GALLUP CONSULTING®

Architecting Transformation

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Executive Summary

Imagine, if you will, what your enterprise or organization could accomplish if it could improve its performance by four times in less than as many years. As a global leader in leader in measuring and understanding human behavior Gallup will get you there, helping both architect and realize transformation.

Gallup has been a leader in measuring and understanding human behavior for more than 75 years. Beginning with a focus on social and economic research, George Gallup believed "If democracy is supposed to be based on the will of the people, then somebody should go out and find out what that will is." While becoming a global leader in public opinion surveys, The Gallup Organization expanded its research to measuring employee and customer satisfaction in public and private settings and, upon closer investigation during the 1990s, discovered that typical benchmarks and measurement models, such as employee satisfaction surveys, are not linked to meaningful outcomes. In some cases common benchmarks and measurement models actually aligned leaders, managers, and associates to *median* instead of *high* performance, and *aggregate* instead of *actionable* information on the *local, organizational, and enterprise performance* simultaneously.

Consequently, Gallup scientists used results from our own databases and dozens of other studies to determine what factors were most linked to organizational performance. This paper highlights a number of areas that, when used individually or as an integrated framework, dramatically improve performance. In particular, using just a few components of this framework improves organizational performance by more than five times in less than as many years. Furthermore, Gallup's ethos, and the nature of our framework and individual practices and tools, is research-based, quantitative, predictive of performance, and actionable at the enterprise, organizational, and local levels. Finally, the generalizable nature of the underlying research proves that this is not just possible but likely, independent of the outcomes upon which an enterprise, organization, or workgroup defines or measures itself.

Four components (Select, Develop, Engage, Optimize) and seven areas (Employee Selection, Executive Selection, Succession Planning, Strengths-Based Development, Employee Engagement, Customer Engagement, Performance Optimization) are described briefly and at some length below. Attract, the accession of employees from the marketplace external to an enterprise, is not discussed in this paper but can be explained via further discussion with a Gallup expert.
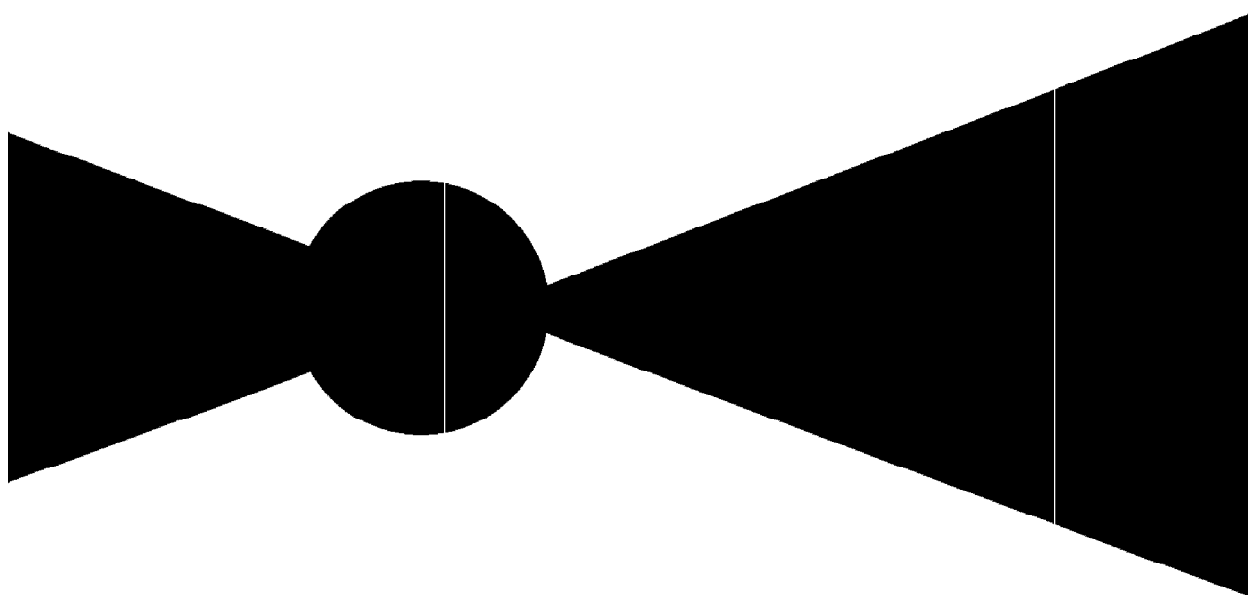
Employee Selection: Build and use research-based instruments that are predictive of performance to hire candidates most like your top quintile associates. Based on over 535 predictive validity studies, such instruments improve individual performance an average of 30%, drive substantial reduction of hiring cost, and increase the ability to disambiguate top candidates.

Executive Selection: Based on research including over 44,000 executives across all industries, benchmark, select, coach, and develop leaders regarding seven foundational factors and five domains distinguishing for and predictive of performance for enterprise-level leadership.

Succession Planning: Using research-based executive selection as a basis for larger scope annual and long-term succession planning, ensure objective, validated, and predictive measures form the foundation of executive hiring, placement, progression, and promotion. This results in 30% enterprise-level performance improvement compounded annually for several years through superior executive team design based on complementary strengths.

Strengths-Based Development: Based on research including over 100 predictive validity studies and over 3 million participants, develop and place employees based on their naturally recurring patterns of thought and behavior. This results in as much as 66% performance improvement for low performers and 8-9 times for high performers while improving organizational outcomes approximately 20%.

Employee Engagement: Based on research including over 5.4 million employees and managers in 620,000 workgroups, leverage a concise model and corresponding local-level reporting to benchmark workgroup, workforce, and organizational effectiveness, improving positive and negative organizational outcomes (productivity, quality, budget effectiveness, customer loyalty :: absenteeism, turnover, shrink, safety) approximately 15% and 45%, respectively.

Customer Engagement: Based on research including nearly 5 million customer responses, leverage a concise model and corresponding local level reporting to benchmark and improve workgroup/employee-customer relationships, improving funding, account retention, and share of procedures by over 20%.

