels.

Clearly, in both definition and composition, there is a distinction between performance excellence and employee engagement. An organization can be high on performance excellence, but low on engagement. That's not the desired outcome. Ideally, an organization is high on both. When an organization has developed to that level, its goal is to maintain that dual focus, by continually instructing and reinforcing leaders and managers throughout the organization.

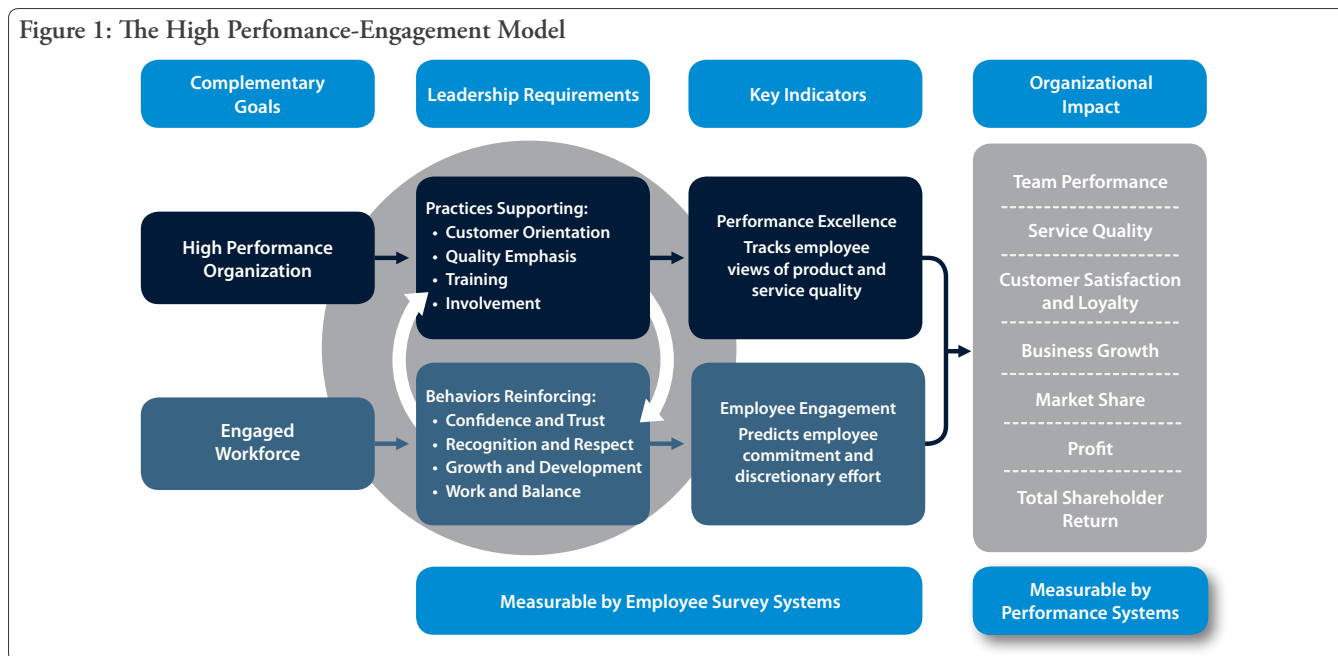
High Performance-Engagement Model Defined

A high performance organization is committed to high-quality products and services and, in fact, excels in creating loyal customers who serve as advocates. Employees observe a strong emphasis on quickly correcting customer problems and on continuous improvement leadership practices, such as using employee input and customer feedback to refine and enhance work processes.

In addition, employees in high performance organizations have clear performance standards, receive the training needed to keep up with new demands and are encouraged to participate in decisions affecting their work and to be innovative. They also indicate that co-worker cooperation in goal accomplishment is high.

