

Employee Engagement and the Service-Profit Chain

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STUDY BACKGROUND

Many companies realize the importance of engagement as a critical measure of employee satisfaction. High levels of engagement have been linked to increased levels of productivity and customer satisfaction. This connection has prompted these companies to take active steps to increase employee engagement in their respective workplaces.

Because few employees spend their entire careers with a single employer, efforts must be made to keep effective employees satisfied with their work and happy with the positions they hold. Top companies know that employees are one of a successful company's most valuable assets. Therefore, an increasing focus has turned to the engagement and empowerment of employees as a means to improve company performance. Leading companies are taking the first step toward increasing employee engagement -- developing an effective performance measurement system.

Benchmarking Report at-a-Glance

Featured Companies

- 3M
- Star Gas Partners, L.P.
- Microsoft
- Freescale Semiconductors
- Tennessee Valley Authority
- BAI
- Texas Instruments
- Metrus Group
- Verizon

Industry Analysis

Top companies value their employees and seek to measure and subsequently improve levels of employee engagement as a means to simultaneously increasing levels of productivity and customer satisfaction.

Information Type

- Metrics
- Data Graphics
- Information Graphics
- Best Practices

Report Length

- 46 page report
- 33-slide presentation

EXECUTIVE SUMMARY

Linking Employee Engagement and the Service-Profit Chain surveys the employee engagement practices of 60-plus companies across a variety of industries. Through analysis of the survey **Fostering High Productivity through Employee Engagement Excellence** and through nine unique case studies, this report explains how companies are increasing productivity and improving customer service by taking steps to increase employee engagement.

Linking Employee Engagement and the Service-Profit Chain answers critical questions in the following areas:

- **Measuring and Managing Employee Engagement and Customer Loyalty:** What steps are companies taking to quantify employee engagement and customer loyalty? How can companies use surveys and indexes to find problem areas in employee and customer satisfaction?
- **Key Drivers of Employee Engagement and Customer Loyalty:** How do companies enhance engagement through strategy and purpose, through the establishment of a sense of community, and through employee recognition and personal growth? What can employers do to ensure customer loyalty?
- **Incenting Managers to Own Employee Morale:** What are companies doing to make managers cognizant of their effect on employee morale? How do they hold managers accountable for the effectiveness and engagement of their employees?
- **Linking Employee Engagement and Customer Satisfaction to Corporate Performance:** How can employers use the results of employee engagement and customer satisfaction measures to make inferences about corporate performance?

This report summary includes **key findings**, the **report structure**, **sample practices**, a **table of contents** illustrating the study's focus, and an **order form** to facilitate purchase.

KEY FINDINGS

Through the survey **Fostering High Productivity through Employee Engagement Excellence**, Best Practices, LLC analysts identified several key elements that provide greater insight into employee engagement. Some key findings include:

- An effective performance measurement system is the cornerstone of engagement – from goal setting to reward, recognition, and incentive programs.
- Cut across functional silos to create a sense of connectedness through communities of practice, cross-functional teams, and by creating common work areas. 100% of the high performers in the survey found listservs to be the most effective vehicle for connecting employees, probably due to ease of implementation and scalability across large global corporations with numerous virtual teams.
- Personalizing the work relationship and providing visibility to career paths make the employee feel valued and are critical components of engagement.

- Research suggests an emerging correlation between engagement and productivity and quality.

REPORT STRUCTURE AND ORGANIZATION

Project findings in this report are organized into the following sections.

Survey Overview – The survey overview outlines the project background, study objectives and benchmark class of the **Fostering High Productivity through Employee Engagement Excellence** survey.

Key Findings – The key findings summarize the top trends seen in companies with high levels of employee engagement.

Internet Benchmarking Survey Presentation – The complete 33-slide survey presentation details the results of the **Fostering High Productivity through Employee Engagement Excellence** survey, and is attached at the end of the project report.

Best Practice Case Studies – This section contains best practices derived from case studies, workshops, and information exchanges of a variety of companies that have recognized the importance of employee engagement and the Service-Profit Chain. The section includes the following:

- **Connecting Employee Engagement with Customer Loyalty for Improved Corporate Performance** – This case study discusses how **Star Gas Partners, L.P.** reorganized its corporate structure in order to improve a low customer experience rating. The company empowered employees with the creation of a “Zero Customer Defections” culture, which, through incentives and education, taught employees their value in satisfying the customer.
- **Increasing Customer and Partner Satisfaction Step by Step** – This case study explains the strategy behind **Microsoft**’s detailed customer surveys – aligning employees with the company vision is the first step toward customer satisfaction.
- **Parallel Processes for Employee Engagement and Customer Loyalty** – This case study highlights how **Freescale Semiconductors** created a high performance culture by holding employees accountable and increasing employee autonomy. A “quality team” used customer satisfaction measures to create standards for employee performance ratings.
- **Cultural Health Index and Employee Engagement** – This case study of **Tennessee Valley Authority** summarizes how measuring employee engagement through a Cultural Health Index and aligning employees through the use of scorecards and performance measurement systems enabled TVA to determine the ROI of employees. TVA then used the CHI index results to improve engagement further.
- **“Inside the Box” An Action Learning Workshop** – This case study stressed the vitality of open communication and spontaneity to achieve high levels of employee engagement. **“Inside the Box”** highlighted how instilling employees with a can-do attitude keeps employees happy, which results in satisfied customers.