Performance Optimization: Based on research and validation including 4 million employee and 1 million customer responses among 500,000 workgroups and 400 organizations, manage employee engagement and customer engagement in tandem, multiplying the effect of each.

Naturally, any one of these areas represents a significant opportunity. For example, implementing Performance Optimization (improving employee engagement and customer engagement in tandem) results in as high as a 5.2 times performance impact. The impact from a fully integrated approach represents a profound opportunity, representing an additional 1.3 times improvement (30 %+ 30% + 30% + 40%). This represents a total potential performance impact of 6.5 times in less than as many years. A more conservative analysis (4x performance improvement) is provided at the conclusion of this paper and shows a commanding return-on-investment for less than 0.2% of an enterprise budget.

Imagine, if you will, what your enterprise or organization could accomplish if it could reduce its cost or increase its impact by four times in less than as many years. As a global leader in leader in measuring and understanding human behavior Gallup will get you there, helping architect and realize transformation.

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Employee Selection

Every organization is faced with the challenge of hiring the best people. Furthermore, research shows that top performers in any position think and act differently than their average- and poor-performing counterparts. The difference is talent — defined by Gallup as *naturally recurring patterns of thought, feeling, or behavior that can be productively applied* — and it can be scientifically assessed. More specifically, instruments can be created to identify job candidates whose talents match the success profile of the organization's top performers. This substantially improves the way organizations hire and, when using these instruments for a number of key roles, increases the performance of the organization and the enterprise at large.

Challenges

Before examining the research and outcomes that confirm the effectiveness of Gallup selection instruments, consider the need for objective talent measurement in the selection process. While the most talented people drive high performance in an organization, poor hires have an equally powerful effect, but in a negative way. That is, hiring is a never a zero sum game. When an organization hires a new employee, that person will ultimately increase the organization's level of performance or subtract from it. Furthermore, organizations typically underestimate the cost of bad hires by a wide margin. This cost goes beyond the time invested in initially screening them and then replacing them, including the opportunity cost from lost productivity and the cultural effect from lowered performance expectations when a substandard employee is not replaced.

Consider some quantifiable examples. First, turnover resulting from poor selection decisions can cost an organization anywhere from 25% to 80% of the annual salary for each vacant entry-level position, and up to 400% of the annual earnings for specialized professional positions (Wagner & Harter, *12: The Elements of Great Managing*, 2006). Second, a more specific example illustrates this point in a particular setting — a consultative information technology role. Among a population of 4,538, the top seven employees exhibited the talent to *engage* every customer they spoke to, receiving perfect marks on each call they took. In contrast, the bottom three representatives, who clearly did not possess the talent or fit for this role, *disengaged* and received a perfect minus 100 score from every customer they spoke to. This example illustrates that there is a profile that separates the best from the worst. Objective, research-based selection tools close this gap.
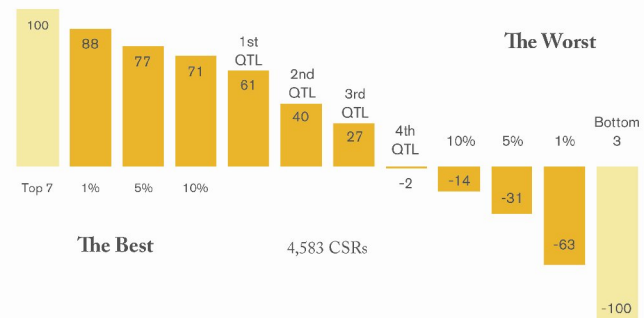
Research

With that in mind, consider the research, outcomes, and short-term and longitudinal performance factors that provide an even better business case for the creation and implementation of selection instruments for key roles. While the employment interview has historically been the primary means by which organizations screen and hire candidates, using a research-based instrument for that process has a substantial positive effect on performance.

An initial meta-analysis of 107 Gallup predictive validity studies found that an empirically constructed, structured interview results in scores that are predictive of multiple performance criteria. Continuing research, including 535 predictive validity studies conducted by Gallup, its clients, and other researchers (such as dissertations and other research papers) showed similar results. These studies included a wide range of industries, including manufacturing, retail, financial services, insurance, healthcare, professional and amateur sports, schools, hotels, restaurants, trucking, and high technology settings. A variety of roles such as student,

teacher, semiskilled and skilled employee, and manager were studied. This research has been validated by numerous third-party industrial/organizational psychologists, including Frank Schmidt, Ph.D. (University of Iowa), Barbara Plake, Ph.D. (Buros Institute of Mental Measurements), and Jim Impara, Ph.D. (University of Nebraska-Lincoln).

The development process for these selection instruments included a number of steps, including job analysis (qualitative review of success within a given role), instrument development (including pilot testing), and reliability and validity analyses. Job analysis included a review of the position and its job description, stakeholder interviews with executives to understand the organization and its selection needs, a review of success within the position and existing performance criteria, and focus groups with top performers in the position. Based on further review by Gallup experts, items were written or selected from an extensive database for inclusion in a selection instrument.

Once items were selected, each instrument was pilot tested among a sample of incumbents who were stratified by performance. Items exhibiting the strongest psychometric characteristics relative to performance criteria or outcomes were retained for an initial field selection instrument. A resulting field instrument was then administered to applicants, whose performance was tracked. Once enough data became available, and once those hired had been in place for a sufficient period of time to assess their performance, instrument scores and performance data were used to conduct predictive validity studies.

Naturally, different roles entailed different outcomes and measurement criteria. Financial (sales and profit) data were the most frequently studied criterion type, and were available for sales and manager positions (139 studies). The second most common criterion type were performance ratings (137 studies), most of which were supervisory ratings, but also included customer ratings (customer satisfaction and loyalty), employee ratings (satisfaction and engagement scores for direct reports of managers), student ratings (of teachers), and observer ratings (including third-party and peer ratings). Other criteria included production records, retention (turnover reverse scored), absenteeism (reverse scored), composite measures of performance, and workman's compensation claims (reverse scored). This represents the broadest set of performance criteria included in a meta-analysis for a selection instrument predictive validity study.

