



**Harvard  
Business  
Review**

A REPORT BY HARVARD BUSINESS REVIEW ANALYTIC SERVICES

# The Impact of Employee Engagement on Performance

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## Executive Summary

Employee engagement has become a top business priority for senior executives. In this rapid cycle economy, business leaders know that having a high-performing workforce is essential for growth and survival. They recognize that a highly engaged workforce can increase innovation, productivity, and bottom-line performance while reducing costs related to hiring and retention in highly competitive talent markets.

But while most executives see a clear need to improve employee engagement, many have yet to develop tangible ways to measure and tackle this goal. However, a growing group of best-in-class companies says they are gaining competitive advantage through establishing metrics and practices to effectively quantify and improve the impact of their engagement initiatives on overall business performance.

These are among the findings of a new Harvard Business Review Analytic Services report of more than 550 executives around employee engagement—research that features in-depth interviews with 12 best-practice company leaders.

The research found that while most leaders understand the importance of engagement, three-quarters of those surveyed said that most employees in their organizations are not highly engaged. A significant gap showed up in the views of executive managers and middle managers in this area. Top executives seemed much more optimistic about the levels of employee engagement in their company, making them seem out of touch with middle management's sense of their frontline workers' engagement.

The survey found that many companies find it challenging to measure engagement and tie its impact to financial results: fewer than 50 percent of companies said that they are effectively measuring employee engagement against business performance metrics such as customer satisfaction or increased market share.

But one group of companies—called “high prioritizers” in the study because they saw engagement as an extremely important priority—are effectively using metrics and shared some best practices for tying engagement to business performance.

### HIGHLIGHTS

**71%**

of respondents rank employee engagement as very important to achieving overall organizational success.

**72%**

of respondents rank recognition given for high performers as having a significant impact on employee engagement.

**24%**

of respondents say employees in their organization are highly engaged.

These include:

- Avoiding rote surveys. Leading companies devote significant resources to carefully crafting employee engagement surveys so they ask pointed, clear questions that go beyond measuring “satisfaction.” They then pore through the data to find the hidden stories of what’s working and where there are pockets of dissatisfaction. Finally, senior management uses this information to inform strategy and policies going forward.
- Ensuring that goal alignment is occurring at every level of the organization and is well-communicated. Top managers set and communicate business objectives; middle managers are responsible for creating specific objectives for employees that support broader business goals; and employees are given the tools to succeed, some autonomy, and accountability to meet tangible goals aligned with corporate goals.
- Using data to leverage engagement initiatives to improve performance, typically customer satisfaction/net promoter score (NPS) surveys and feedback, and then tying winning results to recognition programs to reinforce alignment and the activities linked to performance.

In most companies, today’s leaders are acutely aware that there is much to be done to ensure that they have a focused and highly engaged workforce. Connecting engagement to business performance requires considerable effort and top management focus—and, to a large degree, it is about how you do it. But there is enormous opportunity for companies that get it right.

#### **RESPONDENT SNAPSHOT (METHODOLOGY)**

A total of 568 respondents completed the survey. All were from organizations with 500 or more employees; more than 42 percent of respondents were from organizations of 10,000 or more employees. The survey was global, representing companies with headquarters in North America (54 percent), Asia (18 percent), Europe (16 percent), MEA (7 percent), and South/Central America (5 percent).

The respondents were from a variety of industries: 16 percent worked in IT/telecommunications firms; 14 percent were from financial services; 12 percent were in manufacturing; 9 percent were in energy/utilities; 8 percent were in healthcare and 8 percent were in education; and other sectors made up the remaining 33 percent.

The respondents were largely senior-level executives: 15 percent are executive management or board members; 32 percent are senior management; 35 percent are middle management; and the remaining 18 percent are other grades. The largest percentage, 27 percent, manages a group of people within a department, while 24 percent have people management responsibility for the whole department. Fourteen percent have people management responsibility for their whole business unit, and 13 percent extend the responsibility corporate-wide.

FULL REPORT

## The Importance of Employee Engagement

As companies emerge from the recessionary economic climate of the past three years, there has been a shift toward investing for growth and away from cost reduction. Twenty-four percent now say they are investing for growth in the coming year, while only 16 percent said they were doing this over the past three years, representing a significant shift toward investment. Many companies, though, are hedging their bets, cautiously entering growth mode while still maintaining a rigorous focus on cost containment.

[figures 1 and 2](#)

Given this renewed emphasis on growth and investment, which factors do business leaders view as most critical to success? People-oriented “soft” factors dominate this list. The top three success factors identified in this study were achieving a high level of customer service, effective communications, and achieving a high level of employee engagement and strong executive leadership (tied for third place). This places employee engagement as a top-three business priority. [figure 3](#)

This is not surprising. For the past several years, companies have been increasingly monitoring their engagement levels, as a growing body of research has demonstrated that having a highly engaged workforce not only maximizes a company’s investment in human capital and improves productivity, but it can also significantly reduce costs, such as turnover, that directly impact the bottom line.

