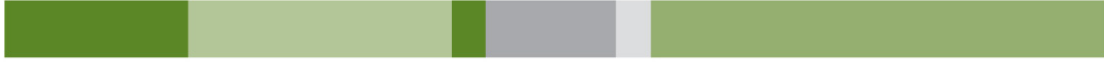


Nonprofit **HR Solutions**



An Apple is an Apple is an Apple Employee Engagement: Does Benchmarking Really Have Value?

A **Nonprofit HR Solutions** White Paper

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Introduction

Is your organization using benchmarking data? If so, does your organization have a clear reason for its usage and are you using the data correctly?

Key Issue

Organizations often use benchmarking data because best practices say they should, but they end up using the wrong data in an incorrect fashion.

Key Solution

Benchmarking data can be very useful, but organizations need to discover the exact data they need, obtain the correct data and then implement it properly.

Nonprofit HR Solutions' Guidance

If your organization is seeking guidance or consultation concerning HR matters related to benchmarking, please contact Lisa Brown Morton at Nonprofit HR Solutions, (202) 785-2060 or via email at lmorton@nonprofithr.com.

EXECUTIVE SUMMARY

This article examines the extent to which normative databases prove useful to organizations that implement employee surveys and presents arguments that show that normative databases as presently used by organizations are not an appropriate benchmark. First, in view of the industry-wide trend of comparing data obtained from employee surveys to external benchmark data, attention is focused on moving away from comparing apples to oranges. Second, this paper makes alternate recommendations for organizations to use benchmark data as well as presents ways to overcome challenges posed by benchmark data. Lastly, the discussion turns to action planning based on data collected from employee surveys highlighting key issues for HR to take into account.

EMPLOYEE SURVEY INITIATIVES

Maximizing organizational productivity requires that employee goals and tasks must be aligned with overall business strategy and goals. Front line or not, every aspect of employee involvement ties into the firm's bottom line. Employee attitude and the extent to which the firm's employees are satisfied and/or engaged in their jobs is one of the most critical direct predictors of not only productivity and organizational success but also the firm's market position from a multi-dimensional perspective, including being an employer of choice, product and/or service of choice, employer and/or product brand positioning, and last but not least the extent to which the employee and employer mutually care about each other.

Research shows that engaged people are more likely to have lower turnover, absenteeism and accidents, and higher customer loyalty, profitability, sales per employee, market value and gross return on capital than those who aren't engaged. In the average organization, 74 percent of all employees are either un-engaged or disengaged. Operating at only two-thirds capacity results in a loss of about one-third of the organization's payroll. (The Gallup Organization)

Assessing the levels of employee engagement, attitude, and satisfaction across an organization has, of-late, gained tremendous attention. Most companies contract with third party vendors to implement employee surveys, collect data and provide statistical analyses, as well as supply normative data for every question and/or category on the survey as a measure of comparison. HR then prioritizes issues that need the most attention, develop action plans to improve on identified areas, and communicate survey results to all employees.

Ideally, everything from implementation of surveys all the way to communication of results and development of action plans should happen within a very narrow time- frame - 30 to 40 days. The highest return on investment on employee surveys are when the surveys are implemented either quarterly or in the form of pulse surveys. Organizations can then regularly track the engagement, satisfaction and/or attitude levels as well as the effectiveness of action plans.

However, everything is not as rosy and ideal as one would hope it would be. According to the most recent data published by Gallup Management Journal, only 29 percent of employees in the US are actively engaged in their jobs, 54 percent of employees are not engaged, and 17 percent of employees are disengaged. A Towers Perrin 2005 *Global Workforce Survey* involving about 85,000 full-time employees found that only 14 percent of all employees worldwide were highly engaged in their jobs. Even more interesting is the fact that a growing percentage of Fortune 500 companies, small and mid-sized companies not only have employee engagement initiatives but also consider it a high priority issue.