Research Outcomes

As a result, Gallup identified performance-predictive utility for various selection instruments. Gallup also conducted several test-retest studies finding the same instruments were apt and generalizable across industries. In all, Gallup's research yielded a selection database containing 8,811 items, including 5,245 open-ended, 397 multiple choice, 2,777 Likert, and 392 yes/no items with concurrent validity, providing selection instruments for 45 positions in 22 countries.

As a result of continued delivery to clients and the development of additional selection instruments over the past 25 years, Gallup's selection database has been used by more than 4.8 million global candidates. More specifically, our database now includes over 12,000 questions, 350 performance-related studies, and a larger "item history" repository that shows how well used and unused items predict job performance based on past research, participants, and job applicants. This database allows Gallup to start every project with more than a blank page, resulting in time and cost efficiencies for our clients.

To that end, Gallup retains selection instruments for a number of roles that can be used immediately. Those roles include (in alphabetical order) Call Center Representative, Consultant, Healthcare Nurse, Healthcare Manager, Healthcare Clinical, Healthcare Support, IT Staff, Executive Leader (In-Depth Only), Manager (Entry Level), Manager (Sales), Manager (People/Staff), Manager (Process), Manager (Administrative), Principal (Education), Professional Associate, Sales (Call Center), Sales (Consultative), Supervisor, Support Services, and Teacher.

Gallup also retains a number of customized selection instruments. Because customized instruments are proprietary, they cannot be reused by other clients. However, they provide good examples of our capabilities and enable quicker customization for new and existing clients. That is, inclusion of associated root but non-attributable data in our underlying database speeds development of similar instruments. The following are examples of customized instruments we have built to measure the specific talents needed for outstanding performance in particular roles within unique organizational cultures: Account Executive, Editor, Publisher, Reporter, Healthcare Director, General Foreman, Marketing Manager, Event Manager, Advertising Salesperson, Researcher, Office Manager, Professional Athlete, Service Representative, Accountant, Firefighter, and Truck Driver.

Client Outcomes

While sound research provides a sufficient basis for using selection instruments, it is still more convincing when we illustrate the effect on actual clients. To that end, consider the effect Gallup instruments have had on individual performance, turnover, absenteeism, and longitudinal performance. Though each of these represents a separate role, recommended candidates have typically shown *20% higher performance*, half as much turnover (9% compared with 20%), and two-thirds less absenteeism. Similarly, recommended candidates show more than *three times higher annual improvement* in unsolicited customer recommendations compared with conditionally recommended candidates, and more than six times the annual improvement in unsolicited customer recommendations compared with those candidates not recommended.

Naturally, these examples leave comparatively longitudinal questions unanswered. As such, consider a typical example highlighting a role that answers a number of additional concerns. First, the nature of the role (consultative sales) involves delivering a *tangible* product or service as well as *intangible* advice. This requires the individual in the role to not only *"deliver per specification"* but to establish and maintain a strong *interpersonal relationship* with a customer as well. Second, the role has directly *measurable outcomes*. Third, this example shows performance over a *long period* of time. Fourth, performance is *compared* with hires who went through the same selection process.

The accompanying graph illustrates the performance outcomes at 3, 6, 9, 12, and 15 months for candidates whom Gallup categorized as Recommended, Conditionally Recommended, and Not Recommended. Recommended candidates outperform Not Recommended candidates by 34% at 3 months, 36% at 6 months, 52% at 9 months, 34% at 12 months, and 27% at 15 months. This represents an average of approximately *33% better performance independent of any particular time*. As a qualitative lesson, also note that talented candidates who are selected with a scientific, research-based based instrument not only perform better, but do so over time and overcome the post-hire learning curve faster as well.
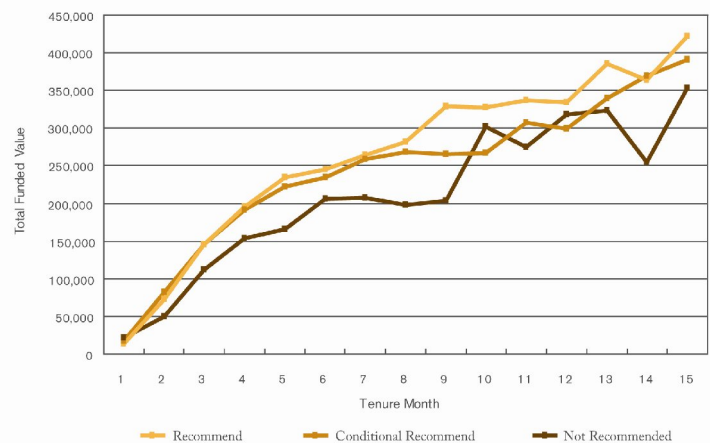
Implementation

In practice, selection instruments are designed for and executed via three interview modes: In-Depth, Web-Based, and Interactive Voice Response (IVR) interview. The mode of a selection instrument generally corresponds to the three levels at which it is applied: Leadership, Management, and Associate.

As an aside, analysis extending from aforementioned studies has shown each method to be predictive of performance. Each data collection mode showed similar predictive validity for multiple measures, including, though not exclusively, customer loyalty, employee engagement, independent and composite performance evaluation, and workman's compensation measures. While the structured In-Depth interview showed the best predictive validity, each mode showed positive and generalizable predictive validities across multiple outcomes.

Interactive Voice Response: IVR instruments provide brief, 5- to 15-minute previews of an applicant's talents for an entry-level role. These are generally used as a *preview* instrument and are designed, administered, and provide reporting for high-volume positions. Here there is a balance between the relatively lower — but still strong — performance prediction capability and the ability to screen a large number of applicants quickly.