An engaged workforce is one in which employees possess a strong sense of organizational pride, proactively recommend their organization as a good place to work and are committed to staying with their employer given their high level of overall satisfaction. Their high level of employee engagement derives

Figure 1: The High Performance-Engagement Model



from having trustworthy leaders who inspire confidence in the future, managers who recognize the contributions of employees and treat them respectfully, opportunities for growth and development, and work that matches well with their abilities and interests. An engaged workforce is more aligned with organizational direction and more willing to apply discretionary effort in goal accomplishment.

Leadership Requirements

Not surprisingly, an organization's success is fundamentally dependent on the skills and actions of its leaders. The High Performance-Engagement Model assumes it is the responsibility of leaders to establish values and implement practices that both enable high performance and foster a culture that supports employee engagement. High levels of organizational performance are supported by concentrating on the leadership practices of customer orientation, quality emphasis, employee training and involvement in decision making. When these leadership practices prevail and are consistently implemented, team and organizational performance improves.

Likewise, employee engagement is clearly a critical element in achieving sustained organizational success. Research has unequivocally demonstrated that when leadership inspires trust and confidence in the future, and managers recognize and

respect employees, ensure they are growing and developing, and match them to assignments for which they are well suited, employee engagement is higher.

Employee engagement, when unleashed in the context of high performance work values and practices, yields the highest returns. Success, in both customer experience and financial performance, follows when leaders support all elements of the HPEM.

Key Indicators

Will an organization be successful in the future? Proactive organizations institute and monitor "indicators" that allow leaders to make mid-course adjustments to their plans, structures and systems. An organization's current state can be measured by tracking the Performance Excellence Index and Employee Engagement Index.

The PEI measures the organization's focus on customer service, quality, employee training and involvement. These topics target values, practices and outcomes directly relevant to the customer's experience when interacting with the organization. They measure the most salient threats to customer relationships and thus the PEI acts as a gauge for future organizational performance.

The EEI measures employees' pride in their organization, their willingness to advocate employment at their organization, overall organization satisfaction and their commitment to stay with the organization.

HPEM Key Assumption

The key assumption of the High Performance-Engagement Model is that performance excellence plus employee engagement actually creates a synergistic effect, unleashing workforce energy to further drive overall performance. This assumption requires validation, which is provided later in the article.

The Performance Excellence Index

The Performance Excellence Index is measured using the average level of favorability for these seven questions:

- Senior management is committed to providing high quality products and services to external customers.
- Where I work, we set clear performance standards for product/service quality.
- Customer problems get corrected quickly.
- We regularly use customer feedback to improve our work processes.
- Where I work, employees are getting the training and development needed to keep up with customer demands.
- In my company, employees are encouraged to participate in making decisions that affect their work.
- The people I work with cooperate to get the job done.

The global PEI score is exactly 60% (see Figure 2). However, we can see very clearly that employees are responding more favorably to overall perceptions of quality commitment and operating against clear quality standards than they are to being involved in decisions affecting their work and having the necessary training.

PEI by Country

Employees working in different countries across the globe experience support for performance excellence to varying degrees (see Figure 3). The BRIC economies, Brazil, Russia, India and China, are at the top of the list. These are fast-growth economies that are going to play a very dominant role over years and generations to come. At the bottom of the list, we find the countries of Saudi Arabia, Spain, Italy and Japan.

