IBM Software
Thought Leadership Whitepaper

Leveraging employee surveys to influence business performance

Why the employee engagement construct is important to business leaders

IBM

It is critical to have an understanding of how an organization's investment in its talent management initiatives (e.g., employee survey) are returned through the influence on the bottom line or performance measures of an organization. An understanding of this return on investment (ROI) enables an organization to strategically align the efforts prioritized for its human capital management initiatives to those that can have the most influence on the performance outcomes. Once the most influential aspects of an organization's human capital or talent management efforts have been identified, they enable the organization to prioritize the resource allocation across the many efforts. This can result in the organization having one of the greatest impacts on the bottom line and performance of the business.

With respect to organizational employee surveys, linkage research should be conducted to examine the relationships between these valuable employee opinions and desirable business outcomes. The process for conducting linkage research involves an identification and definition of important business outcomes:

- How is your organization evaluated?
- Are these metrics measured?
- How is the data stored?
- How can the data be shared?
- Is new data collection needed?

Once the definition of what can help clarify business outcomes and ROI perspectives through the lens of the employee survey responses is defined, the data available must be examined to determine level(s) of analysis and to identify how the disparate data files will be brought together through matching variables. Furthermore, the phases of analysis must be defined. Though there is one defined detailed story, we may find it helpful to understand how individual pieces fit together and establish phased deliverables. Additionally, it is important to identify team members and their roles at both the organization and within IBM. We want to confirm that the proper people are involved in the initiative. Finally, the needed timeline is determined to match up with an organization's strategic planning and operations cycles, critical reporting points or corporate events, if applicable.

Over the past 20 years, a significant body of research has emerged documenting the linkage between organizational and leadership practices and important business outcomes such as customer satisfaction and business performance (e.g., Wiley, 1996).[1] The more an organization displays a strong orientation toward serving the customer, places a clear emphasis on the quality of products and services, verifies that employees are well-trained, and involves them in decision making, the more aligned employees are to the goals of the organization, the more cooperative their teamwork, the less likely they are to voluntarily resign and the higher their engagement. Under these conditions, they are better positioned to deliver the organization's value proposition and thus achieve organizational goals.

A technology firm's quest for understanding retention

Though retention is a focus for many organizations regardless of industry, there is likely no industry that faces more competition for keeping desirable employees than technology-focused firms. A 19,000 member high-technology equipment development firm that operates in multiple countries across the world needed to examine opportunities to retain key performers in the organization.

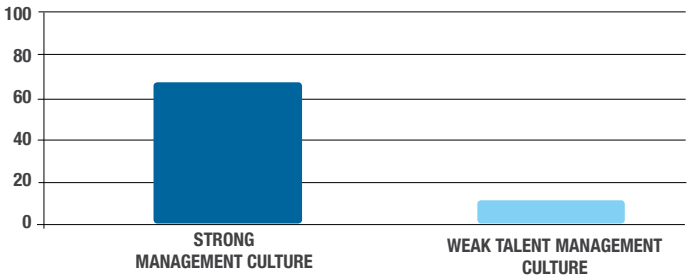

Figure 1: Talent management initiatives link to organizational performance ratings of employees

To optimize the organization's capacity to grow across its diverse product divisions, the organization had focused on retaining employees as a key part of its overall human capital strategy. Through the careful observation, the company noticed that over the past couple years, it had experienced a particular spike in turnover, especially with those who have only relatively few years of tenure with the organization (less than four years).

In response, it employed multiple organizational efforts that put a special focus on examining the drivers of turnover through multiple sources of data. One such source of information came from the employees' survey responses. Combining employees' perceptions about organizational experiences with turnover data provided a rich source of information, enabling the organization to compare and contrast how the employees who both stayed and left felt about the organization. Multiple aspects of the employee experience such as the match between job demands and employee skills and abilities, perceiving growth and development opportunities, focus on the customer, opinions of organizational reward and recognition processes, and experiences with organizational processes provided an understanding of what mattered most to employees.