Mike Rickheim, vice president of talent management at Newell Rubbermaid, a global consumer goods company, explained that engagement “is not just a warm, fuzzy thing. It’s about giving people the tools they need to succeed in their careers, which in turn drives the outcomes that we’re seeking in the marketplace. When you look at it through that lens, when people have the tools they need to succeed, feel good about their personal growth opportunities, and receive the appropriate rewards and recognition for their contributions, it’s a win-win proposition.”

Figures 1 and 2

### Shifting Strategy: Companies Are Now Investing in Growth

Would you say your organization’s primary focus over the past three years has been on lowering costs or investing for growth? What is your organization’s primary focus for the year ahead?

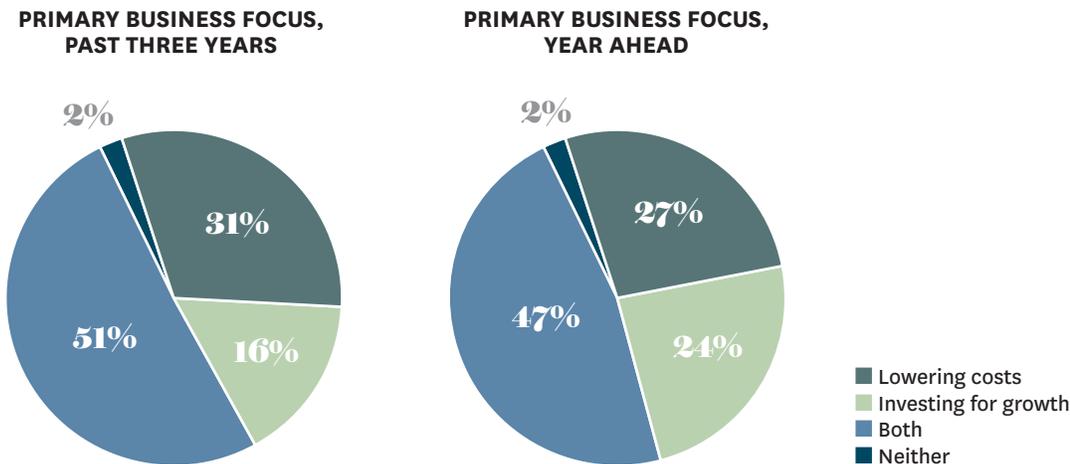


Figure 3

## Factors Most Likely to Bring Success

Which factors are most likely to bring success?

Importance top box scores (8–10) for all respondents



## High and Low Prioritizers—What Sets Them Apart

To understand how best-in-class companies connect employee engagement to business performance, the study asked participants to rate how important employee engagement is to overall organizational success using a 1-10 scale where “1” means not at all important and “10” signifies extreme importance.

Based on their responses, participants were then divided into one of three categories: low prioritizers, moderate prioritizers, and high prioritizers. The low prioritizers, 14 percent of the total respondents, placed a low value on employee engagement (2-6). The moderate prioritizers, at 38 percent, put employee engagement at a 7 or 8. The high prioritizers, 48 percent of those surveyed, gave employee engagement a 9 or 10. The rest of the survey tracked respondents based on these categories.

Some interesting correlations and contrasts emerged between high and low prioritizers. Low prioritizers were much more likely to focus on cost cutting vs. investment (43 percent) and are more likely to be middle managers within an operations or product management function. High prioritizers, meanwhile, were senior managers who placed greater value on other success factors: 94 percent believed high levels of customer service are important to achieving business success, compared to 39 percent of low prioritizers. [figure 4](#)

When asked how optimistic respondents were in their ability to create value in the coming year, high prioritizers were far more bullish than were low prioritizers: Nearly half of high prioritizers (44 percent) said they were well-positioned to create value, while only 21 percent of low prioritizers believed they were. [figure 5](#)

Figure 4

## Engagement: High Prioritizers More Likely to Value Success Factors

How important are each of the following in achieving overall organizational success?