Figure 2: PEI Item Level Results

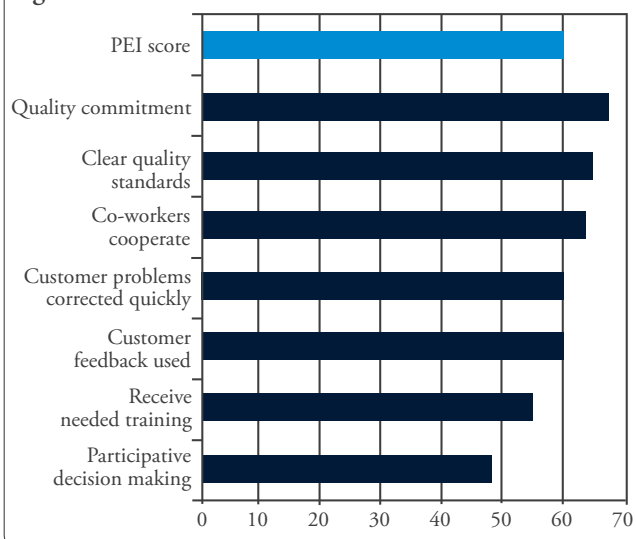
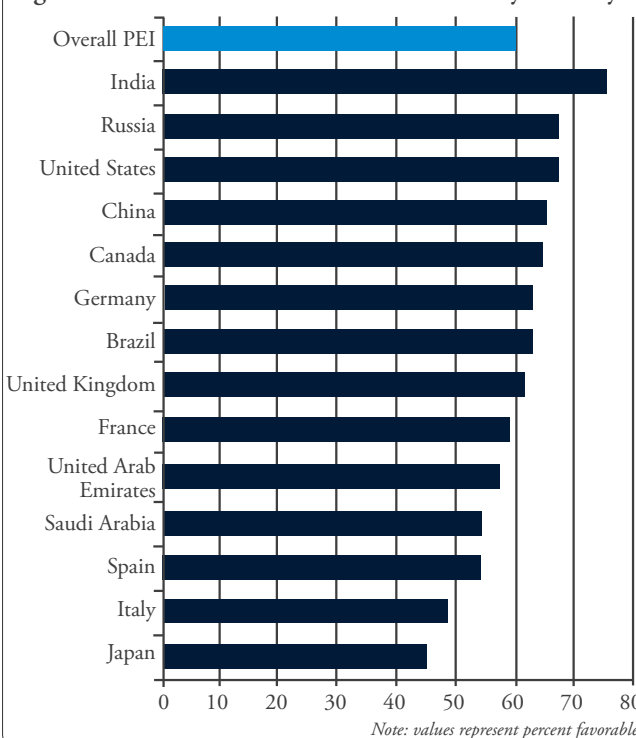
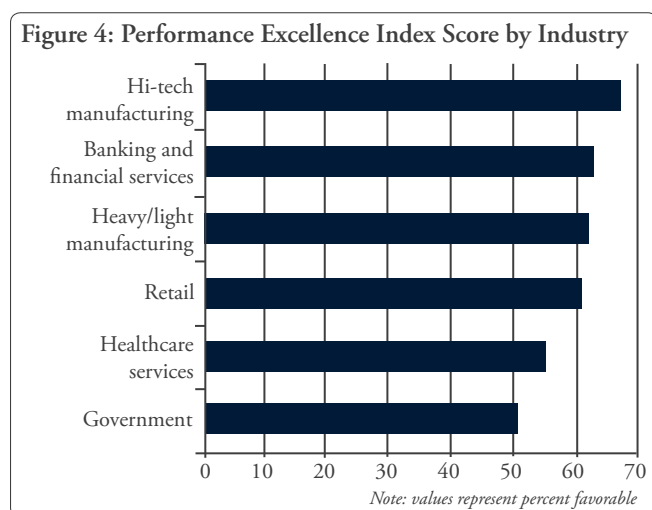


Figure 3: Performance Excellence Index Score by Country



PEI Scores by Global Industries

At 66%, hi-tech manufacturing has the highest PEI score (see Figure 4). We also note that fewer employees in healthcare services (55%) and government (51%) report a focus on customer service, quality, and employee involvement and training.



Improving Performance Excellence: Recommendations for Leaders

Table 1 displays the areas of relative strength and opportunity for improvement for leadership practices that support performance excellence. Examining the PEI item scores, we see that while leaders are building support for clear quality standards, other practices rank lower. Teams might be pulling together to get work done, but inattentiveness to customer service is degraded by a lack of employee training geared toward

equipping employees to serve their customers—a critical point given the role front-line employees play in impacting customer relationships every day.

