

A Modern Survey White Paper

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**Modern Survey's Formula for
Winning through People**

Engagement + Direction + Capability = Performance

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Introduction

In the last few years, many consulting firms and their corporate clients have become ardent promoters of the notion that increasing employee engagement is the surest path to achieving impressive gains in bottom-line results. This is, no doubt, in part because of recent statements from respected business leaders, like the one Jack Welch made in his Business Week article, "How Healthy Is Your Company?" (05/08/06). The article contained his answer to the question "If you had to pick, which three measurements give the best sense of a company's health?" Here's what Welch wrote:

Employee engagement first. It goes without saying that no company, small or large, can win over the long run without having energized employees who believe in the mission and understand how to achieve it. That's why you need to take the measurement of employee engagement at least once a year through anonymous surveys in which people feel completely safe to speak their minds.

The single-minded pursuit of employee engagement has also been fueled by attention-grabbing claims that consulting firms and major corporations have been making about the enormous financial benefit of having a highly engaged workforce. Here is just a sampling of these kinds of claims:

Towers Perrin – ISR: Companies with high employee engagement demonstrated a 13.2 percent improvement in net income and a 27.8 percent improvement in EPS (earnings per share), while companies with low employee engagement showed a 3.8 percent decline in net income and an 11.2 percent decline in EPS over the same 12 month period.

Gallup: Engaged work places yield a 38% increase in productivity and a 27% increase in profitability.

Hay Group Insight: Highly engaged employees can impact business performance by up to 30%. Fully engaged employees are 2.5 times more likely to exceed performance expectations than disengaged colleagues.

GTE: Every 1 percent improvement in employee engagement boosts customer satisfaction by 0.5 percent.

The message from many advocates of employee engagement seems to be pretty clear – all you have to do is find ways to more fully engage your employees and stellar business results will automatically follow. But is it really this simple? The best available scientific research and our own extensive experience clearly show that it is not.

There is no doubt that having a highly engaged workforce gives any kind of business a clear competitive advantage. But having engaged employees by itself is no guarantee of organizational success. Allocating time, energy and money to the pursuit of increased engagement does not always provide the best return on investment. In some cases, identifying and addressing other issues that may be preventing employees from performing at their best will yield a much bigger "bang for the buck."

So, if employee engagement is only part of the equation, what else does it take to unleash the full potential that an engaged workforce represents, and turn that potential into outstanding business results? Well, Jack Welch is obviously a pretty smart guy, and part of the answer is actually there in the excerpt from his article. Let's look again more closely at what he wrote.

He said you need "energized" employees to win over the long run. And while there are probably as many different definitions of employee engagement as there are consulting firms that sell engagement-related services, the concept of "energized" employees is at the very heart of what "engagement" means to most everyone (including Modern Survey). But Welch goes on to say that you need "employees who believe in the mission, and understand how to achieve it."

From our perspective, believing in the mission is just one aspect of the kind of guidance that engaged employees need to channel their energy into the right the kinds of decisions and actions to help their company succeed. We call this type of guidance "Direction," and it includes things like having a clear picture of the company's vision and future direction, having a deep appreciation for the importance of quality and of customer service, and knowing what the company's goals are and how your work fits in. Welch also points out the importance of understanding how to achieve the company's mission. But we see this kind of understanding as just one aspect of the kinds of support that engaged employees need to get the job done. They also need things like proper training, adequate tools and resources, cooperative team members, and useful performance feedback to perform at their best. We refer to these aspects of organizational support for performance as elements of "Capability."

Modern Survey's perspective, then, is far more holistic than the perspective of the many consulting firms that are focusing entirely on increasing employee engagement. In our view, to win over the long term, organizations do need to create and sustain high levels of employee engagement. But they also need to harness the potential of an energized workforce, by providing both the Direction and Capability that employees require to perform at their best on the things that matter the most.

Modern Survey's complete model of what it takes to create and sustain high levels of Employee Engagement, and the critical aspects of Direction and Capability that are also needed to drive superior business results, is presented in Figures 1 and 2 below. Now we will turn the clock back 30 years and discuss the research base on which our model has been built.