Web-Based Assessment: Web assessments are designed for roles for which a comprehensive assessment is warranted but the associate is not necessarily in a critical, managerial, or leadership role. Gallup uses two types of Web-based assessments: preview and full. A preview assessment provides a brief 8- to 15-minute glimpse of an applicant's talents for a role. It is designed for organizations that have high-volume, entry-level sourcing needs. To that end, the preview Web assessment is similar to IVR. A full Web assessment is longer and provides better specificity and reporting subject to the increased sophistication of the instrument itself and the candidates being assessed. Custom and standard Web assessments are available. While a standard full assessment is predesigned on the basis of extensive prior research regarding a role common to a variety of organizations, a custom full assessment is designed for a specific role within a single organization.

In-Depth Structured Interview: In-depth instruments provide a relatively deep behavioral interview designed (separately) for key contributors, mid-level management, or executive leadership. A structured one-on-one exchange is administered by a professional Selection Analyst to assess the candidate's talents in relation to a particular role. The format consists of a live interview combined with in-depth analysis. Consulting regarding the use of interview items, underlying analysis, and testing of an instrument are included. The result is a robust set of items (open-ended questions with "listen fors" that are coded by a Gallup analyst) that can be administered over the telephone and used to benchmark candidates. Again, custom and standard in-depth assessments are available. While the standard in-depth interview is designed on the basis of extensive prior research for a role common to a variety of organizations, the custom in-depth interview is specially designed for a specific role within a single organization.

Summary: Selection

Talented people represent a foundational requirement for achieving high organizational performance. In contrast, hiring associates who are ill-fit to a particular role, or who are sufficient but ultimately average performers, represent considerable real and opportunity costs. To that end, it is possible to assess talent in a scientific manner that is predictive of performance. Doing so provides four central benefits. First, a selection instrument provides more cost-effective hiring. Second, new associates brought into the organization are certain to be comparable to the organization's highest performers. Third, by making the job applicant's talents a core consideration of the hiring process, the organization increases its ability to place new employees where they have the chance to do what they do best. Fourth, by leveraging each individual's natural talents, the organization will reduce turnover, increase productivity, drive workforce effectiveness, improve customer loyalty, and improve financial and budget performance.

Executive Selection

While it is important to select high-potential candidates for key roles to drive enterprise performance, some internal associates and managers will eventually rise to be considered for executive leadership positions. Similarly, outside candidates are sometimes considered for executive positions when no ideal internal candidates have been identified or when an external candidate may, for whatever reason, be considered preferable to internal candidates. In short, executive leadership will inevitably change from time to time, and it is critical to the success of the enterprise to ensure that top performers are consistently selected to lead the organization.

Research by Gallup and others (including Jim Collins, author of *Good to Great* and *Built to Last)*, shows selecting the best executive leaders is the most important step to achieving high enterprise performance. As a term borrowed from physical sciences, executive leaders represent a limiting reagent to any organization seeking to create and sustain high long-term performance relative to competitors.

Challenges

Few organizations have an objective means of executive selection in place. While many organizations have a process for promotion or progression, these processes are rarely research-based, quantitative means of executive selection. The best method is to ensure executive selection is connected to performance and to consider objective measures first, though not exclusively, when considering the hiring or placement of executives. Similarly, consider the *four typical means of executive selection*. Note that alternatives to an objective and performance-based method are rather subjective and heuristic.

Manager-Driven Decision: A supervisor decides somehow. This is not necessarily bad but leaves substantial room for bias.

Management Team Review: More minds are involved for critique and/or advocacy. Nevertheless, this can still create a problem where bias compounds or leads to a mutually agreeable but less-than-optimal choice. This is commonly referred to as "groupthink."

Career Board Process: A multilevel review of an individual candidate or a set of candidates is conducted. This potentially includes consideration of broader options among candidates. However, there is equal potential for an inappropriate popularity-based means of selection to emerge. This can be helpful developmentally and may meet with success in organizations with extremely clear and common values and mission. However, it is ultimately worse than using objective measures that are predictive of performance, and it tends to retain traditional heuristic evaluation techniques.

Objective and Performance Outcome Based: Naturally, this is the preferred method. Actual numbers aligned to research-based criteria that are predictive of performance in the *next* role offer the best means of selection.

Research

In our initial research, Gallup identified and studied 100 leaders from general management, human resources, marketing, sales, manufacturing, research and development, and finance. These leaders represented various levels of hierarchy, from managers to directors to vice presidents and senior executives, who had all faced significant demands that shaped their leadership talent.

After initial validation of executive leadership characteristics that proved predictive of performance, Gallup expanded the study to include an additional 5,019 leaders from a range of industries and sectors including education, finance, government, healthcare, insurance, armed services, and retail. Our analysis discovered a

number of characteristics critical for effective executive leadership. Ongoing tracking of more than 40,000 leaders continues to affirm these findings.

Research Outcomes

Four underlying needs of followers, seven foundational characteristics, and five domains that distinguish for performance emerged. The four *Follower Needs* include Trust, Compassion, Stability, and Hope. The seven *Demands of Executive Leadership* include Visioning, Maximizing Values, Challenging Experience, Mentoring, Building a Constituency, Making Sense of Experience, and Knowing Self. The five domains distinguishing for and proving *predictive of performance* include Drive, Direction, Influence, Relationship, and Execution.

Followers' Needs

It is easy for leaders to misunderstand what followers need, and this confusion is exacerbated because what leaders get paid to do is often not what their followers most need them to do. To run an organization effectively, leaders are paid to strategize, set visions and priorities, build relationships, influence others, and make things happen. In contrast, Gallup interviewed more than 10,000 followers and found they need four basic things from leaders: Trust, Compassion, Stability, and Hope.

Trust: Trust is important because it is the foundational currency that a leader has with his or her followers, and it is primarily built through relationships. A baseline level of trust exists at the transactional level when people see leaders doing what they say they will do.

Followers' Four Basic Needs

TRUST
COMPASSION
STABILITY
HOPE

Compassion: Compassion paves the way to a deeper, more interpersonal level of trust. Deep trust is much more complicated than rational and observable action-based trust. Here, compassion centers on a more holistic behavioral predictability. As an illustration, consider that it is difficult to trust volatile leaders in times of change, even though you might come to expect that they will do the things they say they will.