A study released by Harris Interactive Inc. revealed that only 33 percent of the employees were satisfied with their jobs, twelve percent were extremely satisfied and just 47 percent of the workers at big companies said that they cared about their employers. (BostonWorks.com, Retaining talent, benefits top concern, January 30, 2005) Just 20 percent felt passionate about their work and less than 15 percent described their work as energizing. According to a survey of employee engagement in the USA, 81 percent of the companies polled considered it to be a core business function. The research, provided in Hackett's 2005 *Enterprise Book of Numbers*, found world-class HR companies spend \$1,422 per employee, compared to \$1,895 for other companies.

According to a Mercer/CFO Magazine study, corporations spend, on average, 36 percent of their revenue on human capital expenses with companies spending 25 percent to 35 percent of their revenues on HR. (David Bilinsky and Laura Calloway, *The Case for Investing in Employee Engagement: how Turnover Affects Growth Rates*, Law Practice Vol. 32, N2, Page 49) Employee survey initiatives can easily eat up a large share of that percentage. The average cost of implementing a single census employee survey for 9000 employees is \$108,000 per annum. (Interviews conducted by author with five leading employee survey vendors) The price can go over \$300,000 per annum depending on the level of analyses, reports requested and consulting involvement of the survey vendors. Assuming that all the steps from survey development to implementation and data collection are accurately done, why isn't there a satisfactory return on investment? What is HR doing with the survey data?

One possible explanation is that HR prioritizes critical employee issues that need attention based on external benchmark data supplied by the third party vendors.

EXTERNAL BENCHMARKING IS MISLEADING

Benchmarking is the continuous process of measuring something against a standard reference point. Effective benchmarking is one that ties directly to the improved results desired by the organization's leadership. (Camp, R., 1995. *Business Process Benchmarking: Finding And Implementing Best Practices*) Benchmarking has a long history and has proven extremely useful in a variety of circumstances in the business world. Nevertheless, it has become a buzzword today wherein everybody talks about

benchmarking, everything is benchmarked, and those who don't do it are perceived as "lagging behind" or "missing out."

"Our firms' IO Psychologists don't really believe in benchmarking employee survey results, but we provide benchmark data because organizations insist," says a senior consultant of an employee survey vendor firm. (Interview with an IO Psychologist – name and organization requested to remain anonymous)

If there is one example of benchmarking being taken out of context, it is in assessing employee attitude, satisfaction, and/or engagement within an organization.

Decisions can get alarmingly flawed when an organization's employee survey results are compared to those of another organization. But this is exactly what organizations do. Consulting firms that work with organizations to design, implement and analyze employee surveys boast of a collection of benchmark data, or what is called normative data. Normative data represent the normal or average scores for any normative survey question across various levels of performance. Normative databases are typically obtained from three main sources:

1. Industry specific normative data obtained from a representative sample of the US workforce,
2. Industry specific normative data obtained by using divisional Standard Industry Code (SIC), and
3. Normative data based on nature of business environment or type of products.

Organizations use benchmark data to assess and draw conclusions about their own employee survey results, and subsequently use those conclusions to drive improvement initiatives and action planning. Although not immediately obvious or ever acknowledged, this is when everything goes downhill. Using such benchmark data to assess how an organization is doing is flawed because they are comparing apples to oranges.

COMPARING APPLES TO ORANGES

David Bracken (June 1992) notes that the normative databases generally used are not an appropriate benchmark for employee surveys since they represent the average company. He suggests that it makes more sense for an organization to restrict the comparison group to excellent companies based on a number of factors such as excellence in customer service, training, quality pay, communications, or benefits depending. (Bracken, D. W. (June 1992). Benchmarking Employee Attitudes, Training and Development 46, 6)

While the intended purpose of benchmarking is to identify and attempt to emulate industry practices that have proven successful, organizations should pay careful attention to whether or not the identified benchmarks are appropriate for them. Even if normative databases for employee surveys were to represent "excellent" companies consisting of benchmark companies chosen by the organization that purchases the normative database,

it may still not be an appropriate benchmark. An organization should be very careful when selecting which companies to include and which not to include in the normative database. There are three key problems with normative databases for employee surveys organizations need to be aware of.