Figure 1: Creating Engagement

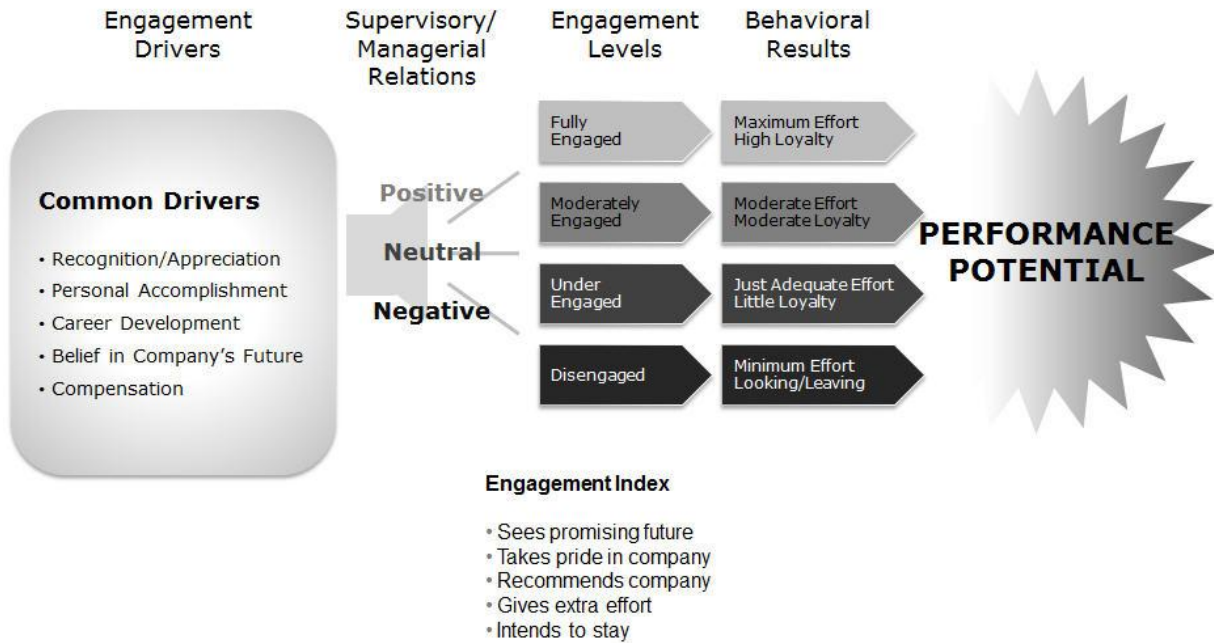
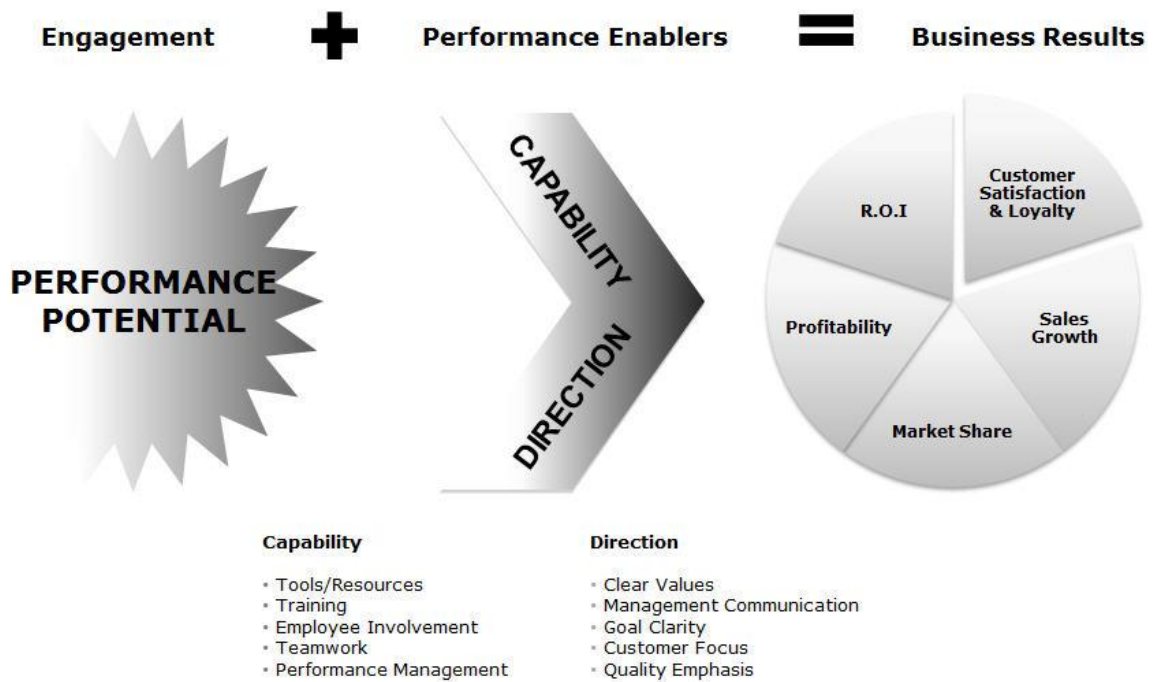