Stability: People need to know that there is constancy in their lives. They need to believe they'll have a job in coming days, weeks, quarters, and years even in times of uncertainty brought about by conditions beyond their control. Organizations will naturally have periods of growth and periods of decline. To overcome followers' predictable uncertainty, leaders need to create a basic sense of security and stability throughout their organization.

Hope: Leaders must find the right balance of providing stability in the moment while giving followers hope and inspiration for the future. Followers need to see how things will get better and what that future might look like. Here, hope and stability reinforce each other as well as trust. Hope is largely impossible, or at least precarious, without stability as a base. Stability cannot be maintained without underlying trust and compassion. As an aspiration, hope gives followers a reason to commit and, more specifically, to commit to a better future.

Follower-Related Pitfalls: Two pitfalls are apparent in leaders' relationships with followers. First, leaders are more likely to react than be proactive. When reacting, a leader is controlled more by events than vice versa. To that end, the most effective leaders consciously choose opportunities that shape the organization's future, although this entails some risk compared with efforts or initiatives that might be considered more urgent or conventional.

Second, the best leaders take risks in developing close relationships with subordinates. If things go awry, these relationships can certainly create challenges. Nevertheless, Gallup's core research has shown that this is a characteristic that differentiates the best executives. If followers do not have a leader who really cares about them individually, there is little chance that they will apply meaningful discretionary effort in the

workplace. So, if leaders maintain "strictly professional" relationships in the workplace they will limit downside risk but also surrender substantial value.

The needs of followers indicate leadership characteristics that are foundational to the leaders themselves and distinguishing characteristics that are predictive of performance relative to other executives and measurable outcomes.

Demands of Executive Leadership

Visioning: Successful leaders are able to look out, across, and beyond the organization. They have a talent for seeing and creating the future, using highly visual language that paints a picture of the future for those they lead. As a result, they attain bigger goals because they create a collective mindset that propels people to help make that vision a reality.

Maximizing Values: By highlighting what is important about work, great leaders elucidate what is important to them in life. They clarify how their own values, particularly a concern for people, relate to their work. They also communicate a sense of personal integrity and a commitment to act based on their values. As a result, employees know where they stand with these leaders. Their values — consistent and unchanging through time — operate like a buoy anchored in the ocean, holding firm against the elements while also indicating the way. By galvanizing people with a clear vision and strong values, the leaders we studied were able to challenge their teams to achieve significant organizational goals.

Challenging Experience: The best leaders have been assigned significantly challenging experiences at key points in their careers along with the freedom to determine how they would achieve outcomes. This accelerates their learning curve, stretches their capacity for high performance, increases their endurance for hard times, strengthens their ability to guide others through uncertainty, and broadens their understanding of what is possible for the organization to achieve. As one of the leaders we studied said, "Our company had experienced three cycles of negative growth, but I knew that our next cycle would give us the opportunity to turn in our best figures ever. Everyone thought I was crazy, but we did it, then did it again."

Mentoring: Great leaders aren't simply driven. They also understand the importance of personal relationships. The best leaders we studied consistently had a close relationship with someone in the optimal position to advise them, often someone from outside their organization. These mentoring relationships are not the product of formal, company-wide mentoring programs — not that such programs aren't helpful. Instead, these informal, external relationships enable each leader to discern and account for needs and differences that need to be taken into account.

Inspired by their positive experiences with mentors, the best leaders become intentional mentors themselves. They selectively pick one, two, or three highly talented individuals and invest greatly in their growth and development over a significant period of time. Seeing the success of their mentees as a reflection of their own success, these leaders practice a form of succession planning that cultivates the next generation of leaders.

Building a Constituency: Beyond close one-on-one relationships, great leaders also create rapport at many levels across their organization and beyond. They create and maintain a strong network and know the benefits of building a wide constituency. One leader said, "My work forces me to have a relationship with certain people. I just think about those I don't yet work with and figure out who might be useful to know. I nearly always find that relationships built this way bring dividends."

Making Sense of Experience: In all their relationships, effective leaders enlighten others because they can make sense of experience by learning from their mistakes and their successes, and by seeking out a range of experts to advise them. Great leaders are able to deal with the complexity of business and help those around them make sense of it. They do this by keeping things simple and making information accessible. This way, leaders help individuals understand what's going on so that they are better able to achieve success. As one leader put it, "There's so much happening that affects our work. I make sure, at each meeting, that we understand all the important factors and ensure that the next steps are clearly laid out."

Knowing Self: The most revealing discovery Gallup made was that the most effective leaders have an acute sense of their own strengths and weaknesses. They know who they are — and who they are not. They don't try to be all things to all people. Interestingly, their personalities and behaviors are indistinguishable between work and home. They are genuine. It is this absence of pretense that helps them connect to others so well.

Distinguishing Performance

Additional research that included more than 47,000 leaders in 52 countries yielded more specific discoveries regarding the characteristics that *distinguish* executive performance beyond the Demands of Executive Leadership. Five domains have been found that distinguish between good and great leaders: Direction, Drive, Influence, Relationship, and Execution.

- *Direction*: Measures future focus and strategic capability, assessing big-picture aptitude and breadth of thinking.
- *Drive*: Measures primary or underlying desires, assessing what motivates leaders.
- *Influence*: Measures coalition building rhetoric, assessing how leaders enlist support and commitment.
- *Relationship*: Measures a range of talents, including the tendency to build close relationships, natural networking and coaching abilities, and the ability to "read" people well.
- *Execution*: Measures management ability, assessing operational and organizational thinking, natural capacity to thrive on complexity, and goal orientation.

Implementation

With an understanding of an objective means of executive selection, it is helpful to provide some additional insight regarding the evaluation of executive talent in practice. While the aforementioned characteristics conceptually assess executive leadership talent or potential, Gallup's executive selection instrument, and corresponding reporting and consultation, provide a quantifiable and actionable benchmark. As a result, an organization can determine which of the seemingly equally qualified executive candidates would be the best fit. The same measurements and benchmarking provide the basis of forming a highly effective executive *team* as well.