- **Driving Continuous Customer Satisfaction Improvement: The Link between Employee Engagement and Customer Loyalty** – This case study of **Texas Instruments** illustrates the importance of intensive customer satisfaction surveys and how to best develop and use them. It also discusses using a “value web” as a point of overlap between customers, employees, and shareholders.
- **A Brand Employment Story** – This case study describes how **3M** uses six crucial leadership attributes to measure its “Employee Brand,” which the company relies on as a key indicator of company success.
- **Linking Employee Engagement with Productivity and Customer Satisfaction** – This case study illustrates how **Verizon** uses multiple statistics and surveys to measure employee engagement and customer satisfaction. It also illustrates the positive correlation found between the Engagement and Performance Index (EPI) and Customer Satisfaction.
- **Information Exchange: Survey Design and Administration** – In this information exchange participating companies discussed proven methodologies and the challenges associated with implementing internal satisfaction surveys.
- **Information Exchange: Employee Engagement to Customer Loyalty and Corporate Performance** – In this information exchange participating companies discussed the difference between satisfied and engaged employees and the difference between satisfied and loyal customers and how to integrate employee engagement and customer loyalty with corporate performance.
- **Information Exchange: Performance Metrics, Tools, and Vendors for Employee Engagement Management** – This information exchange explored performance measurement in the employee engagement area, including discussion of corporate support of employee engagement, approaches to measuring employee engagement, and interpreting employee engagement scores.

SAMPLE PRACTICES

Tennessee Valley Authority succeeded in quantifying levels of employee engagement through the use of an Employee Engagement Index based on cultural values.

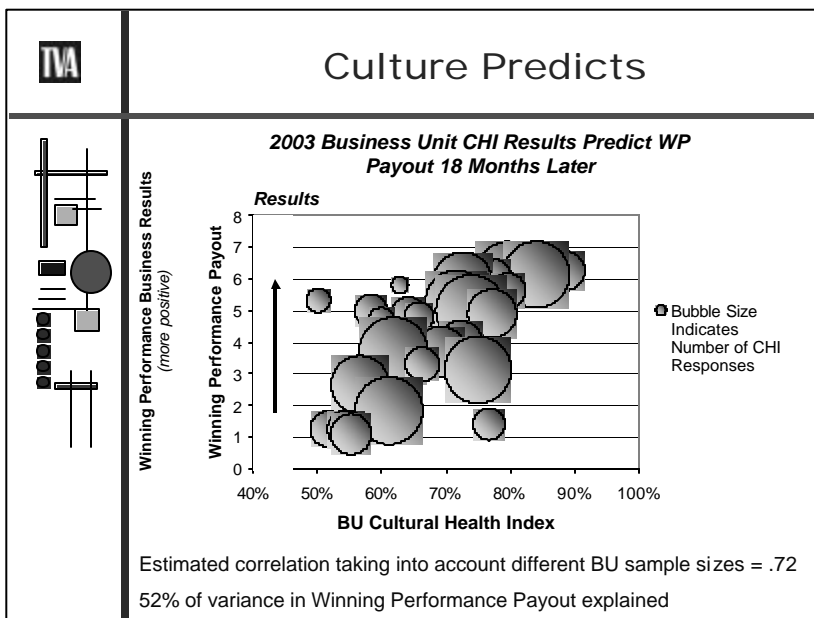
When Tennessee Valley Authority (TVA), the largest government-owned power producer in the United States, entered the era of deregulation, it realized that it would have to adapt to meet increasing competition. TVA acknowledged the importance of its employees when competing against up-and-coming power suppliers, so the company decided to take an active approach toward measuring and improving levels of employee engagement within the company. To do this, TVA created an Employee Engagement Index to measure cultural outcomes. This index linked culture to performance through scorecards that coupled individual performance and business unit performance and through a performance management system that focused on winning behaviors. The Employee Engagement Index varied with the traditional survey approach in several key ways:

