

A Hard Look at Soft Numbers

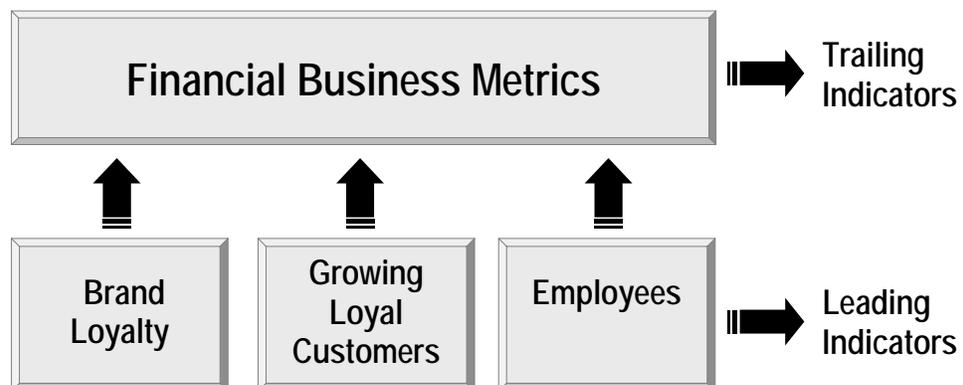
The relationship between employee perceptions and business outcomes

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Leading Versus Trailing Indicators

Organizations have traditionally relied on financial measures or “hard” numbers to evaluate their performance, value, and “health.” However, metrics such as profitability, revenues, return on capital, and cash flow, by themselves, are inadequate for developing and implementing strategies for the future.

Proactive leaders have come to rely more and more on the “soft” numbers – metrics related to brand, customer loyalty development, and employee engagement – to help them plan organizational direction and action. Gallup’s research confirms that there are indeed strong linkages connecting organizational effectiveness, customer loyalty, and brand loyalty to important business outcomes. Therefore, business leaders should use “soft” numbers for direction in their efforts to drive sales and profits.



Employee Engagement as a Leading Indicator

This document will focus on employee engagement as a leading indicator and on its correlation with other, more tangible, business outcomes.

Traditionally, there have been three problems with measurement of employee attitudes and perceptions. First, the purpose of such measurement has not been well defined. Second, the relationship between employee attitudes and business outcomes has never been clearly established. Third, companies have usually seen employee measurement not as a tool to create understanding and communication, but rather as a device to better “control” employees, managers, and their work environments. If the workplace and the perceptions of employees can indeed create a competitive advantage for an organization, then we must approach employee measurement by establishing valid linkages to business outcomes.

The Gallup Organization has interviewed more than 3 million employees worldwide. Analysis of the employee attitudes revealed in those interviews demonstrates that – across companies and cultures – 12 key areas consistently relate to employee retention, productivity, profitability, customer loyalty, and safety. These 12 areas have been distilled into 12 statements that – on the basis of employee agreement or disagreement – provide insights into the health of a company. These statements are listed below:

The Gallup Q¹²

- I know what is expected of me at work.
- I have the materials and equipment I need to do my work right.
- At work, I have the opportunity to do what I do best every day.
- In the last seven days, I have received recognition or praise for doing good work.
- My supervisor, or someone at work, seems to care about me as a person.
- There is someone at work who encourages my development.
- At work, my opinions seem to count.
- The mission or purpose of my company makes me feel my job is important.
- My associates or fellow employees are committed to doing quality work.
- I have a best friend at work.
- In the last six months, someone at work has talked to me about my progress.
- This last year, I have had opportunities at work to learn and grow.

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Validation

If these “softer” or less tangible employee perceptions are to be taken seriously, the relationship of each of the 12 statements to “harder” outcomes must be validated. Content validity, i.e., the degree to which the hypothesis aligns with common sense and current understanding, is one way of establishing validity. Gallup has found, through hundreds of focus groups with top-performing employees and managers at all levels, that these 12 statements make sense and relate to issues people face every day.

Another validity test is criterion-related validity, which tests the existence of the 12 conditions (as defined by the statements listed on the previous page) when specific business outcomes are present. It then compares their existence when business outcomes are less evident. For example, a company could look at the way its 10 most profitable divisions responded to the 12 items, and compare the way the remainder of its divisions responded.

Gallup has studied, in a variety of businesses and industries, the statistical relationship between employee perceptions and workplace outcomes. Gallup’s meta-analysis, which is based on the combined evidence from these studies, forms a strong basis for determining the true patterns present in most work environments.

Gallup has rigorously researched workplace perceptions to validate that the 12 core perceptions relate to meaningful business outcomes.

Profitable Divisions – Are They Different?

In one organization, Gallup isolated divisions that had demonstrated sustained profitability over a 10-year period, labeling them the “profit group.” Personnel in these divisions were asked the 12 questions; their responses were compared to those of employees in the remaining divisions.

