New Research Explores Why Organizations with Broad-based Systems of Management Grow Faster and More Profitably

7 Key Findings

About What Employees Say Drives Performance and Engagement

See research details Appendix (last slide).
I. Purpose of Study

II. Findings

• #1: The Top Performance Factor is Being ‘Purpose Driven’
• #2: The Highest Engagement Factor is the ‘Organization Cares About Me’
• #3: Every Level of Leadership has Very Different Ideas on What Drives Performance
• #4: Senior Leadership Underestimates the Need for Management Practices Across the Organization
• #5: Employee Engagement Drops 4-6% for each Succeeding Management Level in the Organization
• #6: Getting Strategy Right and Executing on that Strategy are the Toughest Areas for CEOs to Implement
• #7: Soft Skills Drive Engagement, Hard Skills Drive Organizational Performance

III. Summary Observations

IV. Research Methodology
Prior research shows that organizations that implement holistic management systems grow faster and more profitable than those that don’t. The following new research was commissioned to build on these findings and explore:

- Why broad-based management systems are more effective.
- What drives employee perception of performance and engagement.
- Insights on how to identify management practice gaps that impede organization effectiveness.

This study involved more than 600 respondents, in three industries, employment sizes ranging from 100 to 2500 employees, four leadership roles, different educational levels, and different functional responsibilities.

This report will focus on a small number of foundational findings with more detailed additions to follow in separate updates.

See research details Appendix (last slide).
Employee Perspectives on Performance: The Top Performance Factor is Being ‘Purpose-Driven’

Out of 65 management practices employees as a whole rated getting people to ‘understand and commit to strategy’ as the top factor.

This was very closely followed by four other factors that directly or indirectly relate to understanding where the organization is going.
Self-Leader Perspectives on Engagement: The Highest Engagement Factor is the ‘Organization Cares About Me’

• A Self-leader is someone who leads themselves and does not manage others.
• This is not about self-centeredness, it is more about purpose.
• Item 3 indicates they want to care about the organization as well.
• Item 5 reveals they want to be around others who care.
• Translation: people want/need to be part of something that matters.
Leadership Perspectives on Performance: Every Level of Leadership has Very Different Ideas on What Drives Performance

• When rating top performance factors, only 9 items appeared on more than one list.
• Each level has a different scope of activities to manage.
• Each level has different time horizons to optimize.
• Performance depends on leadership practices that support this breadth and variety of needs.
Finding #4

Leader Role Perspectives on Engagement: Senior Leadership Underestimates the Need for Management Practices Across the Organization

- People need clarity and understanding of strategy/purpose to do their work well.
- Workers lose motivation when they don’t have what they need.
- Senior leaders depend less on a ‘system’ to understand direction/purpose.
- Senior leaders may underestimate others’ need for management practices.

The ‘System’ Matters More at Lower Levels
Finding #5

Engagement Perspective of Employees as a Whole:
On Average Employee Engagement Drops 4-6% for each Succeeding Management Level in the Organization

- Each succeeding level has 7 to 10 times as many employees.
- The largest group in numbers is the least engaged.
- Leadership wakeup call: those who report to you are probably not as engaged as you are.
- Management systems must offset the complexity of growth that erodes communication and collaboration.

Engagement Declines 4-6% Each Level

<table>
<thead>
<tr>
<th>Level</th>
<th>Engagement</th>
</tr>
</thead>
<tbody>
<tr>
<td>SENIOR LEADERSHIP</td>
<td>82%</td>
</tr>
<tr>
<td>MIDDLE MANAGEMENT</td>
<td>77%</td>
</tr>
<tr>
<td>FRONTLINE LEADERS</td>
<td>73%</td>
</tr>
<tr>
<td>SELF-LEADERS</td>
<td>67%</td>
</tr>
</tbody>
</table>
Management Practice Implementation: Getting Strategy Right and Executing on that Strategy are the Toughest Areas for CEOs to Implement

- Employees believe getting strategy ‘right’ is the most difficult to achieve. Strategy is led by a few people, but needs to be understood by all.
- Clear strategy is not enough, it has to be effective.
- Continuous Improvement, unlike strategy, is driven from the bottom up. And should be led and implemented by everyone.
- Execution management is the third most difficult. It requires relentless, on-the-ground action that affects every person, every minute of every day.
• ‘Soft skills’ refers to more intangible factors of attitude and relationship.
• ‘Hard skills’ is more about identifiable systems and processes.
• ‘Openness and Honesty’ appears on both lists. It is the oxygen of communication and collaboration.
• The breadth of these two lists shows why frontline leadership is such a challenging role.
Summary Observations
Every Person Matters

• This research indicates that every part of the organization has a different understanding of the local needs required to serve the global strategy. This explains why organizations that implement holistic management approaches that consider the needs of the whole organization perform better.