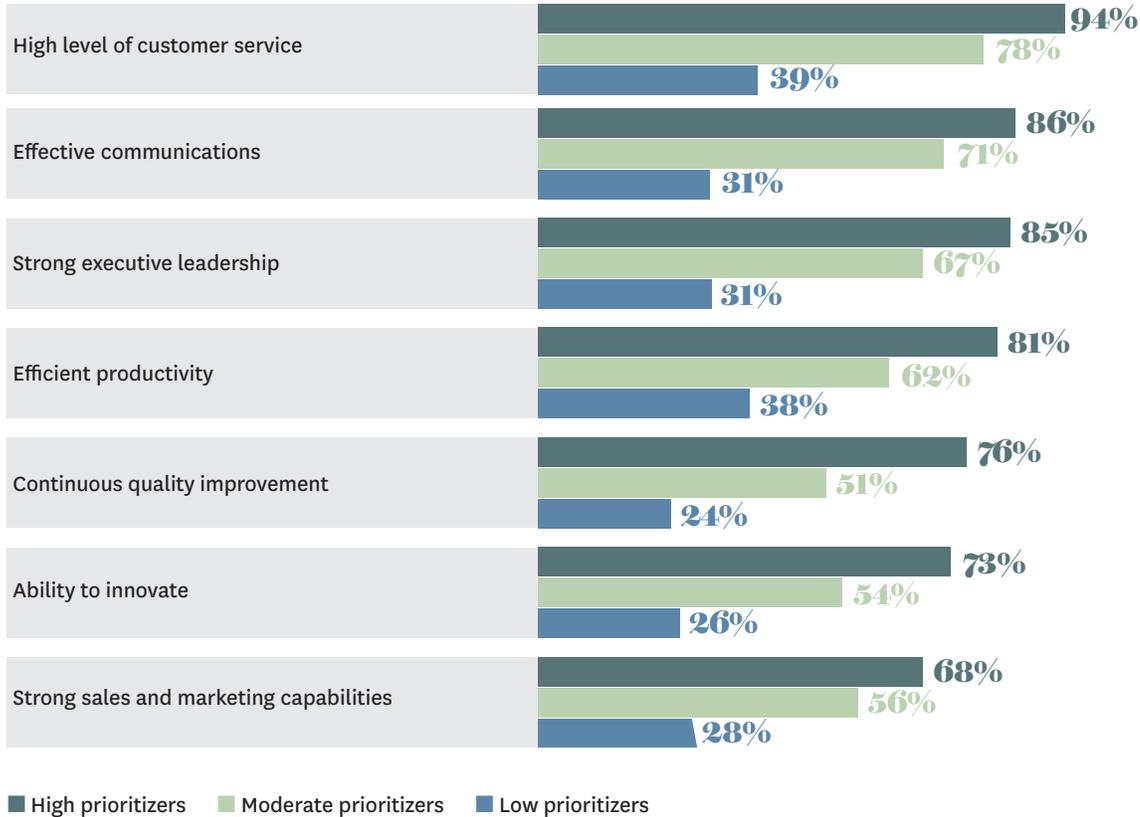
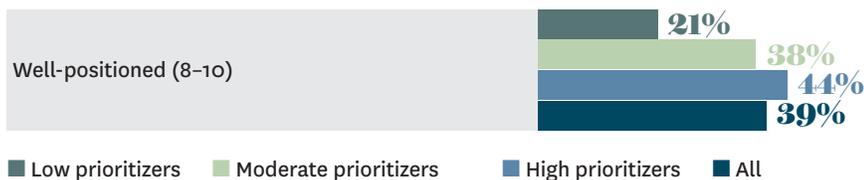


Figure 5

## Ability to Create Value in Coming Year

How well-positioned is your organization to create value for customers and shareholders in the year ahead?



## Performance vs. Importance

Overall, there's still much room for improvement: Just 24 percent of respondents said that they considered most of their employees highly engaged.

Nearly half—48 percent—believed that their companies comprised a similar mix of engaged/disengaged employees relative to their competition; and 28 percent felt that there were too many disengaged employees. There were vast differences in perceptions among high and low prioritizers in how they perceived engagement. A full 51 percent of low prioritizers felt that their companies had too many disengaged employees in them, compared with only 22 percent of high prioritizers feeling that way. [figure 6](#) Conversely, only 4 percent of low prioritizers felt that most employees were highly engaged, while 31 percent of high prioritizers agreed with that statement. So the gulf between high and low prioritizers shows a clear linkage between what gets focused on and perceived outcomes.

Which factors are most critical to improving employee engagement? Almost three-quarters of respondents chose “recognition given for high performers” as their top choice, followed by “individuals have clear understanding of how job contributes to strategy” and “senior leadership continually updates/communicates strategy” and “business goals communicated company-wide and understood.” [figure 7](#)

While the vast majority of respondents identified all the success factors listed to be very important, many are falling short in delivering those goals, indicating a chasm between what's on the “to do” list and what's actually being done in most organizations. [figure 8](#)

Figure 6

### Current Levels of Employee Engagement

Which of the following do you feel best describes the level of employee engagement in your organization?