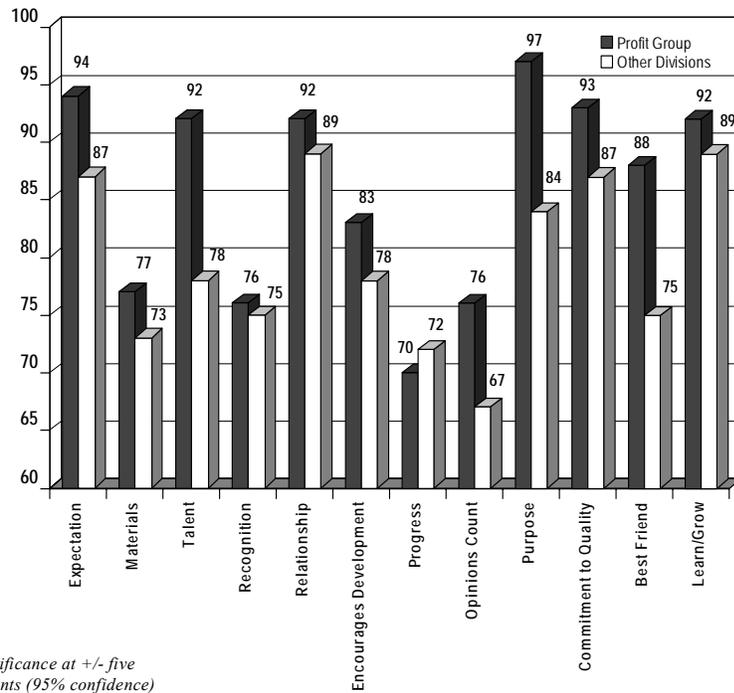
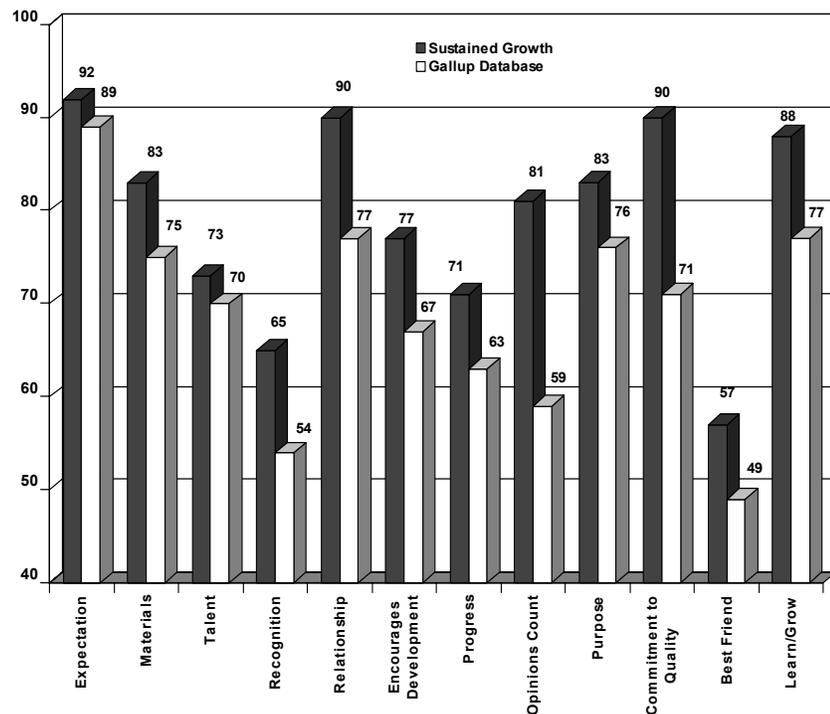


Figure 1 Company A: Profitable Divisions – Are They Different?

Figure 1 illustrates the difference between the percentage of favorable responses for divisions with sustained profitability and the favorable percentages for other divisions in the company. For Company A, the differences were greatest on **talent** – “At work, I have the opportunity to do what I do best every day,” **purpose** – “The mission/purpose of my company makes me feel my job is important,” and **best friend** – “I have a best friend at work.” In analyzing success within Company A, it is clear that the most consistently profitable divisions have people doing what they do best, with people they like, with a strong sense of psychological ownership for the outcome of their work. Their work is not “just a job”; they see how it relates to other important outcomes. The growth opportunity for Company A probably involves studying what is going on in its most successful divisions – that is, the behaviors leading to the above perceptions – and then encouraging those behaviors in other divisions.

Growth-Oriented/Performing Companies – Are They Different?

As a general test for criterion-related validity, Gallup examined 15 fast-growing companies that have shown sustained profitability and revenue growth. Gallup conducted a census (86% response rate) of these 15 companies' employees and compared the results to results for other companies in the Gallup comparative database.



Statistical significance at +/- two percentage points (95% confidence)

Figure 2 Growth-Oriented/Performing Companies – Are They Different?

As is evident in Figure 2, sustained-growth organizations had more positive employee perceptions on all 12 workplace statements. The largest differences are seen on **opinions count** – “At work, my opinions seem to count,” and **commitment to quality** – “My associates (fellow employees) are committed to doing quality work.” Organizations with sustained growth have an extremely high percentage of employees who are committed to quality, and these employees do a good job of listening to one another. Other differences of at least 10 percentage points occurred on the **relationship**, **recognition**, **opportunities to learn and grow**, and **encourages development** items. All of these items may be key descriptors of sustained-growth environments. Clear **expectations** may be a given, whereas **relationship**, **fulfillment**, and **recognition** may be competitive advantages.