Executive Leader Scorecard

Following a behavioral interview with an experienced executive leadership analyst, executives receive a Theme Intensity Report that benchmarks their relative strength in the five distinguishing areas of executive performance. Each report includes a graph of results as well as a short description of each theme, which provides initial understanding of what is being measured. Naturally, every leader will have themes that are stronger or weaker than others. This should not be a cause for concern since it is quite rare to be high in a theme and rarer still to be high in all five.

Executive Leader Coaching and Development

Each executive participates in a lengthy coaching session in order to fully understand the results and leverage his or her greatest leadership talents and strengths in the workplace. An Executive Leader Feedback Session

is scheduled for one hour and is conducted face-to-face or by telephone. Four main outcomes include ensuring the executive understands all aspects of the report (themes, dimensions, and the graphs), answering any questions, providing focused guidance on how to leverage leadership strengths, and devising strategies for managing areas that are not as strong.

Summary: Executive Leadership

Most organizations understand the value of objective executive selection, but are unsure of how to achieve it. World-class executive selection goes beyond qualitative and colloquial concepts such as buy in, passion, or forcefulness per se to objectively define, measure, and benchmark the talents of top executive performers.

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Succession Planning

Executive Leadership Selection is not just about measuring the talents of individuals. Putting the right players in the right positions is just as important. To that end, succession planning is critical to leveraging leadership talent within an organization, on an executive team writ large, and over the long term.

Before we illustrate the means of succession planning, consider again the need for objectivity. Gallup researchers discovered that executives show substantial bias in how they evaluate peers and subordinates depending on the characteristics they themselves exhibit. In statistical terms, there is a noncorrelation in how different types of leaders *evaluate* people and how evaluees *actually* perform.

Challenge: Manager Subjectivity

Quantitative research shows no correlation between manager ratings of subordinates and their subordinates' performance. The graph below shows a representative example. The vertical axis represents the performance relative to a quantifiable outcome (percentage of stated goal accomplished). The horizontal axis represents the evaluation of a set of employees by their manager (category A, B, C, D). Here A is excellent and D is below average.

This presents two problems. First, there is clearly a meaningful difference between the manager's evaluations and the actual performance of individuals rated in each category. Second, based on objective performance data, the employees that the manager indicates are their best are not actually the best. When asked who their best people are, managers tend to indicate those employees in the middle (B and C) categories who tend to be easier to manage. Therefore, there is a meaningful opportunity for a more objective means of succession planning — in making progression and promotion decisions less heuristic at least. In the worst case, organizations may be perpetuating mediocrity by promoting those median performers.

Manager Ratings
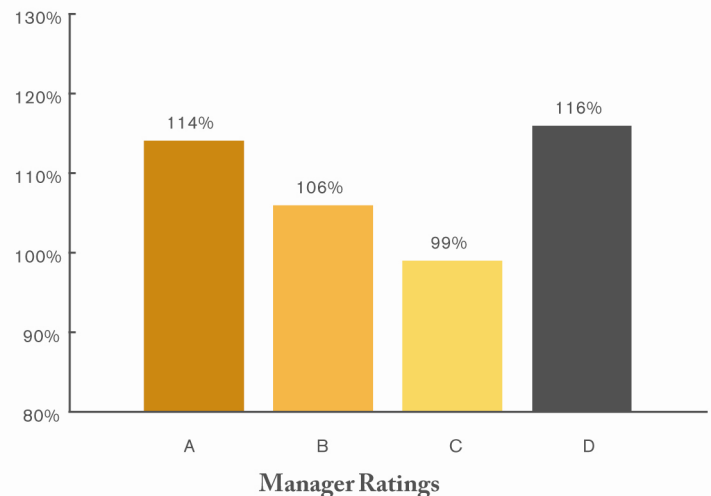
Challenge: Leader Subjectivity

Next, consider two general kinds of leaders. First, there is a *strategic leader*, who is something of a classic archetype. All leaders will likely possess drive, but this type exhibits particularly strong vision and direction. Conversely, this type may be seen as a "blue sky" individual, perhaps perceived as having his or her "head in the clouds" or as generally unproductive. The second type is an *operational leader*. He or she is driven and focused on the management of specific outcomes and results versus a more idealistic, external outcome. Conversely, this type may be seen as a taskmaster, overly process oriented, or focused on the "trees" instead of the "forest."

A key question is whether there is significance in the lens they look through. Neither of these archetypes or styles are, *in fact,* good or bad or better or worse than the other. Rather, the question gets to the extent to which there is *bias* in their evaluations. The answer to this question lends insight to the value of an objective approach for succession planning.

The results of 360-degree ratings regarding leadership traits show operational leaders do not hold strategic leaders in as high regard as other types. Interestingly enough, strategic leaders rate themselves similarly, not only lower than operational leaders but lower than leaders overall as well. Gallup has also found there is not a

terribly objective rating of direct reports, peers, and bosses. Operational leaders tend to evaluate other operational leaders and employees roughly the same, independent of an evaluee's role — direct report, peer, or boss. Operational leaders also tend to prefer a strategic boss who provides them with direction and clarity. However, operational leaders tend not to like strategic peers and direct reports because they make things harder. They look forward, challenge the status quo, and don't always tend to immediate concerns.
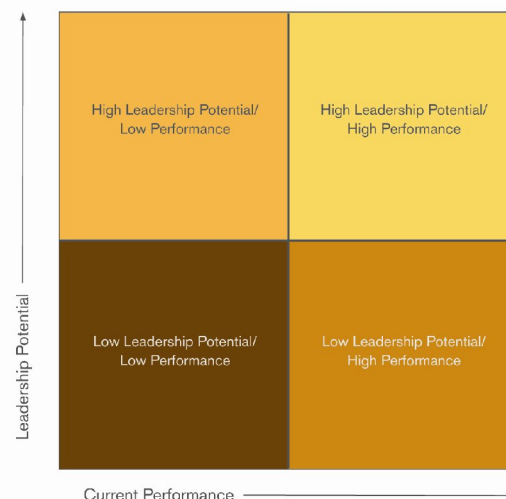
The point is not to malign organizations' strategic or operational leaders. Rather, it is to recognize the need and opportunity for succession planning rooted in objective, quantifiable, and performance-predictive criteria. This allows an enterprise to place strategic and operationally talented leaders in the areas most appropriate for their talents and strengths, and the institution's performance outcomes. Similarly, the point is not to disparage the use of 360-degree reviews. In proper context they are, as both leading commercial and government clients have said, intended as a development tool and not a performance-management tool. That is, 360-degree reviews are useful. However, they are not as predictive of performance as a research-based selection instrument and objective succession planning process would be.