To improve performance, a pivotal area for intervention is the involvement of employees. Only 48% of employees feel as though their leaders encourage participation in making decisions that affect their own work. This means that less than half of all workers are empowered to suggest actions to improve efficiencies in workflow, and to provide insights into customer wants and needs. Actions like these could translate into the next big sale or into process improvements that potentially could reduce an organization’s waste and scrap. If leaders and managers can find ways to utilize employee suggestions for improvements, their organizations stand to improve their efficiency, effectiveness, customer retention and sales.

The Employee Engagement Index

The Employee Engagement Index is measured through four items:

- I am proud to tell people I work for my company.
- Overall, I am extremely satisfied with my company as a place to work.
- I would recommend this place to others as a good place to work.
- I rarely think about looking for a new job with another company.

EEI by Country

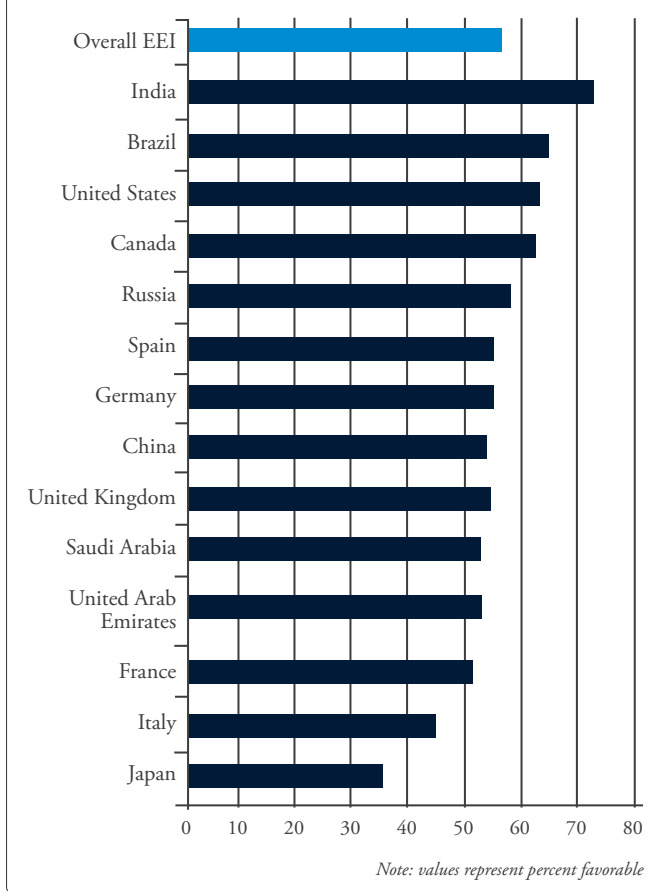
In absolute terms, the average Employee Engagement Index score for the countries studied is 56% (see Figure 5). The EEI score for India is twice that of the bottom ranked country, Japan. North American countries rank higher in employee engagement

Table 1: Industry-Based PEI Strengths and Opportunities for Improvement

	Low (Below 25th percentile of industry scores)		High (Above 75th percentile of industry scores)			
	Government	Healthcare Services	Manufacturing	Banking and Financial Services	Retail	Hi-Tech Manufacturing
Clear quality standards	58%	63%	70%	70%	69%	72%
Co-workers cooperate	61%	61%	64%	65%	61%	68%
Quality commitment	55%	60%	73%	71%	69%	71%
Customer feedback used	46%	54%	64%	63%	62%	69%
Customer problems corrected quickly	49%	54%	62%	61%	65%	65%
Receive needed training	52%	52%	54%	61%	55%	62%
Participative decision making	40%	41%	49%	51%	47%	58%