Figure 2: Harnessing Engagement



Examining the Measures of Employee Engagement

Thirty years ago many business leaders believed intuitively that having satisfied employees was important, because satisfied employees perform better, serve customers better, and ultimately contribute to a better bottom line. But there was actually very little hard data to prove the connections between employee opinions about the workplace, customer satisfaction, and actual business results. Since then, so much evidence has been amassed by both academic researchers and business consultants that the existence and importance of these kinds of connections can hardly be questioned.

Benjamin Schneider and his academic colleagues are generally credited with being the first to conduct and publish research on connections between employees' ratings of their work environments and customers' ratings of satisfaction. Their initial publication of this kind of research, which has come to be known as Linkage Research, was in 1980. Their first study was conducted in a branch banking setting, and demonstrated that when employees reported (via an employee survey) a stronger emphasis on customer service in their branch, customers were more likely to report (via a customer satisfaction survey) that they had received courteous and friendly service.

About a decade later, Jack Wiley and his colleagues (including, among others, myself) began to conduct and publish research that confirmed connections between employee opinions about the workplace and customer satisfaction, but that also demonstrated downstream links between customer satisfaction and various measures of business performance. Other researchers were also quite active in conducting and publishing Linkage Research studies during the 1990's, and by the end of the decade enough evidence had been accumulated to convincingly "prove the case" that employees' ratings of a variety of aspects of their work environments do indeed correlate strongly with customer satisfaction ratings, which in turn can be linked to actual business results. [For a helpful review of this body of research, see Jack Wiley's chapter "Linking Survey Results to Customer Satisfaction" in the book Organizational Surveys, edited by Allen Kraut (Jossey – Bass Publishers, San Francisco, 1996).]

Most of this Linkage Research, however, was published in academic journals that few business leaders ever read. And most of the findings were presented in the form of correlation coefficients, which don't readily translate into dollar figures. So these studies never really captured the attention of the business community in general. The 1994 Harvard Business Review article "Putting the Service – Profit Chain to Work" by Heskett, Jones, Loveman, Sasser and Schlesinger, however, did receive a lot of attention in the business community. And it made essentially the same case as did the more academic body of Linkage Research – namely that employee satisfaction helps to drive customer satisfaction, which in turn produces customer loyalty, which ultimately leads to increased profitability and revenue growth.

It is very important to note that the term "employee satisfaction" is often used in the Linkage Research literature as a sort of shorthand. If you look closely at the actual employee survey measures that were found to have the strongest links to customer satisfaction and business results, they are *not* measures of employee "satisfaction" in

the usual sense of the word. Rather, they are employees' ratings of observable aspects of their work environment, or the "climate" in which they work. The strongest links were typically found for employee agreement/disagreement with statements like the following:

Where I work, customer problems get corrected quickly.

New employees are given the training they need to perform their jobs effectively.

Where I work, day-to-day decisions demonstrate that quality is a top priority.

I have the authority to do what's necessary to serve my customers.

And although Heskett et. al. did explicitly use the term "employee satisfaction" in their Service – Profit Chain model, they also postulated that what drives "employee satisfaction" is something they called "internal service quality." Consistent with Linkage Research findings, in their model, "internal service quality" includes things like tools for serving customers, work place design and employee development.

Looked at closely, the evidence from Linkage Research studies, and even the Heskett et. al. work on the Service – Profit chain, does not establish employee "satisfaction" per se as a driver of customer satisfaction or business results. This is reflected in the more recent Linkage Research literature, where terms like "Service Climate" and "Performance Climate" are used to describe the actual driving force behind the customer satisfaction and performance linkages that researchers like Schneider and Wiley have repeatedly documented.

What the entire body of Linkage Research does convincingly demonstrate is the predictive power of employees' ratings of the degree to which their work environments encourage and enable them to do quality work, serve their customers well, and contribute to organizational goals. Time and again, these studies found that business units that were rated by employees as doing the best job of encouraging and enabling them to perform well were the ones with the most satisfied customers and the best business results. It is important to note that these studies did not involve the concept of employee engagement, which became popular only after most of the Linkage Research studies had been done.