Implementation

Even with an objective instrument in place, it is important to understand how to use it within the succession planning process. To that end, Current Performance and Potential Performance are the two most important factors in succession planning. Considering these two factors, four candidate conditions are possible: low performance and potential, dissimilar performance and potential (low, high; high, low), and high performance and potential. By starting with these four categories, it is possible to objectively view the organization's leadership in terms of progression timeframes and development needs.

Baseline Measurement (Step One)

The first step in succession planning is to baseline the current state of would-be leaders in terms of their performance and potential.

High Leadership Potential/ Low Performance	High Leadership Potential/ High Performance
Low Leadership Potential/ Low Performance	Low Leadership Potential/ High Performance

Leadership Potential →

Current Performance →

Baseline Measurement: Assess Current Performance

Any number of criteria may objectively define performance in a current role. That is, while current performance should be defined based on quantitative outcomes as much as possible, those measures will vary by role. Key questions that should be considered include the following: What are the key performance metrics for the role? What are the key outcomes for the role? What actions or responsibilities are non-negotiable? What actions or responsibilities are "nice to have"?

Examples of skewed measurement systems abound. In one call center Gallup studied, customer service representatives were not rated on how well they solved customers' problems. Instead, they were rated on their ability to adhere to rules, such as taking breaks at the appropriate times. Organizations must do the following three things in order to ensure objective measures are used to plot performance consistently and accurately.

Identify Quantifiable Measures That Drive Performance. This is not always easy. It requires organizations to avoid subjective assessments or irrelevant measures. If multiple performance measures are used for a specific role, combine these measures into a single rating that reflects the relative significance each measure has on organizational and/or business outcomes.

Calibrate Performance Measures to a Common and Comparable Scale. This provides a common baseline so measures can be accurately compared on the Succession Planning Grid. This may mean accounting for factors such as differences in location or market opportunity.

Balance the Number of Performance Measures. Organizations should be careful to ensure their metrics avoid the following pitfalls:

- *Too Many Metrics.* Some organizations use a virtual potpourri of metrics. In systems like these, employees are often confused about expectations and struggle to understand what is most important. They end up chasing multiple metrics and are never quite sure whether they are doing the work that matters most. In this situation, few employees are able to perform well.

- *Poor Metrics.* Other organizations use metrics that measure the wrong things or measure the right things ineffectively. Systems like this encourage behaviors that run counter to the organization's goals, values, or performance.

- *No Metrics.* Sometimes, there's no measurement at all. In this case an organization should determine what outcomes are most important for each role and develop the right metrics to track performance.

Baseline Measurement: Assess Leadership Potential

Determining how to spot leadership potential can be challenging. When assessing possible leaders, executives often rely heavily on gut instinct and personal judgment, which have substantial limitations. Part of the problem is that the existing crop of leaders generally has a good understanding of what it currently takes to be successful in their roles. It seems logical to them that they should be able to spot "rising stars" who are deserving of future advancement. However, as previously discussed, our research suggests that they are not consistently good at it.

A validated, predictive assessment that is grounded in research is a far more effective way to assess a person's potential for success in a leadership role. Given that an organization's future rests on its ability to identify and develop leaders, using a validated predictive assessment is essential. It sends a strong message that the organization values leadership and knows what it takes to perform at excellence in a leadership role. As previously discussed, the right instruments also provide a benchmark of existing leadership strengths within a company or executive team, as well as a means to assess potential leaders in light of those strengths.

Baseline Measurement: Outcome

The accompanying plot shows the outcome of baseline measurement and illustrates how organizations can use the succession planning process to spot emerging leaders and groom them for future leadership roles. Note that a number of candidates plot in the upper-right (high performance, high potential) quadrant.
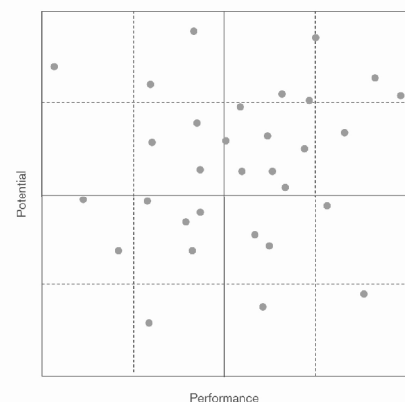
Resolve Anomalies (Step Two)

Despite an objective approach, some individuals will not plot according to evaluators' or supervisors' perceptions. To that end, the best succession planning framework should not be followed blindly. Some adjustment can and should be made following an objective assessment. An organization should review the baseline measurement to discover areas where results seem very different from perceptions. For example, an

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individual may be seen as low potential since he or she is not currently a standout performer. Conversely, there may be a high performer whose potential is overestimated and may just be exceptional in a particular role. As such, the outcome of the "resolve anomalies" step is essentially a confirmation of and small revision to baseline measurement.

Plot Development Priorities (Step Three)

Based on a solidified plot, the enterprise should identify the experiences, skills, and knowledge that best prepare people with both high performance and potential. Here, some qualitative considerations are not only permissible but become particularly relevant. Each organization will have different outcomes, needs, and cultural attributes that should be considered. Again, it is important to ensure these are considered as a part, not the foundation, of succession planning.