These employee responses were used to create a profile that depicted those who stayed and those who chose to leave the organization. These "leaver and stayer" profiles were created for multiple geographic locations, those with different tenure, and those in different job functions. Additionally, performance management data was leveraged to analyze leaver and stayer profiles for high performing employees. Key findings from these profiles were used to enhance retention strategies targeting different types of employees.

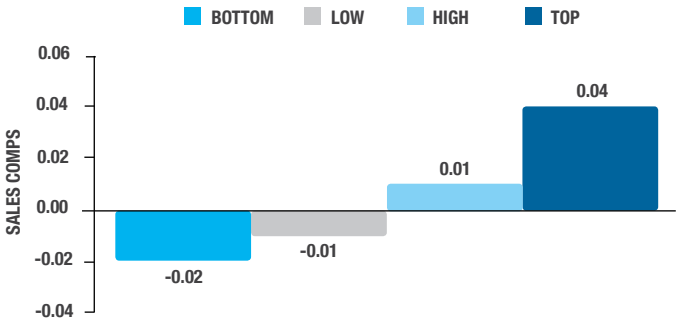

Figure 2: Performance excellence index quartile

Like many other efforts, the linkage work was initially started by examining turnover and retention across all employees, but by targeting key employee groups, segmenting behaviors (e.g., leavers versus stayers), and leveraging additional human capital data, IBM researchers and the organization were able to more clearly identify both perceptions that were widely held as well as those that were uniquely held by a particular group. These findings can impact how companies approach retention strategies and suggest that targeting messages to key subpopulations (e.g., high performers, Asia-Pacific hires, recent college graduates) can increase the likelihood of retaining these key segments of their workforce.

Retailer store performance

An international retail firm utilized its employee survey as a tool to drive improvement efforts toward what mattered most to its stores' performance. The goal was to discover a short list of the most "potent" employee experiences through the identification of the survey items where these experiences were codified.

The retailer's employee survey focused on components of a high performance organization such as customer orientation, cooperation across employees, having clear expectations for what behaviors indicated success, receiving appropriate recognition when a good job is done, being well-informed about business objectives, and factors of employee engagement. Specifically, the stores' performance was evaluated with respect to the sales growth, units sold per transaction and gross margin percentage.

The key factors that differentiated between higher and lower performing stores were employees having a focus on customer service and teamwork. Furthermore, employees of stores who were more favorable toward perceiving open and clear communication of targets and performance against them (e.g., business objectives, expectations, recognition) performed better. It was also noted that in stores where the components of a higher performing organization were present (e.g., customer orientation), employees were also more engaged.

This retail organization had embedded items from the Performance Excellence Index into the survey.

Specifically, these items measured how employees felt about:

- Consistently providing excellent customer service
- Working well together as a team
- Feeling valued by their department
- Expectations for success clearly communicated
- Open, honest communication independent of level
- Regularly receiving recognition for doing a good job
- Being informed about business objectives

The goal of this linkage study was to identify the levers where employee experiences could be most leveraged to confirm that performance was improved. Action plans were created that focused on:

- Keeping a clear focus on the customer and sharing business information
- Maintaining open, involving climate
- Building teams and respecting employee needs
- Demonstrating follow-through on survey self-improvement efforts

Furthermore, targets and accountabilities were set for accomplishing these action plans along with planned follow-up on the subsequent organizational survey.

Employee engagement and organizational performance across organizations

Much of the linkage research has focused on a common organizational level as the unit of analysis (e.g., retail store), and potentially included an examination across divisions or major business units. Through these examinations, researchers have uncovered relationships between employee opinions and performance metrics of interest. Limitations, however, do exist as studies examining these important relationships have sometimes shown to be difficult to replicate.

IBM conducted two studies exploring the relationship between employee opinions and important performance and economic metrics.