Note: values represent percent favorable

Figure 5: Employee Engagement Index Score by Country

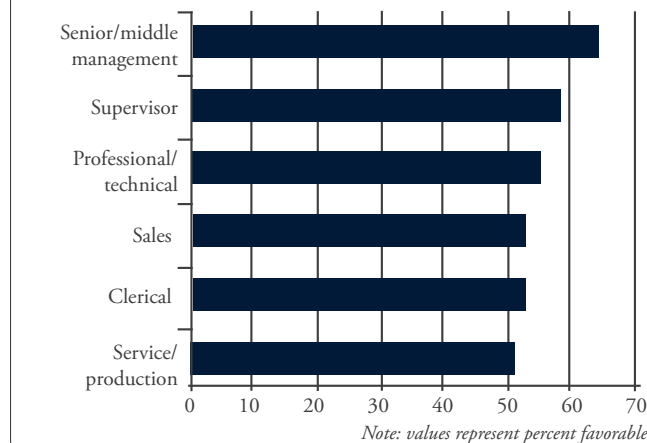


than European countries. The EEI scores of employees in India are higher than the EEI scores of employees in other Asian countries or in the Middle Eastern Gulf Cooperative Council (GCC) region. In general, the remaining developing “BRIC” economies compare favorably to European countries; in fact, Brazil has the second highest EEI score. These differences clearly suggest that organizations in different geographical locations vary in their focus on employee engagement; cultural differences in employee perceptions or survey rating conventions could explain score differences as well.

EEI by Job Type

Employee engagement also varies across different types of work (see Figure 6). There is a contrast between employees who work in the upper echelons of the organizational hierarchy and those

Figure 6: Employee Engagement Index Score by Job Type



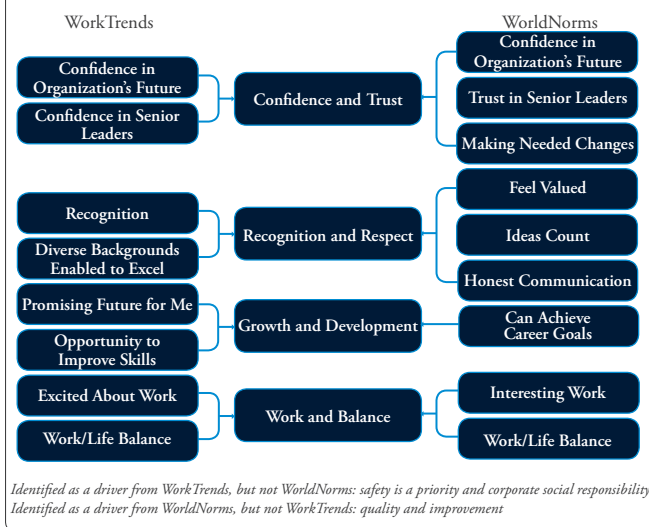
working in the lower job levels; the EEI score of service and production workers is only 51%, while the score of senior/middle managers is much higher at 64%.

Why Are Employees Engaged? Drivers of Employee Engagement

Measuring employee engagement is the starting point. In the context of developing stronger organizations, the real question is, “How do leaders target their efforts to improve employee engagement?” The Kenexa Research Institute led a comprehensive analysis, comparison and distillation of the aspects of work that drive employee engagement. We gathered information from not only the most recent administrations of WorkTrends™, Kenexa’s comprehensive normative database of employee opinions, but also from a representative sample of the more than 10 million employees whose opinions are contained within WorldNorms™, Kenexa’s client-derived normative database. Figure 7 displays the drivers of employee engagement derived from these two different databases. The significant overlap in the two listings of drivers is remarkable.

The results indicate when trust and confidence in senior leaders grow, employee engagement increases; the direct manager also plays a key role through offering recognition and respect and providing employees with greater opportunities for involvement. Employee engagement also is influenced by the opportunities employees have for personal growth and development, further building their skills. Finally, employees liking what they do, being excited about their work and sensing support for work/life balance contribute to their levels of engagement. Demonstrations of organizational caring and

Figure 7: Establishing Drivers of Employee Engagement: Drawing Similar Conclusions Using Two Different Databases



employee investment, such as ensuring that safety is a priority, emerged as a theme—as did quality and improvement, but not consistently across the analyses of the two databases.

