

A Hard Look at Soft Numbers

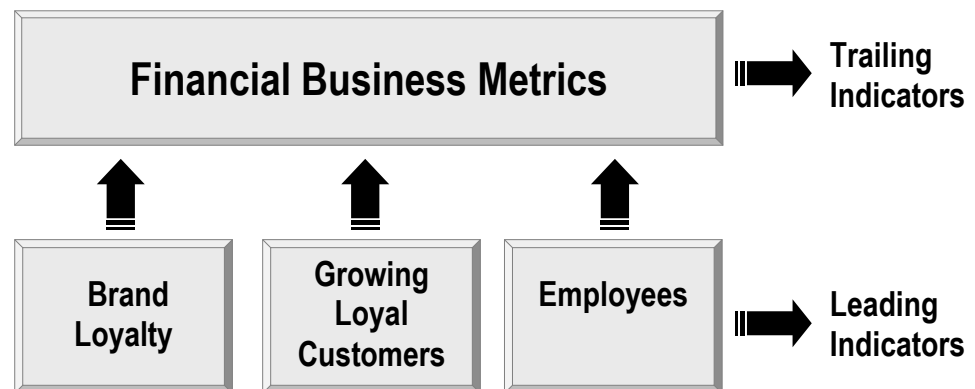
The relationship between employee perceptions and business outcomes

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Leading versus Trailing Indicators

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

Proactive leaders have come to rely more and more upon the “soft” numbers to best predict direction and action planning. These tend to be metrics related to Brand, Customer Loyalty Development, and Employee Engagement. Our research confirms the strong linkages among organizational effectiveness, customer loyalty, brand loyalty and important business outcomes. As this article will argue, it is more effective for business leaders to examine the “soft” numbers for direction as to the steps they should take to drive sales and profits.



Employee Engagement as a Leading Indicator

This document is intended to focus upon Employee Engagement as a leading indicator and correlate with other more tangible business outcomes.

Traditionally, there have been two problems with the focus on employee attitudes and perceptions. First, the purpose or reason for the measurement usually is not well defined, and the relationship between employee attitudes and business outcomes have never been clearly established. Second, employee measurement has usually been viewed more from the perspective that employee measurement wasn't a device to create understanding and communication, but rather to be used to better "control" employees, managers and environment. If the workplace and the perceptions of employees indeed create competitive advantage for an organization, then we must begin to approach this with valid linkage to what outcomes are derived.

The Gallup Organization has interviewed over one million employees worldwide. Analysis of the employee attitude responses across companies and cultures demonstrate that twelve key areas consistently relate to Retention of Employees, Business Unit Productivity, Profitability, and Customer Loyalty. These 12 conditions have been framed into statements to address with employees to understand the existence within one's own company. These statements are listed as follows:

The Gallup Q¹² — The 12 Gallup Workplace Audit Statements:

- *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 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/purpose of my company makes me feel my job is important*
- *My associates (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, one must validate each of the 12’s relationship to “harder” outcomes. Validity is established in many ways. One is Content validity, which is the degree to which the hypothesis aligns with common sense and current understanding. Gallup has historically found, and continues to find, through hundreds of focus groups with top performing employees and managers at all levels, that these 12 statements make sense and are true issues facing people every day. Another validity test is Criterion-Related Validity, which tests the existence of the 12 conditions in situations where specific business outcomes are in occurrence and then comparing their existence where business outcomes are less present. An example would be take the top ten most profitable divisions, and look at how those divisions responded to the 12 items versus the remainder of the company divisions. Gallup has studied, over a variety of businesses and industries, the statistical relationship between employee perceptions and workplace outcomes. This combined evidence, or Meta-analysis, forms a very strong basis for determining the true patterns present in most work environments.

Gallup has rigorously researched workplace perceptions in defining the validity of 12 core perceptions that relate to meaningful business outcomes—both conceptually and statistically.

Profitable Divisions—Are They Different?

Gallup examined an organization and isolated the specific divisions who demonstrated sustained profitability of a ten-year period. This group of divisions was identified as the “profit group.” Personnel within these divisions were asked the 12 questions and responses were then compared to the employee responses in the remaining divisions.

