Reinventing Employee Surveys:
New Strategic Measurement Tools for Managing Talent and Strategy Execution

CHRMS, Fairleigh Dickinson University
Brian S. Morgan, Ph.D., JT Kostman, Ph.D.
May 2006
Nobel Prize in Economics

Gary S. Becker
1992

Theodore W. Schultz
1979
## Traditional Drivers of Economic Growth

<table>
<thead>
<tr>
<th>Factories</th>
<th>Machines</th>
<th>Buildings</th>
</tr>
</thead>
</table>

Physical Assets
## New Drivers of Economic Growth

<table>
<thead>
<tr>
<th>Intellectual Capital</th>
<th>R&amp;D</th>
<th>Brand Reputation</th>
</tr>
</thead>
</table>

**Human Capital**
Google

Property, Plant & Equipment

$159M

Market Cap:

$87.4B
Survey Says . . .

• “Overall the hotel was great but the service was poor.”

• “We chose this resort for our honeymoon based on the reviews and the golf course. What a mistake.”

• “[We] will never think of staying at this resort again!”
Four Seasons Hotel

Property, Plant & Equipment

$312M

Market Cap:
$1.98B
Are You Engaged Yet?!?
Engagement Is Essential – But Insufficient

Alignment
Capabilities
Engagement
People Equity

• **Alignment:**
  – Are we going in the same direction?

• **Capabilities**
  – Do we have what we need to succeed?

• **Engagement**
  – Are we committed?
# People Equity Profiles

<table>
<thead>
<tr>
<th>Alignment</th>
<th>Capabilities</th>
<th>Engagement</th>
<th>Profile</th>
</tr>
</thead>
<tbody>
<tr>
<td>🟢</td>
<td>🟢</td>
<td>🟢</td>
<td><strong>Superior Performance</strong></td>
</tr>
<tr>
<td>🔴</td>
<td>🔴</td>
<td>🟢</td>
<td><strong>Country Club</strong></td>
</tr>
<tr>
<td>🟢</td>
<td>🔴</td>
<td>🟢</td>
<td><strong>Under Equipped</strong></td>
</tr>
<tr>
<td>🔴</td>
<td>🔴</td>
<td>🟢</td>
<td><strong>Strategic Disconnect</strong></td>
</tr>
<tr>
<td>🟢</td>
<td>🟢</td>
<td>🔴</td>
<td><strong>Under Achiever</strong></td>
</tr>
<tr>
<td>🟢</td>
<td>🔴</td>
<td>🔴</td>
<td><strong>Frustrated / Cynical</strong></td>
</tr>
<tr>
<td>🔴</td>
<td>🔴</td>
<td>🔴</td>
<td><strong>Wasted Talent</strong></td>
</tr>
<tr>
<td>🔴</td>
<td>🔴</td>
<td>🔴</td>
<td><strong>Retired In Place</strong></td>
</tr>
</tbody>
</table>

*Note: The table uses arrows to indicate the direction of alignment, capabilities, and engagement. Green arrows indicate alignment, while red arrows indicate disalignment.*
People Equity Scores

98%

21%
# People Equity Scorecard

**Acme Corporation**

<table>
<thead>
<tr>
<th>Alignment</th>
<th>Capabilities</th>
<th>Engagement</th>
</tr>
</thead>
<tbody>
<tr>
<td>53</td>
<td>68</td>
<td>89</td>
</tr>
</tbody>
</table>
Likelihood of Success

ISO 9000: 70%
Continuous Improvement: 60%
Performance Metrics: 50%
Voice of Customer: 50%
Customer Satisfaction: 50%
Likelihood of Success

- ISO 9000: 70%
- Continuous Improvement: 50%
- Performance Metrics: 40%
- Voice of Customer: 50%
- Customer Satisfaction: 40%
Likelihood of Success

- ISO 9000
- Continuous Improvement
- Performance Metrics
- Voice of Customer
- Customer Satisfaction

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Turnover – Overall

Top Quartile PE: 7.7%
Bottom Quartile PE: 16.7%

Savings Annually!