First, normative databases ignore differences in organizational culture. The contemporary definition of organizational culture includes what is valued, the dominant leadership style, the language and symbols, the procedures and routines, and the definitions of success that characterizes an organization. (Schein, E. H. (1992) *Organizational culture and leadership* (2nd Ed.). San Francisco: Jossey-Bass) Organizational culture represents the values, underlying assumptions, expectations, collective memories, and definitions present in an organization (Schein, 1992; Cameron & Quinn, 1999). A combination of a variety of factors is responsible for the creation of a specific kind of culture.

An organization 's culture does not just occur, it is cultivated over time. Culture is a product of evolution. The leadership styles of the founders and first management cascade down every level affecting managerial styles and employee relationships. Likewise, work styles and goals of every employee or employee group are shaped by the values and mission of senior management. Further complicating the issue of culture is that over time there may be transformational changes as an organization grows which may or may not be spearheaded by management. Given that the culture of an organization affects its people in a multitude of work related behaviors, it is unwise to compare the attitude, satisfaction, and/or engagement levels at one organization with another whose culture may be very different. The fact that normative databases in employee surveys represent an average of survey results from a set of companies further causes the use of benchmark data to be questioned.

Second, normative databases ignore the fact that survey questions have different degrees of relevance in different organizations. When an organization compares its employee survey results to a benchmark, it is not only imperative to ensure that the benchmark organizations are culturally similar but also that survey questions are interpreted to have similar meanings and similar degrees of relevance for employees at the benchmarked organizations.

For example, questions related to work-life balance for investment bankers at Goldman Sachs who are known to have unpredictable and long working hours may not be as relevant as it may be for banking officers at Bank of America who are known to have a structured nine to five schedule. Comparing survey results of Goldman Sachs to those of Bank of America and concluding that work-life balance at Goldman Sachs is below industry average and hence needs attention would be a faulty conclusion.

Third, "industry specific" normative databases are really not what organizations think. Benchmark data that is industry specific whether derived from SIC code, or other industry specific data, is really an average of all companies that classify under a certain industry code or classification. Let alone organizational culture and relevance of survey

questions; many times an organization isn't even comparing against competitors in the same business in terms of product or service, although they think otherwise. This is because a variety of non-similar businesses can be classified under a certain industry classification but are not consist of similar business, people, organizational structure, or work.

For example, Cendant Corporation is classified under hospitality but so is a beach resort company. The two organizations are totally different - the kind of work people do is different, products and services are different, everything is different. Comparing the two does not tell either organization anything except provide them with a vague reference point.

CONFIGURING THE RIGHT NORMATIVE DATABASES

Overcoming the pitfalls and challenges posed by normative databases isn't easy. Nevertheless there are ways to address the challenges previously outlined. When an organization buys normative databases from a survey vendor, the organization must insist that they be allowed to choose which companies' data are used on the databases. In essence, although a normative database represents the average company, when organizations are able to select what makes up that average, they are then in a better position to actually compare apples to apples.

First, organizations should determine which organizations make most sense for them to compare employee survey results. An organization should choose organizations whose culture and organizational structure matches most closely to theirs. Based on what an organization considers important aspects, other factors could be considered in choosing which companies to include in a normative database.

Second, survey vendors who collect data from companies and create normative databases must also collect information on how relevant each question is to each company. An average of the degrees of relevance should be provided for every survey question on the normative database. This would enable the organization using the normative database to better understand the relevance of the average scores relative to theirs.

Third, survey vendors as well as organizations should move away from normative databases that are termed "industry specific." Allowing organizations to pick which companies are to be included in the normative database would enable them to pay for normative databases that are really industry specific.

USING NORMATIVE DATABASES IN THE RIGHT WAY

Whether or not normative databases are useful at all depends on what an organization uses them for. Organizations that find employee surveys useful and actually seen improvements due to action planning are those that pay closer attention to themselves than other organizations. External comparisons can prove useful only to give

organizations a sense of how well positioned they are in terms of employment brand or as a measure of how far they are from being an “employer of choice.” When an organization pays too much importance to normative data, the employee survey initiatives become self-defeating.