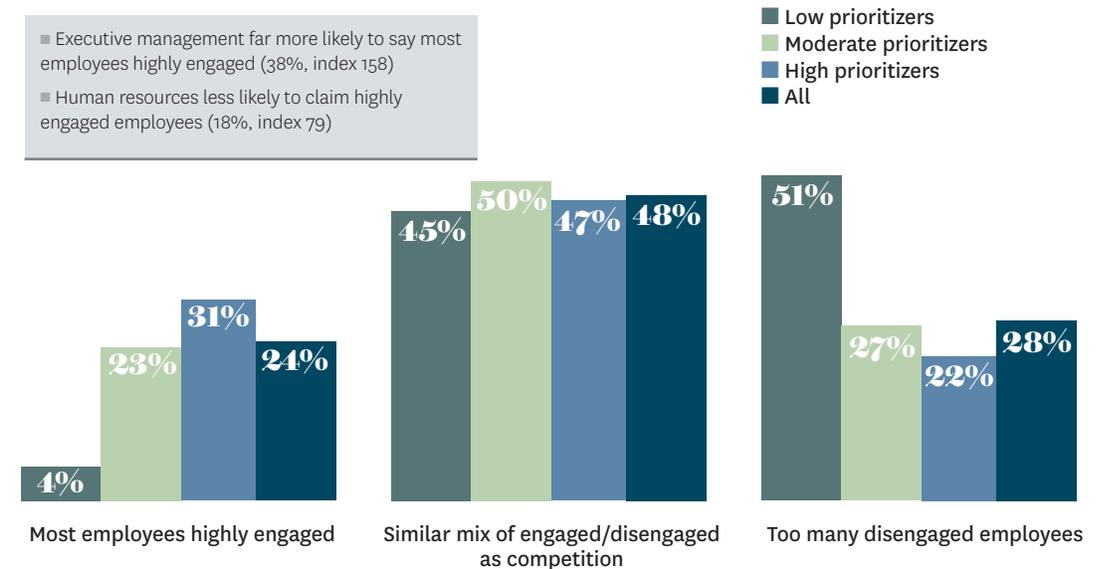


Figure 7

## Most Impactful Employee Engagement Drivers

How important are each of the following in terms of their impact on employee engagement?

Top box scores for all respondents (8-10)



Figure 8

## Employee Engagement: Performance vs. Importance

How important are each of the following in terms of their impact on employee engagement?  
How would you rate your company's performance on each of the following factors?



The lower right quadrant indicates important contributors to employee engagement, where self-appraisal of performance falls short

## Communicating and Embedding Goals

One of the keys to engagement is defining and articulating what constitutes a “successful” employee and communicating success clearly.

“Every employee should know what they’re supposed to do and how it impacts your company’s performance,” asserts a regional director at a North American banking chain. His company focuses first on their annual survey to determine where the problems are. It includes specific, targeted areas, including:

- In the last seven days, someone has recognized me for my work;
- I have the tools that I need to perform my job;
- My supervisor cares about me;
- There’s someone at work who encourages my development;
- I know what’s expected of me at work; and
- My associates are committed to doing quality work.

These are “very basic questions,” he says, “but if you’re not doing well on these questions, it’s revealing.”

The Harvard Business Review Analytic Services study found that the most commonly cited success characteristic is a focus on achieving individual goals that are tied to organizational goals. Companies use a variety of tactics to communicate and embed goals, with high prioritizers favoring more active tactics such as management briefings and all-company meetings. [figure 9](#)

Heather Markle, manager of rewards and recognition, AutoTrader Group, highlighted goal cascading as their preferred method of ensuring that employee goals are tied to organizational goals: “Our goals start at the top, link to the strategy map, and are cascaded down through leadership.”

A senior director at a U.S.-based global information technology and services company attributed their high employee engagement to selective hiring, continual internal communications, and manager autonomy: “It’s hard to transform people from non-engaged to engaged, so hire really well. Give them messaging a million ways till sundown, and give them a degree of freedom to figure it out. Empower them to do the right thing.”

## The Senior-Middle Management Divide

One finding may help explain one of the biggest barriers to improving engagement: Across the prioritization spectrum, there was a clear divide on perceptions of employee engagement between executive management and middle-management respondents. [figure 10](#)

Senior managers were far more likely to be optimistic than their middle-management colleagues were in their perceptions of engagement levels. Since middle managers are tasked with handling more day-to-day employee issues, their assessment is likely the more accurate. This implies that in many firms senior managers may need to take off the rose-colored glasses and take a closer look at the barriers to engagement that may be present, and then find more effective ways of overcoming them.

Figure 9

## Communicating and Embedding Goals

How are your organization's goals communicated and embedded throughout the company?