Four Blended Macro Drivers of Employee Engagement

As seen in Figure 7, the exercise of identifying drivers of employee engagement, based on analyses of both the WorkTrends and WorldNorms databases, yielded four blended macro drivers of employee engagement: Confidence and Trust, Recognition and Respect, Growth and Development, and Work and Balance. As summarized in the High Performance-Engagement Model, these blended macro drivers account for the majority of the contributing factors to employee engagement.

Organizations interested in improving employee engagement can intervene through several avenues. Senior leaders, through their vision and communication, can instill a sense of confidence and trust in the future of the organization. Leadership also holds responsibility for building trust through demonstrating to employees that they are valued and that the organization cares about their well-being and their personal futures; in so doing, employees reciprocate.

Through performance and talent management systems, managers can take advantage of opportunities for recognition and manage employee rewards. They also can plan, foster and accommodate employees' efforts to develop. They can orient

workflow and assignments, giving employees tasks that fit with their skills and abilities, or that could stretch their development by gaining new skills. Human Resources can play a role in designing work that is interesting and fulfilling and, along with managers, guide employees into engaging tasks, a balanced work/life and appealing careers within the organization.

Validating the High Performance-Engagement Model

Building models is relatively easy. The challenge is in their validation. Our validation study involved 158 multinational organizations operating in a variety of industry settings. For these organizations, we linked their PEI and EEI scores to two financial metrics: diluted earnings per share (DEPS) and three-year total shareholder return (3-year TSR). The first is an immediate, short-term measure of financial performance while the second is a more medium-term measure. The validation results are presented in Table 2.

Table 2: Summary of Relationship Between Performance Excellence Index + Employee Engagement Index and Business Performance Metrics

Performance metric	Metric significantly related to:		PEI + EEI explains more performance metric variance than either construct alone	PEI x EEI interactive effect further increases performance metric variance explained
	PEI	EEI		
3-year TSR	Yes	Yes	Yes	Yes ²
DEPS	Yes	Yes	Yes	Yes

¹Interactive effect increases variance explained, but net gain not statistically significant at the $p \leq .1$ level

The validation requirements are met. What does this mean? Both the PEI and EEI play a role when it comes to these two important measures of financial success. However, the role they play is more influential through their additive and multiplicative effects. When both the PEI and the EEI are higher in an organization, there will be stronger financial performance as compared to the circumstance in which only one is higher. In other words, the findings of this multi-company, multi-sector, multi-country research validate the model: there is a synergistic effect between performance excellence and employee engagement. When both are fostered, the workforce unleashes additional energy toward meeting customer service and top-and bottom-line financial goals.

Summary

This article documents that it is the combination of creating a high performance organization and building an engaged workforce that positions an organization for its greatest success. The constructs under consideration are performance excellence and employee engagement. The indices that measure these constructs, the PEI and EEI, shine as potent employee-based leading indicators of business success. The higher the scores on these indices, the better-positioned employees are to deliver the organization's value proposition to the marketplace.

Focusing on these two indices provides a clear path forward. Continuous improvement on these constructs and measures will impact critical fiscal performance metrics—a prize coveted—for which leaders are running their race. ■

About Kenexa

Kenexa provides business solutions for human resources. We help global organizations multiply business success by identifying the best individuals for every job and fostering optimal work environments for every organization. For more than 20 years, Kenexa has studied human behavior and team dynamics in the workplace, and has developed the software solutions, business processes and expert consulting that help organizations impact positive business outcomes through HR. Kenexa is the only company that offers a comprehensive suite of unified products and services that support the entire employee lifecycle from pre-hire to exit.

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