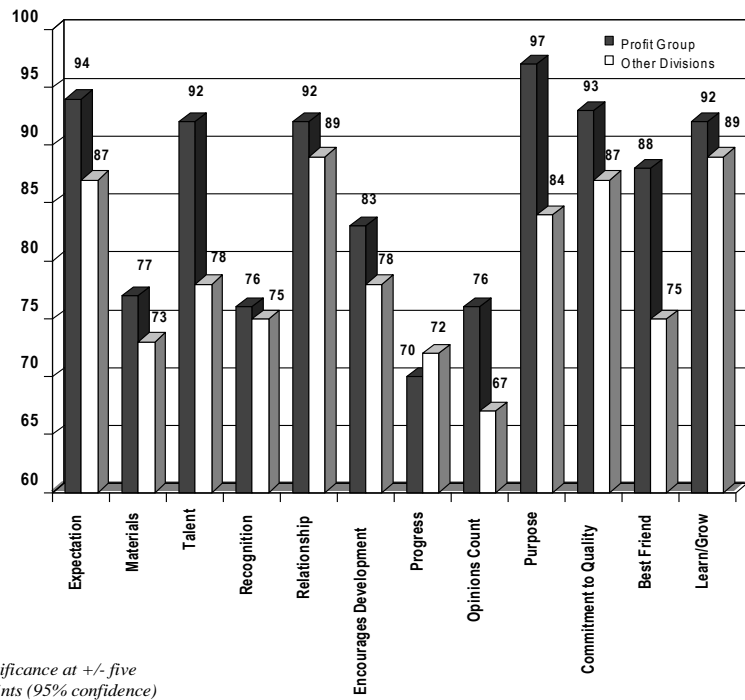
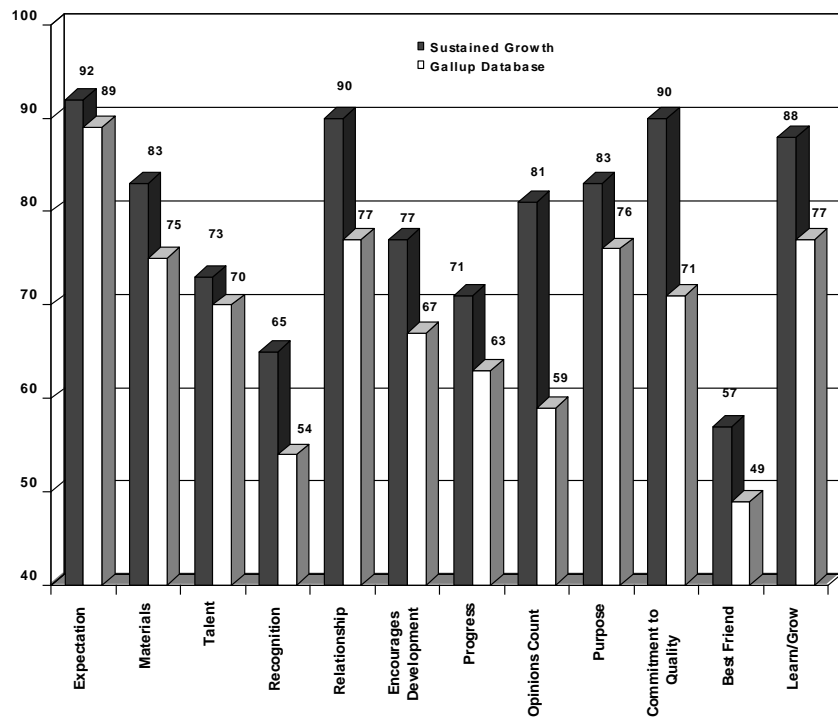


Figure 1 Profitable Units — Are they Different?

Figure 1 illustrates the difference in percentage favorable responses for divisions with sustained profitability versus other divisions with 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, **mission/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 thinking about success within Company A, it is clear that the most consistently profitable divisions have people doing what they like to do, 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 is probably in studying what is going on in its most successful division, that is—what behaviors lead to these perception, and then replicating those behaviors in other divisions.

Growth Oriented/Performing Companies—Are they Different?

As a general test for Criterion-Related Validity, Gallup examined fifteen fast growing companies who have shown sustained profitability and revenue growth. A census sample (86% response rate) was surveyed with these fifteen companies' employees, and results were then compared to other companies within 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. Largest differences were on **opinions count**—At work, my opinions seem to count, and **commitment to quality**—My associates 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 over 10 percentage points were; **relationship, opportunities to learn and grow, and encouraging development**. The above may be key descriptors of sustained growth environments. Clarifying expectations may be a given, whereas **relationship, fulfillment, and rewards** may be a competitive advantage.

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 across 2500 business, healthcare, and education units.

The following industries were represented:

- Healthcare
- Restaurant
- Education
- Entertainment
- Grocery
- Research
- Telecommunications
- Medical Sales
- Financial

The following four general outcomes were studied:

- Productivity
- Employee Turnover
- Profitability
- Customer Satisfaction

The Meta-analysis was completed to review correlations between each of the 12 items and business outcomes. The results confirmed previous hypotheses. Each of the twelve questions relate to meaningful business outcomes. For a review of the strongest patterns across organizations please see the following:

Question	Productivity	Turnover	Profit	Customer
Q1. Expected	X	X	X	X
Q2. Mat. & Equipment	X	X		
Q3. Opportunity		X	X	X
Q4. Recognition	X		X	X
Q5. Cares	X	X	X	X
Q6. Development	X		X	
Q7. Opinions	X		X	
Q8. Mission	X			
Q9. Comm. To Quality	X		X	
Q10. Best Friend	X			X
Q11. Progress	X			X
Q12. Learn & Grow			X	
Overall Satisfaction	X	X	X	

X = Strongest positive correlations; higher scores associated with higher outcomes, and generalizable across the organizations we've studied.

Here are a few examples of what the above relationships mean to organizations we've studied.

Productivity:

Business Units in the top quartile on the Grandmean of the 12 items have a 50% higher success rate in comparison to business units in the bottom quartile.

Employee Turnover:

Business Units in the top quartile of the Grandmean of the 12 items have a 13% higher success rate (less turnover) in comparison to business units in the bottom quartile...

Profit:

Business Units in the top quartile of the Grandmean of the 12 items have a 44% higher success rate in comparison to business units in the bottom quartile.

Customer Satisfaction:

Business Units in the top quartile on the Grandmean of the 12 items have a 50% higher success rate in comparison to business units in the bottom quartile.

** success rate is defined as above average performance for business units within a given company*

Conclusions

The Gallup Organization has studied a wide variety of organizations and production/service units. Through hundreds of focus groups, researchers have learned there are certain human resource issues important to nearly every organization. A substantial amount of quantitative research has supported these hypotheses. Successful companies, and even more specifically, successful production/service units, have different profiles of employee perceptions than less successful organizations and business units. Within successful business, healthcare, and education units are employees who have clear expectations, close relationships, can see how what they do relates to "something significant," and have an ongoing opportunity to contribute to that "something significant" while learning and growing as individuals. What behaviors help to define these seemingly intangible perceptions can be learned by studying success within one's own organization.