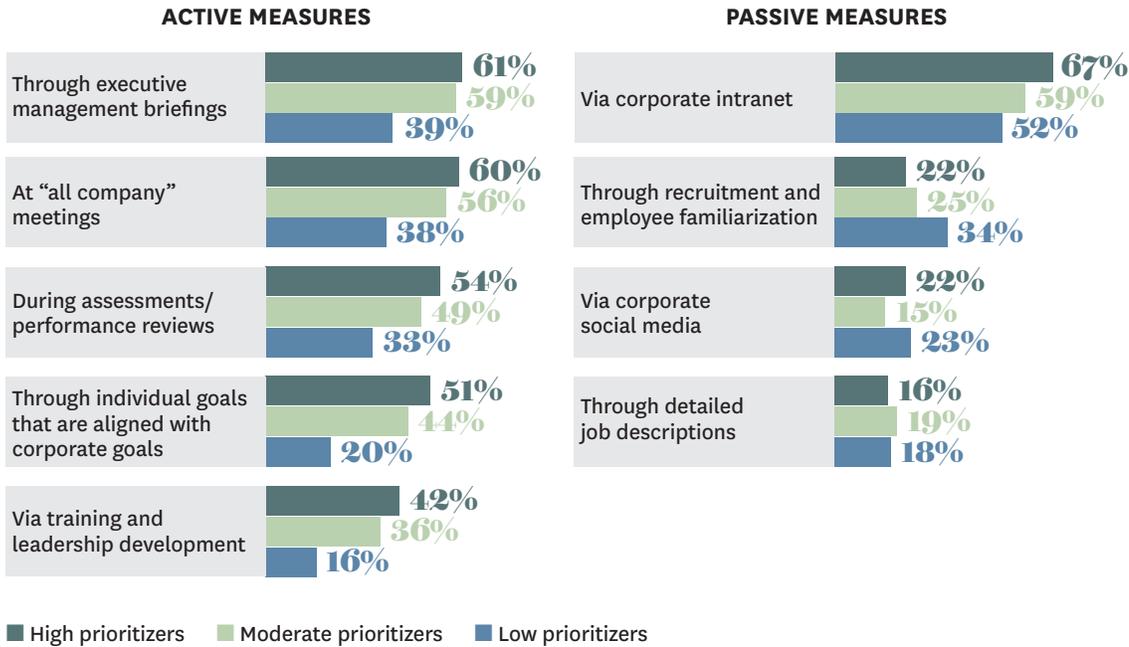


Figure 10

## Highly Engaged Employees: Executive Management Far More Positive Than Their Juniors

In your opinion, roughly what percent of your workforce falls into the highly engaged category?

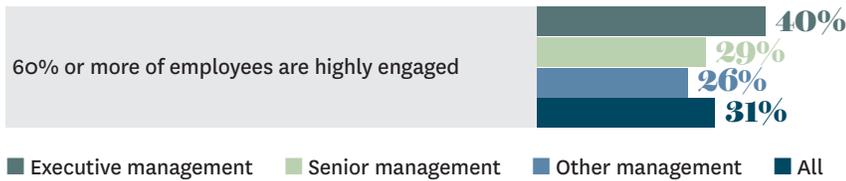
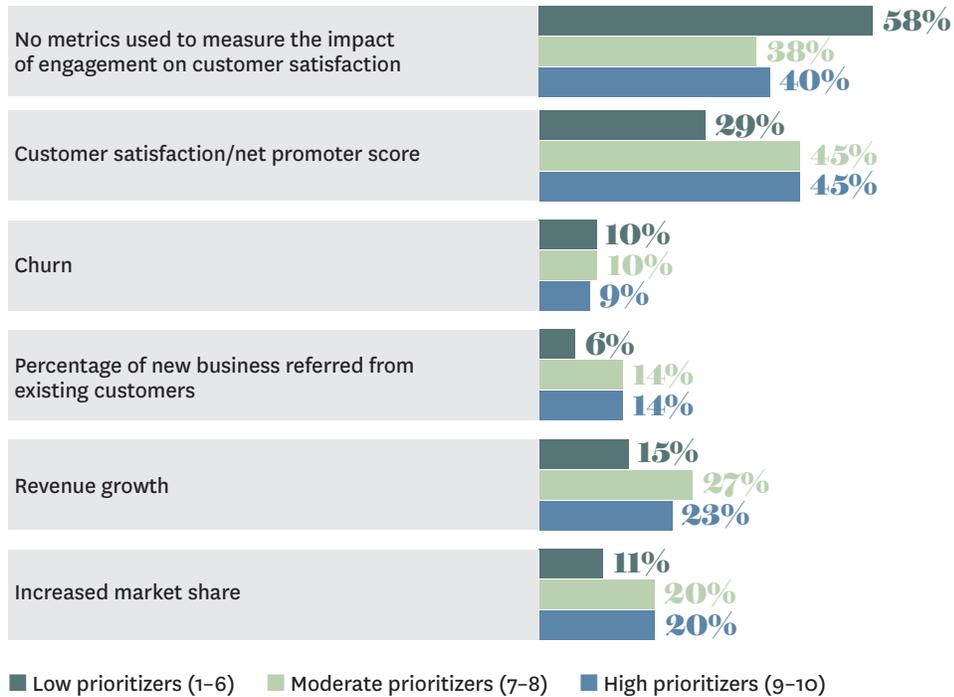


Figure 11

## Measuring Employee Engagement’s Impact on Customer Satisfaction

Which of the following do you use to measure the impact of employee engagement on customer satisfaction?