Employee Satisfaction Survey:	Employee Engagement Index:
<ul style="list-style-type: none"> • The average length is 150 questions 	<ul style="list-style-type: none"> • CHI is 60 questions and shrinking
<ul style="list-style-type: none"> • Administered every 1-2 years 	<ul style="list-style-type: none"> • Moving to ongoing sampling
<ul style="list-style-type: none"> • 60% of companies studied were WORSE OFF after the survey 	<ul style="list-style-type: none"> • CHI is intended to make TVA better after the survey
<ul style="list-style-type: none"> • Response rate not included 	<ul style="list-style-type: none"> • Response rate included as indicator of trust and level of engagement
<ul style="list-style-type: none"> • Results reported at too high a level 	<ul style="list-style-type: none"> • Results reported down to department level
<ul style="list-style-type: none"> • Results not tested for statistical significance 	<ul style="list-style-type: none"> • Only real cultural signals are reported using SPC and Windows
<ul style="list-style-type: none"> • No control for job family composition 	<ul style="list-style-type: none"> • Results reported one job family at a time
<ul style="list-style-type: none"> • Little drive for local accountability for the results 	<ul style="list-style-type: none"> • Gap management process drives accountability for results
<ul style="list-style-type: none"> • Surveys replace employee dialogue 	<ul style="list-style-type: none"> • CHI should facilitate employee dialogue

TVA used the Employee Engagement Index to locate areas of employee satisfaction that needed improvement, focusing specifically on cultural characteristics of the company. Then the company made appropriate adjustments and used the Employee Engagement Index again to measure improvement. In using the Employee Engagement Index over the Employee Satisfaction Survey, TVA unearthed more meaningful and applicable results. For example, TVA encountered a big difference in the level of engagement among individual business units, with results of engagement ranging from 53.1% to 91.8%. **TVA discovered that job function and type and work environment did not show up as driving factors in the level of a business unit’s engagement.**

Additionally, the company found that a significant portion of performance variability is due to cultural factors – leadership, teamwork, communication, and trust. In fact, data suggested that in over 50% of the cases, the Index of the organization could predict business unit performance (Illustrated below).

Figure 1. Culture Predicts WP Payout



Verizon utilized company wide surveys to form the foundation for index metrics used to benchmark improvements in employee engagement.

In order to assess engagement levels, Verizon developed a survey-based system. Every month, Verizon randomly surveyed a number of employees and tracked the results of the survey alongside productivity, customer satisfaction, and customer loyalty measures. Because of the frequency of the survey administration, Verizon has been able to keep up with the changing needs of a characteristically fast-paced environment. With the results of each survey administration, Verizon has built on and expanded the statistical models it uses for measuring employee engagement levels. The surveys ultimately help create an index that Verizon uses to benchmark and track improvements. Successful implementation of the survey-based index method has helped Verizon develop action planning by identifying what dimensions need improvement and their relative priority while also forecasting the impact of improvements.

Verizon has uncovered many tenets of engagement, including:

- Engagement occurs when employees are committed, willing to recommend, and provide outstanding customer service.
- Include multiple questions for each dimension in the model to make certain the right aspect of engagement is being measured.
- After the surveys are scored on the index, analyze the data further to establish relationships between productivity, safety, absenteeism, and customer satisfaction.

Finally, Verizon’s Employee Engagement Index has also been successful in a number of other ways. For example, Verizon has established a correlation between the Engagement Index and Customer Satisfaction:

Figure 2. Correlation between Engagement and Customer Satisfaction

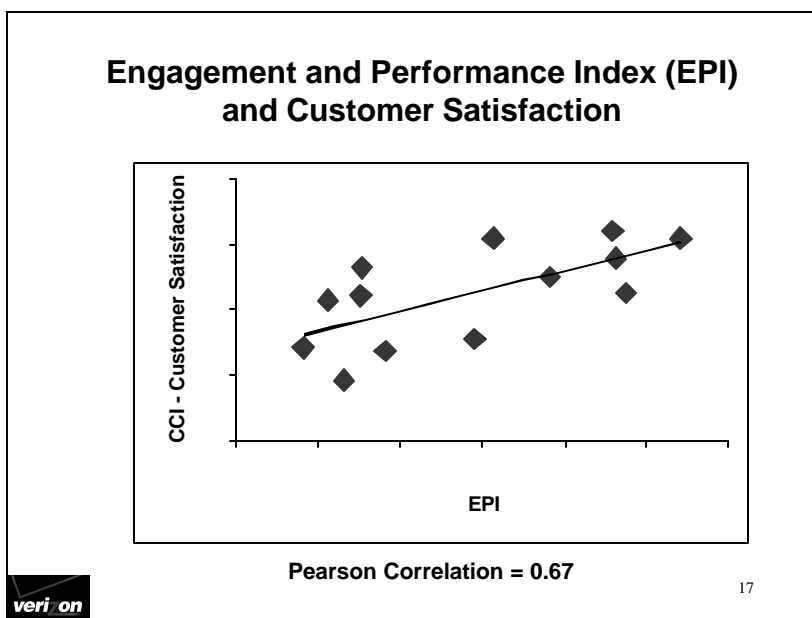


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