• This truth is counter to the instincts/perspectives of those in top leadership. Their role can take their focus off what is going on everywhere else. It is not possible for them to see what everyone else in the organization sees.

• Organizations that realize their greatest potential act on the fact that every single person in the organization sees and understands aspects of organization performance no else does. This puts great demands on the management and leadership processes.
B. Connecting People to Purpose is about Day-to-Day Action, Not Speeches

• Although the number one employee engagement factor is the connection individuals have to organization’s purpose, the data also shows the ‘micro conditions’ that employees experience on a day-to-day basis affect their ability to contribute to that purpose.

• This means that management systems as a whole (leaders, processes, policies, communications, goals, plans, measures, training, etc.) have to enable people to ‘win’ in their specific work for the organization to reap the benefit of strong shared purpose.

• One without the other is ineffective.
C. Complexity Must be Managed

- Organizations that are successful grow, and that growth introduces complexity that in turn stifles growth.

- Management practices must combat the increasing communication/collaboration entropy introduced by more cross-functional breadth and more vertical depth in the organization.

- This research shows that employees place great value on the best practices that enable an organization to scale effectively. They see and feel the impact of failure immediately.

- The further removed an employee is from the center of strategic decision-making, the less engaged they are. Why? They feel they have no input in or control over the decision.
D. The Action is on the ‘Frontlines’

• The winning strategy for building highly engaged and effective organizations centers around providing front-line leaders with the training, tools, coaching, and processes to deliver on both the hard skills (planning, goals setting, monitoring, revising, deciding) and the soft skills (openness, honesty, integrity, caring, integrity to values). It is on the front-line that the magic happens.

• Of course, the front-lines can’t function unless the rest of leadership is doing its job as well. It’s just another way of saying it takes a holistic approach to engage the hearts and minds of people.
Every Organization has a ‘Management System’

• Their system is the combination of how decisions are made and how responsibilities are defined and delegated. It includes written or unwritten rules about how progress is reported, problems addressed, and people trained, coached, and evaluated. It is the way meetings are run, problems solved, opportunities prioritized, and people recognized.

• There is very little about an organization that is not somehow touched by its management system. It is mostly people and how they work together.

• The question is not whether you have a management system. The question is whether it is effective.
Research Methodology
Management System

• A management system is an approach that considers how the organization, as a whole, functions to deliver on its mission/purpose.

• A complete management framework covers how the organization makes decisions about what it wants to become and then organizes and allocates resources to deliver on that desired future.

• There are many ‘communities’ of thought leadership adding to best practices in this area. Examples include the Baldrige Excellence program, Total Quality Management, Organization Development best practices, Performance Management, Process Improvement, etc.

• Regardless of source, there is a general agreement that holistic systems have to address long-term strategy formation, short-term execution management, customer-focus, employee-focus, continuous process improvement, communication/collaboration and development of the organization to prepare for the future.
Management System (Continued)

• The American Society for Quality states that ‘total’ (holistic) approaches should include: 1) Customer-focused, 2) Total employee involvement, 3) Process-centered, 4) Integrated system, 5) Strategic and systematic approach, 6) Continual improvement, 7) Fact-based decision making and 8) Communications.

• The Baldrige program uses seven criteria to evaluate organizational effectiveness. They are: 1) Leadership, 2) Strategy, 3) Customers, 4) Measurement, analysis, and knowledge management 5) Workforce, 6) Operations and 7) Results.

• In this report, we use ‘holistic’, ‘total’, and ‘management system’ somewhat synonymously as methods that address the management needs of the entire organization.
Two previous studies* (involving over 2000 organizations over ten years) provide compelling evidence that organizations that effectively implement a systematic, organization-wide approach to managing all key (‘total’) aspects of the business perform better. The first study found that the compound growth rates in earnings were more than double those of the control firms over four years after implementation, and about 75% in terms of compound sales.

Other findings in the earlier study show that:

- It is not the ‘brand’ of the systematic approach you use that matters. What matters is that you HAVE a systematic management system that you implement. *Implied in this is the that the real payoff is implementing a holistic and systematic approach.*

- A second finding is that industry, size, country, culture didn’t significantly change the results. The principles involved in good management processes apply to all types of organizations.