## Best Practices in Tying Engagement to Business Performance

The survey showed that while more and more companies are instituting employee engagement programs to improve and cultivate higher engagement, most are in the nascent stages of measuring their efforts against tangible business performance numbers. The two metrics most utilized to measure the outcome of employee engagement initiatives are employee satisfaction and customer satisfaction. [figures 11 and 12](#)

Best-practice companies are increasingly measuring and monitoring how engagement affects the customer experience using measuring techniques such as the service-profit chain and net promoter system (NPS). [see sidebars, pages 13 and 14](#) Following are some examples.

A North American retailer’s employee engagement initiatives begin with a carefully crafted annual engagement survey, which is then tailored to their needs by on-staff organizational psychologists. “Each year we get at more specific aspects of feelings/emotions of working there, their supervisor/manager, and how they feel they are kept informed,” the compensation director explains. The company also prioritizes engagement by listing it alongside other financially driven measures on their balanced scorecard.

Communicating the corporate goals is clear and specific, a “prescriptive communication cascade” from region to district to store-level. “At each part, it gets more and more granular,” she says.

For the last two years, as a means of improving engagement and performance, the company has focused on connecting reward and recognition programs with customer feedback data. For example, they recently instituted a wraparound recognition program to overcome the “September slump,” the typical drop-off in sales that plagues their industry every fall. This program encourages sales staff to step up their service, greeting customers at the door, helping them locate items, and alerting them to money-saving opportunities at the in-store kiosks. Using this program, the company was able to dramatically exceed customer satisfaction levels and reverse the negative Q4 trend. Then it built a special recognition program to honor stores that hit specific goals, such as maintaining customer satisfaction levels, the most improved store, and for stores that crossed over from unsatisfactory to satisfactory service levels.

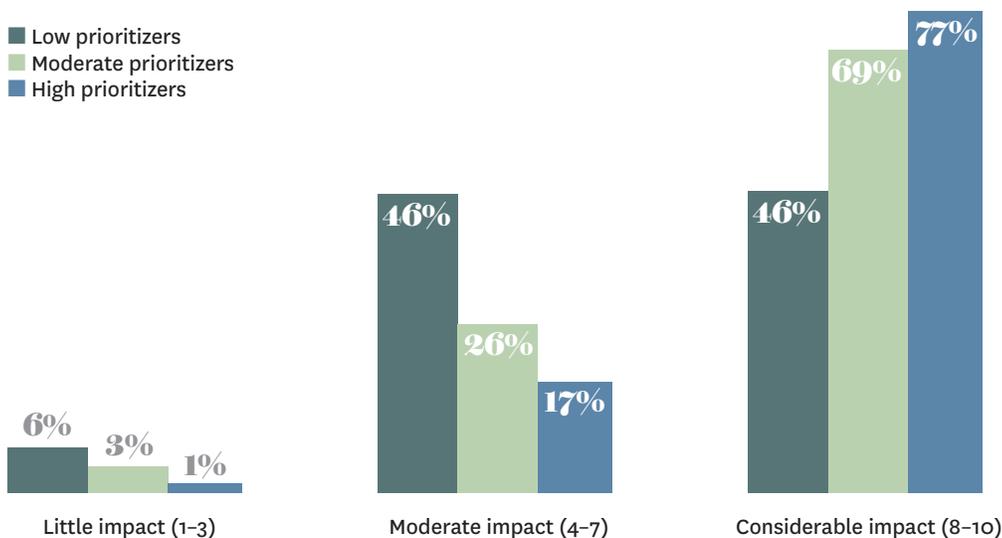
Karen McKay, vice president, human resources and learning and development, Eli Lilly Canada, says her company uses the service value (profit) chain model globally as their model for connecting employee engagement to performance. *see sidebar, Understanding the Service-Profit Chain* “Exceptional leadership leads to engaged employees leads to customer satisfaction leads to business results. End of chain equals patient success.” Based on feedback on the chain, they set up one-year and five-year goals, which are then shared with employees at town hall meetings and in newsletters. “The language and metrics are consistent throughout the organization.”

They also track individual performance by using NPS via internal and external surveys. The external surveys assess the value the company provides to physicians. Then they reward employees for how well they improve service, benchmarking their scores with other companies. NPS feedback has been extremely valuable. She explains, “We gather every three months to look at feedback from these touch points, share results, see opportunities for improvement, and then come up with solutions, uncovering areas where there are pockets of dissatisfaction.”

Figure 12

## Impact of Employee Engagement on Customer Satisfaction

To what extent does employee engagement have a direct impact on customer satisfaction?



