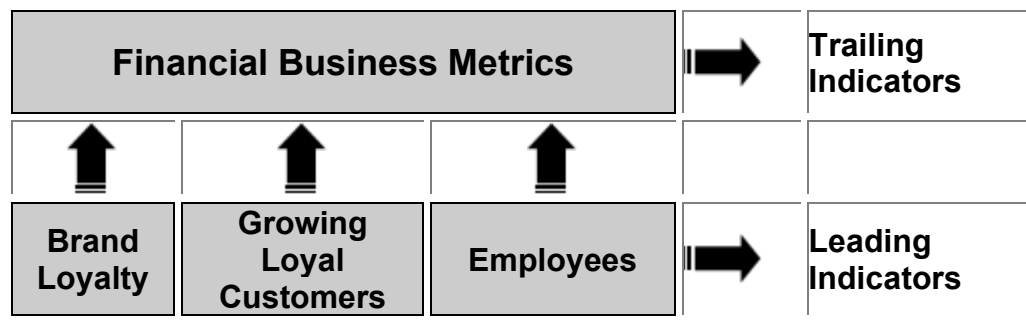


A Hard Look at Soft Numbers
The relationship between employee perceptions and business outcomes
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Leading versus Trailing Indicators

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 numbers 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 research on employee attitudes and perceptions. First, the purpose or reason for the measurement is usually not well defined, and the relationship between employee attitudes and business outcomes has never been clearly established. Second, employee measurement has usually been seen not as a tool to create understanding and communication, but rather as a device to better "control" employees, managers and the work environment. If the workplace and the perceptions of employees can indeed create a competitive advantage for an organization, then we must begin to approach employee measurement with valid linkages to the outcomes that are derived.

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

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 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/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 in which specific business outcomes are in evidence. It then compares their existence where business outcomes are less present. An example would involve taking the 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, in 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 that demonstrated sustained profitability over a ten-year period. This group of divisions was identified as the "profit group." Personnel within these divisions were asked the 12 questions and their responses were then compared to the employee responses in the remaining divisions.

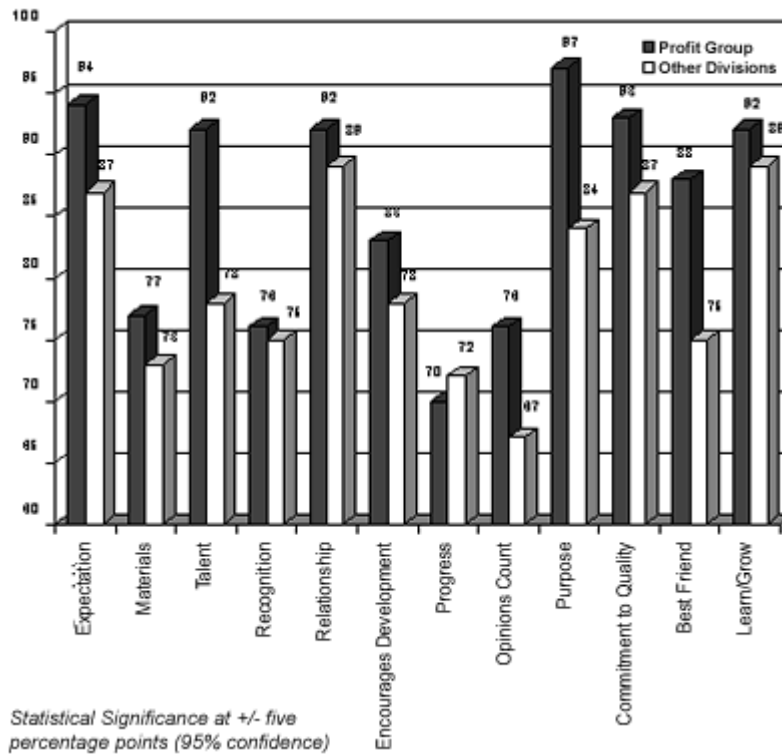


Figure 1 Profitable Divisions - Are They Different?

Figure 1 illustrates the difference in the percentage of favorable responses for divisions with sustained profitability versus other divisions of 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 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 probably involves studying what is going on in its most successful division, that is-what behaviors lead to these perceptions, 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 15 fast-growing companies that have shown sustained profitability and revenue growth. A census sample (86% response rate) of these 15 companies' employees was surveyed and results were then compared to results for other companies within the Gallup comparative database.

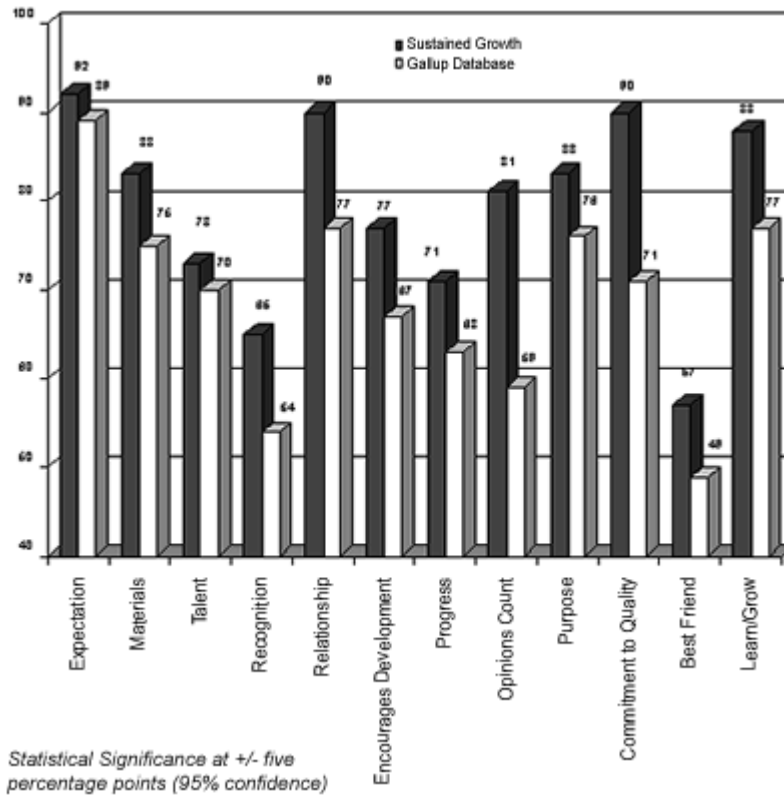


Figure 2 Growth Oriented/Performing Companies - Are They Different?

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 10 percentage points were; **relationship, opportunities to learn and grow, and encourages 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 12 industries were represented:

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

- Retail
- Hospitality
- Electronics

The following four general outcomes were studied:

- Productivity
- Profitability
- Employee Turnover
- 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. The following table presents a review of the strongest patterns across organizations:

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 of 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 of 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 within those organizations. Our research over the years, both qualitative and quantitative, has isolated the key dimensions that consistently differentiate very successful business units from less successful business units. Gallup's research has also isolated the specific question items that appear to best measure those dimensions. Successful companies and, even more specifically, successful business units within any company, have different profiles of employee perceptions than less successful organizations and business units. The data clearly show that within successful business units employees 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. Further, the behaviors that help to define these seemingly intangible perceptions can be discovered by studying the success within one's own organization.