One possible solution to the complex challenges posed by normative databases is to not use them at all. However, a more realistic and practical solution would be for an organization to first assess, analyze, decide what needs improvement, and develop action plans solely based on their own survey data and organizational goals. Once that is done, an organization can refer to normative databases and analyze their position with respect to other organizations. A useful step would be for an organization to evaluate whether or not to implementing the action plans developed earlier would address both the internal as well as external analyses.

Even if normative databases are carefully configured to represent companies that are appropriate to be benchmarked against, it is crucial for organizations to use the benchmark data only as a reference point and not as the primary driver of action planning. Organizations will be able to better identify potential items to improve on and formulate the right action plans if they rely on analyses of their own survey data on a time series basis. Pulse surveys serve exactly this purpose and more. Organizations can then regularly track the attitude, satisfaction, and/or engagement levels as well as the effectiveness of action plans. Organizations are not only in a better position to gauge employee attitudes, satisfaction, and/or engagement when they are constantly benchmarking against themselves but are also better positioned to drive their employees’ in line with business goals.

EMPLOYEE SURVEY BASED ACTION PLANNING

One of the most challenging phases of employee surveys at organizations is the action-planning phase. Once survey vendors report employee survey results, typically it then becomes the responsibility of Human Resources (HR) to analyze the survey data, identify gaps or pitfalls, develop and implement action plans, and communicate survey results and action plans to employees.

It is not only important that HR consider all internal and external data available in identifying priority employee issues and formulation of action plans but also important for HR and senior management of the organization to review issues such as where they see the organization heading, what the productivity levels are, HR metrics, and how tight the link between business goals and employees are from time to time. It is innately important for HR to take into account an organization’s business strategy when evaluating employee surveys. Effectiveness of employee survey based action planning can be increased five-fold if it is preceded by HR’s proactive effort in abstracting current employee survey data analyses and understanding it from a multi-dimensional business perspective.

Pay attention to what prior employee survey data indicated.

It is important for HR to see what aspects of employee 's satisfaction; attitude and/or engagement factors have changed over time. Keeping track of how effective previous action plans were will allow HR to address issues that did not change or improve as intended. Further, HR may want to continue to address issues that raised red flags on prior surveys even if they don 't on the current survey. Incorporating past data into decision making processes is an extremely value adding measure for HR to take.

Take into account the business goals and strategy. Understand what employee issues the organization wants to focus on.

If HR is to be viewed as a strategic business partner, every action taken by HR should be in line with overall business strategy and goals. Changes in business strategy can be successful only with an appropriate corresponding change in employee attitude at the workplace. An assessment and analysis of the business environment can aid HR in understanding why there are certain changes indicated by employee surveys as well as what changes in employees' attitude need to be initiated by management. Prioritization of employee issues as indicated by employee surveys and formulation of action plans should rely both on what the survey data says as well as the internal business environment.

A high turnover situation does not necessarily mean employee surveys have answers. Understand the limitations of employee surveys.

Very often organizations depend on employee surveys to solve high turnover problems. Employee surveys may sometimes serve well to indicate why people are leaving the organization. However organizations must keep in mind that that people leave for a number of reasons and it would be premature for HR to design action plans with the goal of boosting retention. Changing business environments, changes in the industry, and a ton of other external factors may explain turnover. Another important issue that HR should take into account is the fact that if an organization is faced with high turnover, is the employee survey data reliable? If so, to what extent is it reliable? HR should be careful in its assessment of employee survey data. Developing action plans that attempt to address issues that are really not indicated by employee surveys is a waste of time and money.

Assess survey data for each employee group or business unit separately. Develop several different action plans for different employee groups if necessary.

To derive the maximum benefit out of employee survey initiatives, it is imperative for HR to recognize that a one plan fits all approach to action planning wont result in phenomenal improvements in employee attitude, satisfaction, and/or engagement. When HR conducts analyses of survey data based on employee groups be it by business unit, or by job function/type, or job level, it is likely that the survey data will reveal different issues that need attention for different groups. As a result, several different action plans may need to be developed for each employee group.

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