Empirical Validity

Meta-Analysis

Another form of validation is that of empirical review. For this, Gallup combined its research studying the relationship between workplace perceptions and business outcomes. The most recent iteration of Gallup's research was conducted among 308,987 employees, across 10,885 business, healthcare, and education units.

The following 23 industries were represented:

- Financial – Depository
- Financial – Security
- Manufacturing – Instrument
- Manufacturing – Printing
- Manufacturing – Paper
- Manufacturing – Food
- Manufacturing – Pharmaceutical
- Retail – Clothes
- Retail – Food Stores
- Retail – Automotive
- Retail – Eating
- Retail – Building Materials
- Retail – Entertainment
- Retail – Miscellaneous
- Services – Government
- Services – Recreation
- Services – Health
- Services – Education
- Services – Hotels
- Services – Business
- Transportation/Public Utilities – Trucking
- Transportation/Public Utilities – Electrical
- Transportation/Public Utilities – Communication

Gallup studied the following five general outcomes:

- Productivity
- Safety
- Customer Loyalty
- Employee Retention
- Profitability

The meta-analysis was completed to review correlations between each of the 12 items from page 2 and business outcomes. The results confirmed previous hypotheses. Each of the 12 items relates to meaningful business outcomes. The following table presents a review of the strongest patterns across organizations:

Question	Productivity	Retention	Profitability	Customer	Safety
Q01. Expected	X	X		X	X
Q02. Mat. & Equipment	x	X		X	X
Q03. Opportunity	X	X	x	X	X
Q04. Recognition	X	x	X	X	x
Q05. Cares	X	X	X	X	X
Q06. Development	X	X	X	X	X
Q07. Opinions	X	X	X	X	X
Q08. Mission	X	X		X	X
Q09. Comm. to Quality	X	X	X		X
Q10. Best Friend	x		X	X	x
Q11. Progress	x		X	x	X
Q12. Learn & Grow	X	X	X	X	x

X = strongest positive correlations; higher scores associated with higher outcomes, and generalizable across the organizations Gallup has studied.

x = positive, generalizable relationship

Here are a few examples of what the above relationships mean to organizations that Gallup has studied.

Productivity

Business units with high employee engagement have a 50% higher success rate (defined as above-average performance for business units in a given company) in comparison to business units with low employee engagement.

Employee Retention

Business units with high employee engagement have a 44% higher success rate (less turnover) in comparison to business units with low employee engagement.

Profitability

Business units with high employee engagement have a 33% higher success rate in comparison to business units with low employee engagement.

Customer Loyalty

Business units with high employee engagement have a 56% higher success rate in comparison to business units with low employee engagement.

Safety

Business units with high employee engagement have 50% higher safety outcomes in comparison to business units with low employee engagement.

Overall Performance

Business units with high employee engagement are 78% more likely to have high overall performance (composite of customer, financials, and retention).

Success Rate – Likelihood of Performance Above the Median

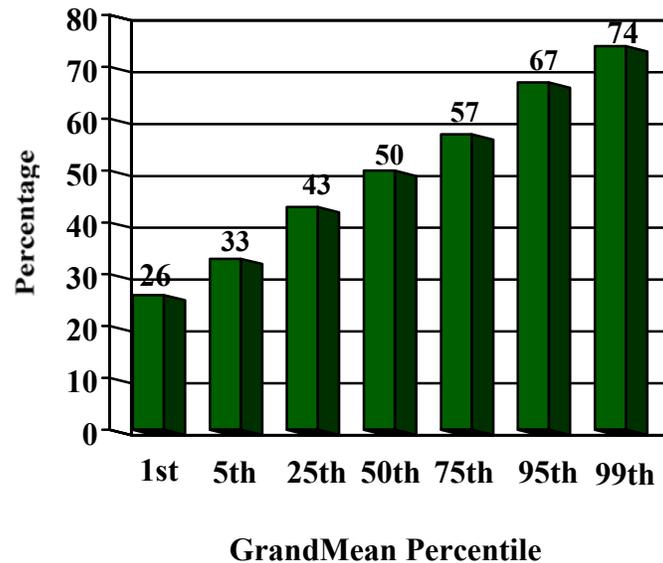


Figure 3 Composite Performance Success Rate as a Function of Employee Engagement

Conclusion

In its rigorous study of a wide variety of organizations and business units, The Gallup Organization has learned that certain human resource issues are important to nearly every organization. Successful companies and, more specifically, successful business units, have profiles of employee perceptions that differ from those of less successful organizations and business units. In successful business, healthcare, and education units, employees have clear expectations and close relationships; they can see how what they do relates to “something significant”; and they have an ongoing opportunity to contribute to that “something significant” while learning and growing as individuals. Organizations can learn the behaviors that help to define these seemingly intangible perceptions by studying their own successful work units.