- One premise that can be developed from reading this research is that the biggest challenge is not development (or selection) of a management system, it is *implementing and sustaining the implementation.*
Research Management

We commissioned a professional research organization (Elite Research, Dallas Texas) to verify:

1. Which of these best practices correlated with employee engagement and which correlated with perceived performance.
2. That the groupings were internally consistent and could be used to simplify communication of results (7 categories instead of 65).
3. Develop a survey instrument to aid organizations in identifying best practice gaps. The instrument was to be validated against the Role Based Performance (RBP) and the Baldrige Excellence Program assessment.
Leadership Roles

A goal of the research was to understand the perspectives of four leadership roles concerning engagement and performance. We segmented the results into the following four leadership levels:

• **Senior Leadership** – Responsible for long-term strategy and overall organization success

• **Middle Management** – Reports to senior leadership and has other managers or frontline leaders reporting to them

• **Frontline Leaders** – Manage people who are individual workers

• **Self-leaders** – Anyone who has no one reporting to them - they lead themselves
The Survey was structured to provide representation of three broad industry groups.

The Survey was structured to provide representation of different levels of education from high school to post graduate work.

Participants by Education Level

- **18%** HIGH SCHOOL
- **45%** ASSOCIATES/BACHELORS
- **37%** MASTERS

Number of Responses by Industry

- **43%** MANUFACTURING
- **24%** SERVICE
- **33%** HIGHER EDUCATION
Employees from Most Common Functional Departments were Represented

Participants by Size of Organization

- 1001-2500: 17%
- 501-1000: 19%
- 101-500: 29%
- 2500+: 35%

Participants by Type of Work

- Production: 24%
- Service: 12%
- IT: 14%
- HR: 7%
- F & A: 9%
- Sales: 23%
- Marketing: 2%
- Other: 23%
Employee Engagement

The employee Net Promotor Score (eNPS)™ was chosen as an indicator of employee engagement. eNPS uses an agree/disagree 10-point scale for the statement: “I am likely to recommend to a friend to work here.” The eNPS calculation deducts those scores that are considered to be ‘detractors’ from those considered to be ‘promoters’ to arrive at a single number score.

Example:

“How likely are you to recommend to a friend or colleague to work here?”

25% Promoters

55% Detractors

Net Promoter Score of “Minus 30”
Organization Performance

We used the question “Rate Your Organization’s Overall Performance” on a 10-point scale to capture perceived performance. The purpose of this question was to understand the individual’s perspective of overall performance. Prior studies cited focused on measuring externally verifiable financial performance, so we did not attempt to repeat those findings.
Correlation

In statistics, ‘correlation’ is presented as a coefficient and not a percent. It is expressed as a decimal that can range in value from -1 to +1. A plus one means that two variables vary in the same direction exactly. A minus 1 means they vary in the “opposite” direction exactly. A zero correlation means there is no pattern at all. Flipping a coin produces a zero correlation.

Since zero correlation means a 50/50 chance of matching, we have converted correlation coefficients to ‘correlation percent’ to be more understandable to a casual observer. So a .40 correlation translates to 70% likelihood of correlating. (.5 + .4*.5 = 70%)
Management System Best Practices

As part of this research, other management system best practice models were reviewed including TQM, Baldrige Excellence Program, EFQM (European quality model), Six Sigma. A set of 65 management practices were developed to distill hundreds of topics into a more simplified model that would be practical to research and develop benchmarks around.

As part of this process, the following seven broad management system areas were identified to simplify the analysis and presentation of results.

1. **Culture of Excellence** – Represents the ‘softer’ human relationship skills and values such as ‘openness and honesty’, ‘high standards of performance’, etc.
2. **Strategy** – Relates to defining mission, values, competitive position, vision, etc.
3. **Change Management** – Identifies what must change to achieve the strategy and a roadmap for allocating resources to get there.
Management System Best Practices (Continued)

4. **Operational Alignment** – Functional, project, process management practices for balancing short-term and long-term priorities and functional and cross-functional requirements

5. **Execution Engagement** – Effective teamwork, communicating, collaborating, adjusting rapidly

6. **Continuous Improvement** – Identifying incremental opportunities for improvement, prioritizing, designing and implementing solutions

7. **Organization Development** – Identifying internal, external performance trends, organization development priorities and updates to the strategic agenda to prepare the organization for the future
Appendix

In 1999 the article Don’t Count TQM Out was published in the April issue Quality Progress magazine (American Society for Quality). The study conducted by Hendrix and Singhal involved 1200 organizations (600 control), more than 50 industries across the globe. Performance was based on publicly available financial information. And performance was tracked over a 10-year period for organizations that thoroughly implemented more than 100 holistic management systems.

A follow-up to this study entitled Does Quality Still Pay? A reexamination of the Relationship Between Effective Quality Management and Firm Performance by Zhang and Xia was published in Production and Operations Management in January 2013. This study involved more than 1000 firms (500 control) over 10 years as well. They report, “This study provides further empirical evidence on TQM’s long-lasting impact on firm performance...Our main findings are largely consistent with those found by Hendricks and Singhal.”
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