In addition, Lilly has reframed the relationship between their sales representatives and their physicians, adopting a more values-based approach that focuses on being of service. To support this, a typical question they now ask is, “What are the problems you face in your practice?” The company also benchmarks outside its industry, looking at the best practices of renowned customer service companies like Zappos, the online retailer.

“Zappos was built on the simple premise that to have happy customers, we need happy employees. To have happy employees, we need a great company culture. The success of Zappos demonstrates the linkage between company culture and employee engagement to company success. Our motto of ‘Deliver Happiness’ for customers and employees was also good for our business and investors,” said Alfred Lin, partner at Sequoia Capital and former chairman and COO of Zappos.

At the European branch of a global logistics and supply chain company, employee engagement is first evaluated via their anonymous annual survey, which they track year-over-year. The survey asks specific questions that include: 1) Is our company a great place to work? 2) Are you thinking of getting a new job outside of this company? 3) Are you proud to work here? 4) Are you satisfied with the job you’re doing here? The company has been using NPS to collaborate on goals and ensure that employees adopt a customer-centric approach to all that they do.

The chief HR officer and director of human resources at LG Electronics USA, Bernard McGovern, says all employees have KPIs recorded on their annual performance plan, which is measured three times a year formally. Those in revenue-generating or influencing positions have revenue or profitability KPIs, while everyone else has service KPIs, measured quantitatively by sending out goals and targets. Rewards are based on KPI performance. KPIs are set after evaluating customer survey data: “Our mission is making products that customers love. So we do the market research—the short survey, how are we doing, what can we improve? This helps fix KPIs for the upcoming period.”

A line manager at the Indian subsidiary of a global technology products and services company says his company uses a constantly evolving performance connection tool to link individual performance with KPIs. Managers set individual goals for employees based on broader business goals—for example, raising customer satisfaction by solving bugs in a particular product. While the company has twice-yearly performance reviews, employees and managers can tweak goals at their discrepancy throughout the year via the online tool. Informed of corporate goals and strategy changes via quarterly all-hands meetings, employees are empowered to set new goals for themselves, but managers can make adjustments where necessary and have veto power if the goals don’t align with the overall KPIs.

At a global telecommunications company’s Latin American subsidiary, the engagement director uses an annual dialogue survey to measure the state of the company, including an employee engagement index. “Every line manager needs to formulate a plan based on the results of the survey. Results are rated compared to last year, compared to the whole company, compared to other regions, and compared to outside global benchmarks outside the company.” In addition, they have all-employee meetings four times a year, where results are shared and progress on their balanced scorecard is revealed. These meetings also recognize staff members who have achieved excellent performance.

The North American banking chain regional director advised against too-narrow benchmarking: “Look at other teams, other industries to come up with best practices. Then it becomes practice sharing. Tie that into employees’ annual performance reviews. Encourage managers to talk about development during those one-on-ones throughout the year.”

## USING THE NET PROMOTER SYSTEM (NPS) AS A MODEL FOR MEASURING ENGAGEMENT ON BUSINESS PERFORMANCE: AN INTERVIEW WITH ROB MARKEY



Rob Markey, head of Bain & Company's Global Customer Strategy and Marketing Practice and co-author, *The Ultimate Question 2.0*, believes that "the only way to have consistently really high levels of customer loyalty is to have a workforce that is so enthusiastic, creative, and energetic that you outperform competitors in service delivery, execution, and product design." To do that, "you need to put employees in a position where they can be successful in creating high levels of customer loyalty and where they get the pride in knowing that they've made someone else's life better."

Markey differentiated between employee satisfaction and employee advocacy. Satisfied employees, he said, "have a physically and emotionally safe work environment, are given good training, and are being valued and compensated fairly." But true engagement requires advocacy, and "what earns advocacy is the ability to achieve extraordinary things against a purpose with meaning, an objective; the ability to work in a team that you trust and like and you'd do anything for and that would do anything for you; and the opportunity to learn more and grow in the role."

According to Markey, companies that are strongest in fostering high levels of employee engagement do these three things:

1. They put employees in positions where they have the ability to exercise judgment in doing their jobs and learn over time through feedback from customers (internal or external) to do that job better;
2. They continually link employee performance back to the broader goals of the organization to make customer goals better; and
3. Culturally, their missions are heavily staked in offering employees autonomy, mastery, purpose, and a strong sense of affiliation. Structurally, this means top managers need to open up the decision-making authority, allowing power and responsibility to be decentralized from headquarters out into individual teams.

Markey advises clients on how to use NPS to achieve higher employee engagement and sustained customer loyalty to improve shareholder value. NPS is based on the question, *how likely is it that you would recommend this company, or this product or service, to a friend or colleague?* By asking this simple question, and stripping down customer surveys to this and a few follow-ups, NPS provides a tangible, real-time metric and allows companies to gain customer insights that go straight to the front line, affecting strategy and decision-making and giving employees critical, quick feedback on their performance and on what customers find most valuable.