In just the last few years, studies designed to prove a connection between employee engagement and business outcomes (like the ones cited at the start of this paper) have proliferated rapidly. Most of these studies have been done by consulting firms that sell engagement-related services, so the motivation behind many of these studies appears to be at least as much about marketing as it is about scientific discovery. And while claims about the magnitude of the "engagement effect" sometimes seem too good to be true, the consistency and sheer number of positive findings that have been reported is impressive. The convergence of this much evidence from researchers using different definitions, models, and measures of engagement points to a connection between employee engagement and organizational performance that simply has to be real, and important.

So, which is more important, the aspects of organizational support for performance that the Linkage Researchers have discovered and documented, or the energy and effort that highly engaged employees are willing to devote to their jobs? Some

researchers have recently been trying to answer this question, by attempting to demonstrate that their preferred construct, either Climate for Service or Employee Engagement, has more impact than the “competing” construct. But Modern Survey sees little value in posing or attempting to answer this kind of question. For us, the weight of available evidence clearly shows that both energized employees and an environment conducive to peak performance are critical to long-term business success. Our unique contribution is the synthesis of all the relevant concepts and findings from both lines of research in our proprietary model shown in Figures 1 and 2 above.

Modern Survey Approach to Employee Engagement

Modern Survey admittedly did not invent the notion of employee engagement, and there are about as many definitions of engagement as there are consulting firms and major corporations that have written about it. We analyzed all the different definitions of engagement that we could find, and distilled our own definition from the “common ground” we saw among the most compelling ones. From our perspective, employee engagement is best defined as the degree to which employees are psychologically invested in an organization, and motivated to contribute to its success. The key “output” of engagement is discretionary effort toward attaining organizational goals.

The specific survey questions that are used to measure employee engagement also vary widely across consulting firms and their corporate clients. Modern Survey examined all the different measures of employee engagement that we could find. Again, we saw clear convergence on five specific elements that seemed most compelling to us. These five elements are: seeing a promising future with the company, taking pride in the company, recommending the company to others, giving extra effort, and planning to stay with the company. We then created carefully worded survey questions to measure each of these five elements, and tested the measurement properties of each question on a national workforce sample before “locking down” our proprietary Engagement Index items.

Modern Survey can’t claim to have invented the concept of employee engagement, but we have identified and incorporated into our model “best practices” definitions of what it is and how it should be measured. Having done that allowed us to see a clear connection between the recently popularized idea of employee engagement and two additional lines of earlier research that did not use the term “engagement,” but that do speak directly to what it takes to foster and maintain an energized, committed workforce that is motivated to help the company succeed. These lines of research converge on five things that employers must provide for employee engagement to thrive. These five things are the Common Drivers of engagement shown in Figure 1.

One line of research involved asking nationally representative samples of the entire workforce the question “As an employee, what is the most important thing you want from the organization for which you work?” and then content analyzing their answers. We did this several times while I worked for Jack Wiley at Gantz Wiley Research. Each time, the answers clearly identified recognition/appreciation, a feeling of personal accomplishment, opportunities for career development, confidence in the company’s future, and fair/appropriate compensation as the five things people want most in return for their efforts at work.

Another line of research involved statistical analysis of national employee opinion data to identify the strongest predictors of employees’ stated intentions to stay with or leave their organizations. We did this quite a number of times at Gantz Wiley Research using data from nationally representative panel samples, and found that these same five things consistently emerged as the best predictors of intent to stay vs. intent to leave.

Even though this research was done long before the notion of employee engagement became popular, it seemed to us at Modern Survey, that doing a good job of

providing the five things that employees most want, and that best predict whether they intend to stay or leave, ought to be prerequisites for creating and sustaining their engagement. So we identified these as the Common Drivers of engagement in our model. And in every client survey we've conducted since we developed our model, we have found strong validation. In key drivers analyses we have performed using clients' data, these five Common Drivers have consistently emerged as potent predictors of Engagement Index scores in a variety of different client settings.

Often, however, there are unique drivers of employee engagement that are specific to the type of business an organization does and/or the type of the people it employs. Our model specifically acknowledges this, and our survey process includes key drivers analysis (technically multiple regression analysis) of each client's survey results to identify unique drivers of engagement that may be important for their particular workforce.