The first study examined 64 organizations in more than 20 industries and explored the relationship between employee engagement and annual net income (i.e., earnings or profit) controlling for organization size. Survey data were gathered across these organizations through their annual employee surveys; performance metrics were gathered by accessing information available through public means (e.g., annual reports). Engagement was measured using items that examined the pride, advocacy, satisfaction and retention intentions of employees.

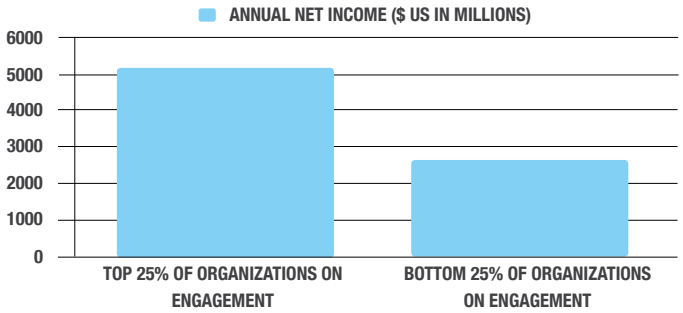

Figure 3: Annual net income and engagement

Organizations with highly engaged employees achieved twice the annual net income compared with organizations where employees lag behind on engagement ($r(64) = .316$, $p < .05$). There were clear differences between those organizations higher on engagement and those lower on engagement and their respective Annual Net Income.

This study is important because it represents one of the first efforts to examine employee engagement across organizations, industries, organization size and geographic location (i.e., global/multi-national organizations). Additionally, this study showed the correlation between employee engagement and business performance as almost three times larger than previously reported efforts (e.g., Harter, Schmidt, & Hayes, 2002).[2]

The second study, conducted across 39 organizations, examined the relationship between employee engagement and Total Shareholder Return (TSR) (see *Figure 4*). The results indicate that organizations with highly engaged employees achieve seven times greater 5-year TSR than organizations whose employees are less engaged.

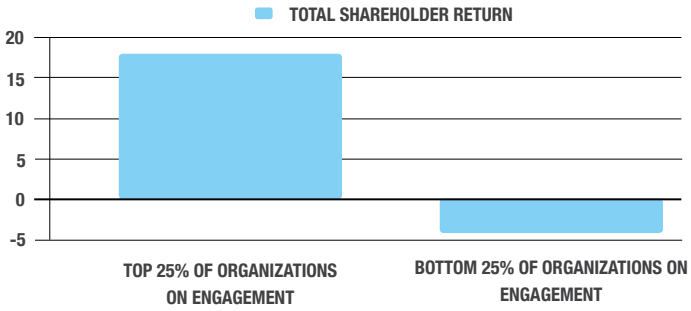

Figure 4: Total shareholder return and engagement

These results clearly demonstrate that there are measurable and compelling differences between those organizations that are high on employee engagement and those that lag behind. Employee engagement is a means to an end; in these studies, the ends are higher annual net income and stronger TSR. Interestingly, these studies produce correlations between employee engagement and important business performance metrics that are two to three times higher than previously reported studies. When we consider that having engaged employees influences how an organization performs, it is easy to grasp that employers who optimize employee engagement are those who improve their chances for business success. Improvements in employee engagement produce measurable improvements in business metrics. This is why the employee engagement construct is so important to business leaders today.

For more information

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Software Group
Route 100
Somers, NY 10589

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1 Wiley, J.W. (1996). Linking survey results to customer satisfaction and business performance. In A. I. Kraut (Ed.), Organization surveys: Tools for assessment and change. San Francisco: Jossey-Bass. http://www.getcited.org/pub/10110673.

2 Harter, J.K., Schmidt, F.L., & Hayes, T.L. (2002). Business-unit-level relationship between employee satisfaction, employee engagement, and business outcomes: A meta-analysis. Journal of applied Psychology, 87, 268-279. http://www.apaexcellence.org/resources/research/detail/1048.

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