"NPS ties directly to revenue growth," Markey explains, "and it inspires the actions that drive growth. Feedback is specific, tangible, and immediate. Team members up and down the organization could relate to what the score meant and what response would be appropriate."

Markey cited an example of two airport teams from the same South American airline and the impact of delays on customer net promoter scores, comparing two delays and their impact on customers. The first team oversaw a delay of 20 minutes or less but customers reported bad communication. This team's employee NPS was 30. The second team, which had an employee NPS of 70, experienced a delay of more than four hours, but customers reported good communication; employees offered frequent updates. On average, NPS is dramatically lower when customers experience a significantly longer delay. But despite the huge difference in delay time, customers gave both teams the same NPS, revealing a direct link between employee NPS and customer loyalty. What mattered most to them was the communication.

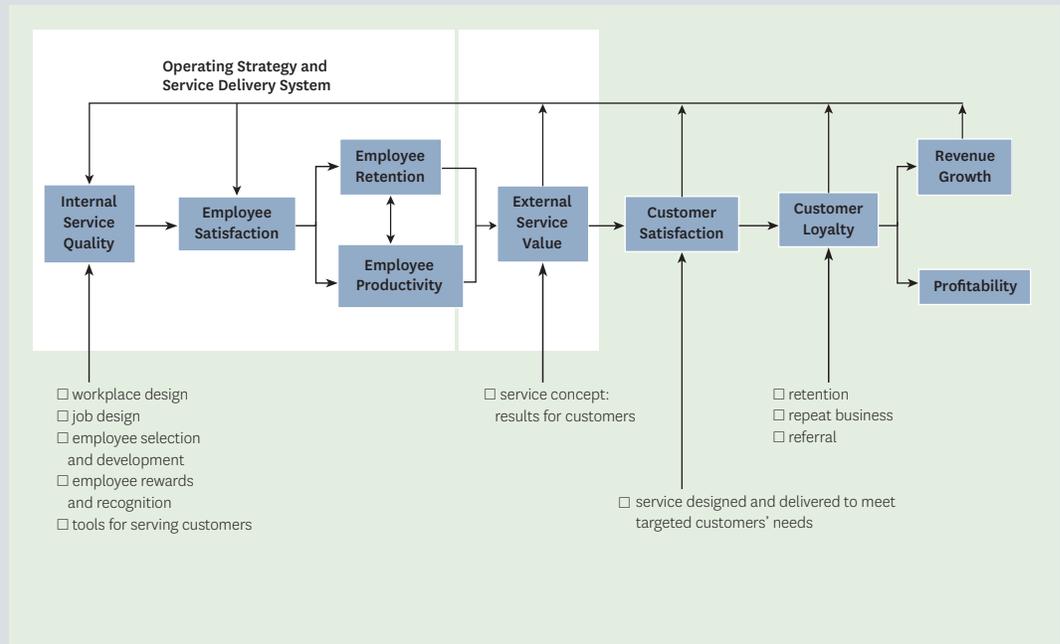
## UNDERSTANDING THE SERVICE-PROFIT CHAIN

The service-profit chain establishes relationships between profitability, customer loyalty, and employee satisfaction, loyalty, and productivity. The links in the chain (which should be regarded as propositions) are as follows: Profit and growth are stimulated primarily by customer loyalty. Loyalty is a direct result of customer satisfaction. Satisfaction is largely influenced by the value of services provided to customers. Value is created by satisfied, loyal, and productive employees. Employee satisfaction, in turn, results primarily from high-quality support services and policies that enable employees to deliver results to customers.

See the exhibit *The Links in the Service-Profit Chain*

The service-profit chain is also defined by a special kind of leadership. CEOs of exemplary service companies emphasize the importance of each employee and customer.

### The Links in the Service-Profit Chain



Reprinted with permission from *Harvard Business Review*, July 2008 article, "Putting the Service-Profit Chain to Work" by James L. Heskett, Thomas O. Jones, Gary W. Loveman, W. Earl Sasser, Jr., and Leonard A. Schlesinger.



## Conclusion

While there is still much work to be done to improve employee engagement, some common practices and cultural norms emerged among high prioritizers surveyed and interviewed for this study. Business objectives and strategy were clearly communicated via multiple channels and reinforced by line managers; performance metrics were clearly tied to business goals; benchmarking was widely used both inside and outside companies and industries; employees were given a fair degree of responsibility and asked to work creatively to solve problems; formal recognition programs were in place to reward top performance; and there was a decent amount of autonomy, where many decisions could be made on the individual team level versus at headquarters.

The most common measurements best-practice companies are using to connect engagement to business performance were those that tied customer metrics with engagement metrics. Specifically, a number of best-practice companies interviewed found NPS and the service-profit chain to be powerful tools to link engagement initiatives with business goals.



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