From our broad experience working with client organizations (as well as our personal experience as employees ourselves) it is obvious that immediate managers/supervisors, and the management climate more broadly, also play a key role in fostering and sustaining employee engagement. Having a supportive, caring manager does a great deal to reinforce and further enhance engagement, as does the perception that upper management is concerned about the well-being of employees. Conversely, having a negative relationship with one's immediate manager, or feeling that management sees employees as unimportant or replaceable, can severely undermine or even entirely destroy employee engagement. The quality of supervisory/managerial relations not only impacts how employees feel about their immediate managers and about management in general, but also how they feel about the drivers of engagement.

Good managers, for example, have a habit of showing genuine appreciation for their employees, and routinely recognize employees' accomplishments in meaningful ways. Poor managers, by contrast, often take credit for their employees' ideas and contributions, and behave in ways that make employees feel undervalued, or even disrespected. Good managers are able to position and explain their company's compensation practices in ways that help employees to feel good about their compensation. Poor managers, by contrast, are likely to "pass the buck" in discussions about compensation, by criticizing rather than supporting the company's compensation policies and claiming there is nothing they can do about them.

Clearly, managers at different levels in an organization, and especially immediate managers/supervisors, play a key role in "delivering" the engagement drivers to employees, although corporate policies, processes and systems provide the context in which managers operate, and also directly impact how employees experience the drivers. In our view, then, the quality of supervisory/managerial relations interacts with or mediates the more system-driven aspects of the engagement drivers. Accordingly, Supervisory/Managerial Relations is depicted in our model as a sort of "amplifier" of Engagement Drivers. It is the combined impact of Engagement Drivers and Supervisory/Managerial Relations that determines the engagement levels of individual employees.

Fully Engaged employees are the ones who answer at least 4 of our 5 Engagement Index questions with the most positive response possible. They envision a very bright future for themselves with their company, take a great deal of pride in their company, tell other people that it is a great place to work, often go beyond their

normal job duties to help the company succeed, and intend to stay with their company for a long time. Fully Engaged employees will devote an enormous amount of discretionary effort to things that contribute to the company's success, and demonstrate a high degree of loyalty to the company in their behavior. They have a hard time imagining a better place to work, and are nearly impossible for other companies to recruit.

Moderately Engaged employees give mostly positive answers to the Engagement Index questions. They are typically solid contributors, but generally not "star" performers. They will devote a considerable amount of extra time and effort when it is needed, but typically set limits that are well within their comfort zones regarding how much extra time and effort they are willing to put in. Moderately Engaged employees are not actively looking for other employment opportunities, and in most cases are not particularly interested in talking with headhunters or exploring job opportunities with other companies. They are not, however, completely invulnerable to recruitment efforts.

Under Engaged employees give mostly neutral to mildly positive answers to the Engagement Index questions. In most situations, they put in enough time and effort to do acceptable work and to meet basic performance expectations, but not much more. Although they may have the skills and abilities to perform at far higher levels, they simply aren't motivated to do so. Some of them may be actively looking for other positions. Most of them would be willing to leave if someone approached them with an offer of more money, better working conditions, etc. And the offer might not need to be that much better to get them to leave.

Disengaged employees give mostly negative answers to the Engagement Index questions. Whether they have the potential to be "superstars" or just enough talent to meet minimum expectations, these people have "checked out." They envision a dismal future for themselves if they stay, and are likely "badmouthing" the company to other people. In most situations they will do only the bare minimum to get by in their jobs, and most are actively looking for opportunities elsewhere that would allow them to leave.

In order to maximize employee engagement, then, organizations need to create an environment in which people feel they are valued/appreciated and properly recognized for their contributions, where they get a strong feeling of personal accomplishment from their work, feel they have good opportunities to develop themselves and their careers, feel confident about their company's future, and believe they are fairly and appropriately compensated. Achieving this depends on the quality of the relations employees have with their managers and their perceptions of management/leadership in general, as well as on corporate policies/practices that promote positive employee feelings and beliefs in these 5 fundamental areas. This is what the best available research suggests it takes to create the kind of energized workforce that Jack Welch wrote about. But having an energized workforce is not enough. Organizations also need to do a great job of providing the critical elements of Direction and Capability that engaged employees need to turn their efforts into great business results.

Direction and Capability

Each of the elements of Direction and Capability contained in our model (see Figure 2) is well supported by available research (particularly Linkage Research studies) as well as our own broad experience as business consultants. Others have written about the importance of each of these elements, but only Modern Survey has discerned the natural inter-relationships among them, and grouped them into the broader constructs of Direction and Capability.