$18.8 Million
Return On People Equity Calculator

- Customer Lifetime Value
- The Learning Curve
- Sales Performance
- Productivity
- Selection Benefits
- Turnover Costs

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About Strategic Surveys

Strategic surveys are focused on the people issues that make the greatest difference in business performance
About Strategic Surveys

• Strategic survey items ask whether employees:
  – understand the strategy and their role in achieving business objectives
  – are engaged with these objectives and with the company itself
  – have the resources they need to get the job done

• As such, strategic surveys are very different from traditional surveys that focus on employee satisfaction
About Strategic Surveys

• Three questions for the leadership team:
  – What are the most important business goals for your organization to achieve?
  – What people results are critical for the organization if it is to achieve these goals?
  – What people drivers impact performance on these people results?
People Equity

The people equity model provides a framework for turning the leadership team’s responses into survey questions

- **Alignment:**
  - Are we going in the same direction?
- **Capabilities**
  - Do we have what we need to succeed?
- **Engagement**
  - Are we committed?
Survey Follow-Up Action/Implementation

- The focus is on a few key issues
- Follow-up is driven top-down, not bottom up
- There is a strong focus on implementation
- Progress is tracked and communicated
Case Examples
About Strategic Surveys

- Specific items about strategic direction are critical elements of the survey.
- The items measure:
  - awareness of the company’s overall direction
  - alignment of individual and unit objectives with overall objectives
  - buy-in
Strategic Direction

These items on strategic direction are key to understanding alignment. In this company clarity has increased, but buy-in has not.

<table>
<thead>
<tr>
<th>Item</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Trend</th>
<th>From Prior Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>5m. I understand how my actions advance the strategic objectives of my unit and the company.</td>
<td>74</td>
<td>18</td>
<td>8</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>5l. I understand how my unit’s objectives fit in with the company’s overall strategic objectives.</td>
<td>70</td>
<td>19</td>
<td>11</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>5k. I have a clear understanding of the company’s strategic direction.</td>
<td>60</td>
<td>22</td>
<td>18</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>5o. In my unit, we have begun to eliminate activities that are not consistent with the company’s strategic direction.</td>
<td>54</td>
<td>34</td>
<td>12</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>5n. I believe that the company’s strategic direction is the right direction for the company to take.</td>
<td>46</td>
<td>37</td>
<td>17</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>5p. The company is making the changes necessary to compete effectively.</td>
<td>46</td>
<td>31</td>
<td>23</td>
<td>1</td>
<td></td>
</tr>
</tbody>
</table>
Views of strategic direction vary substantially across units.

(Unit names removed)

<table>
<thead>
<tr>
<th>Percent Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>90</td>
</tr>
<tr>
<td>76</td>
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<tr>
<td>73</td>
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<td>71</td>
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<tr>
<td>49</td>
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<tr>
<td>46</td>
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<tr>
<td>41</td>
</tr>
</tbody>
</table>
About Strategic Surveys

• Because we used PINs to identify individuals, we were able to do a predictive study of actual turnover for a client.

• We learned that elements of both alignment and capabilities were key predictors.
Prediction of Turnover

In an organization in which employees used PINs to log in to the survey, employees’ responses to survey items could be linked to actual voluntary turnover over the course of a year. The results revealed the importance to retention of drivers of both engagement and capabilities.

- Believe I am paid fairly
- Managing poor performers
- Last appraisal helped improve performance
- Work is organized to use people resources effectively
- Merit increases linked to performance
- People are held accountable
- Actual departure from organization
Linkage

• For a health care organization with a large number of hospitals, we were able to link ACE survey findings to several key outcomes.
An extensive analysis of over 30,000 employees in 76 healthcare facilities throughout the United States showed higher levels of **People Equity** to reliably predict hospital loyalty among Physicians and Patients. **People Equity** was also linked directly to financial performance. A meta-analysis showed higher levels of **People Equity** to be a highly reliable predictor of employee’s desire to remain employed with their current hospital.
Measuring Values & Regulatory Alignment

- We asked a number of questions regarding business ethics in a petroleum company.
- We found a generally healthy ethics climate, but with some unit variation.
Sr. management sets high standards of ethics.

- Marketing - 96%
- Logistics - 92%
- IT - 86%
- Controllers - 83%

Sr. management demonstrates high standards of ethics.

- Marketing - 91%
- Logistics - 83%
- IT - 74%
- Controllers - 65%

Comfortable to report unethical actions.

- Marketing - 84%
- Logistics - 77%
- IT - 76%
- Controllers - 66%

Company would take action if unethical actions were reported.

- Marketing - 90%
- Logistics - 88%
- IT - 81%
- Controllers - 79%
Overview

• Strategic surveys capture the attention of senior management as they focus on the people issues with the greatest impact on business performance.

• To conduct an effective strategic survey:
  – Start with an inquiry into strategy and the people issues that drive effective strategy implementation
  – Go beyond engagement. Focus on alignment, capabilities, and the company’s unique strategy as well.
  – Perform analyses to document links between people issues and business outcomes.
  – Focus follow-up on a few key issues. Track and measure effectiveness of implementation.
Conclusions

How strategic surveys differ from traditional surveys:

1. Outcome vs. process oriented
2. Focused on organizational goals
3. Emphasis on variance
4. Importance of PINs
5. Linkage analysis