To fully harness the potential of an engaged workforce, organizations need to direct the energy and discretionary effort of engaged employees toward the things that matter most. This involves having a clearly defined set of values that most employees can readily name and fully understand, and that really do guide the way that they and those around them (especially senior management) behave **[Clear Values]**. It requires effective communication from management **[Management Communication]** that keeps employees well informed about issues facing the company, and that gives employees a clear picture of the company's vision and future direction. It also means achieving clarity about the company's goals **[Goal Clarity]**, so that employees understand the goals, how their work fits in, and how they can contribute. For nearly any kind of organization, it means developing a culture that is truly focused on customers **[Customer Focus]** so that people at all levels are strongly committed to providing exceptional customer service, that when customer problems do occur they get corrected quickly, and customer feedback is effectively utilized to make improvements. And for most any type of organization it means a continual emphasis on quality **[Quality Emphasis]** so that people have a deep understanding of the importance of quality, and everyone strives to continually improve.

Finally, energized employees who know what matters most cannot fully contribute to achieving the organization's mission unless the organization provides them with the necessary capabilities. This means ensuring that there are adequate tools, resources, and staff **[Tools/Resources]** to perform the work efficiently. It also means clearly defining people's roles and responsibilities, and giving employees (particularly new ones) the training they need to perform effectively **[Training]**. Enabling employees to fully contribute includes allowing employees to participate in decisions, and putting good ideas they have to use **[Employee Involvement]**. It also involves getting people to work well together, both within their own teams and across departmental lines **[Teamwork]**. Additionally employees need helpful feedback and effective performance evaluations **[Performance Feedback]** to perform at their best.

Putting It All Together

The connections that link each of the elements of Direction and Capability to individual and/or group performance have all been well documented. Modern Survey has organized the learnings from several decades of research, business literature, and our own consulting practice into our powerful framework for understanding how all the pieces fit together to drive business results. Our formula for winning through people is simple:

$$\text{Engagement} + \text{Direction} + \text{Capability} = \text{Performance}$$

But properly balancing all of the elements contained within our model is not a simple affair. It requires a holistic approach rather than a single-minded focus on just one part of the equation. It involves measuring and evaluating all of the different components to assess organizational strengths and weaknesses, and to determine where investments of time, resources and money are likely to yield the biggest returns. Modern Survey is the best consulting partner to help any type of organization with this process.



Benefits

"It goes without saying that no company, small or large, can win over the long run without having energized employees who believe in the mission and understand how to achieve it" (Welch, "How Healthy is Your Company").

"Fully Engaged employees... envision a very bright future for themselves with their company, take a great deal of pride in their company, tell other people that it is a great place to work, often go beyond their normal job duties to help the company succeed, and intend to stay with their company for a long time. Fully Engaged employees will devote an enormous amount of discretionary effort to things that contribute to the company's success, and demonstrate a high degree of loyalty to the company in their behavior. They have a hard time imagining a better place to work, and are nearly impossible for other companies to recruit" (*From "Modern Survey's Approach to Employee Engagement"*).

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Modern Survey's Holistic Organizational Assessment

Modern Survey has developed a proprietary 45-question Engagement Survey that is carefully constructed to measure every element of our model. Our survey gives you an accurate assessment of how engaged your workforce is, and how you are doing on the factors that most commonly drive employee engagement. It also gives you a clear read-out on how effective your organization is in providing all the essential elements of Direction and Capability.

Modern Survey will customize our standard survey for your organization, by adjusting the terminology used (e.g. "manager" vs. "supervisor" vs. "team lead") to fit your culture, identifying the right demographic items to "cut" your data in the most useful ways, and by adding questions as needed to address topics you feel are important (e.g. diversity, work/life balance, etc.) but that are not included in the 45 core items. We will administer the survey using whatever combination of methods (web, paper, or IVR) best meets your needs, and analyze and report the results using our state-of-the-art software platform. Part of this analysis will be identification of any unique drivers of engagement (e.g. support for innovation, work/life balance, etc) that may be specific to your workforce.

Armed with the holistic assessment that our survey provides, we will help your organization identify where you should focus improvement efforts for the highest return on your investment. We will assist your organization in developing appropriate action plans to address your highest priorities, and help you decide when and how to take follow-up measurements to evaluate your progress and to identify any "course corrections" that you may need to make.

For more information on how you can start putting Modern Survey's formula for success to work in your organization, contact us at ask@modernsurvey.com or call 866-876-8242