More specifically, an organization must look at what should be next for *each individual* in order to enable him or her to reach the upper-right quadrant. Naturally, talents and strengths should be considered. That said, skills, knowledge, and experiences are important here because they are specifically being used to support and compel learning, growth, and development of known talent. Relevant experience or training may include financial responsibility, project or program management, developing a strategy or plan, cross-functional rotation, complex analysis, experience conducting performance reviews, international experience, increased self-awareness, formal education, or an advanced degree.

**Assess Readiness and Reevaluation (Step Four)**

Having evaluated, plotted, and planned development for executive leadership candidates, an organization should place executive successors that are most ready for promotion. Organizations will have invested the most time and energy developing the high potential group. As such, the Succession Planning Grid will help an organizations identify a now-emerged leader who is ready to meet larger personal, professional, and organizational needs and challenges.

Finally, an organization should repeat the same process routinely. As an enterprise does this, it will increasingly be able to be more specific about which individual(s) are the most ready and the best fit for leadership positions that open.
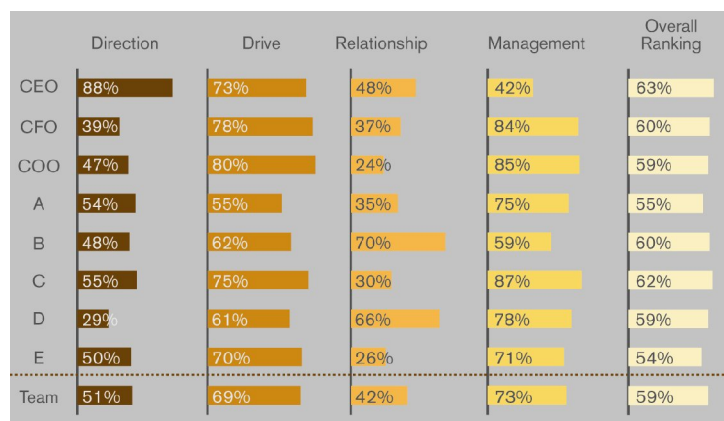
Client Outcomes

By conducting executive selection benchmarking, coaching, and succession planning, an enterprise helps optimize its current and future executive team. The following illustrates how the executive leader scorecard contributes to a high performing executive team.

Consider a report detailing scores for Company A's Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, and five other executive team members. Each individual's percentile ranking (benchmark) in four distinguishing areas (Direction, Drive, Relationship, and Management) is depicted below.
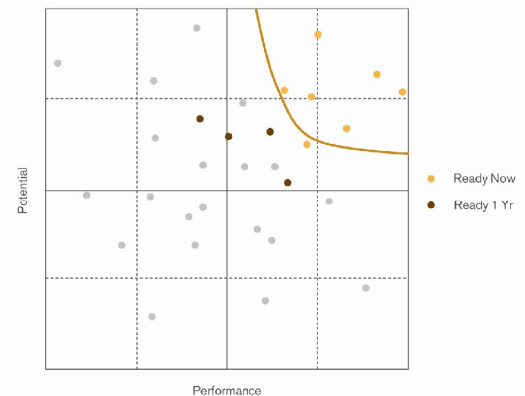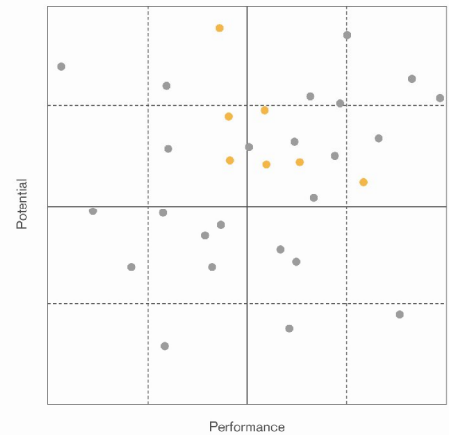
The members of this executive team show strong scores in different leadership dimensions. Generally speaking, this team is highly driven and operationally astute, showing higher scores in *Drive* and *Management* dimensions. Together they will overcome almost any operational challenge. However, they show lower scores on *Direction* and *Relationship*. More specifically, they rely heavily on their current CEO's extremely high *Direction*. It is he who most likely harnesses their individual and collective energy to ensure they focus on and pursue the right targets.

	Direction	Drive	Relationship	Management	Overall Ranking
CEO	88%	73%	48%	42%	63%
CFO	39%	78%	37%	84%	60%
COO	47%	80%	24%	85%	59%
A	54%	55%	35%	75%	55%
B	48%	62%	70%	59%	60%
C	55%	75%	30%	87%	62%
D	29%	61%	66%	78%	59%
E	50%	70%	26%	71%	54%
Team	51%	69%	42%	73%	59%

Here we start to see the value of combining an executive selection instrument with an objective succession planning framework. For example, if the current CEO were to leave the team, the organization would need to replace him with a successor high in Direction to continue to round out the team. Alternatively, the organization would need to look at relative talents and strengths among the executive team as a whole to devise a slightly different means of yielding the most effective team.

This leads to a general lesson. Each new person who joins the executive leadership team needs to have as much leadership talent — or more — than the person he or she replaces. For organizations to grow, top leadership needs to commit to hiring successors whose objectively assessed leadership talent strengthens, not weakens, the *organization's* leadership capacity. To that end, bringing in a new executive similar to the last one may not help optimize performance. It may be best to bring in someone intentionally "weak" in one area if they have markedly more talent in an area relative to other members of the executive team. That is, it is the weighted overall rating in the lower right of the graphic that is ultimately most important. The individual- and domain-specific percentile benchmarks all contribute to this.

Though this provides a good argument for objective executive selection and succession planning, measurable performance outcomes provide still better evidence. To that end, the effect of our succession model is depicted and described below.

Over the course of five years, succession planning at ABC Industries Inc. (actual client name withheld) had a dramatic impact on business unit and enterprise outcomes. Prior to Gallup's offering, ABC's profits had been relatively flat near $40 billion for the previous 25 years. Starting in 2003, Gallup began selection and succession efforts, aiding the replacement of three executives in 2003 and four in following years. While the graph below depicts the impact on operating profit, the impact on stock price was nearly perfectly correlated. By the close of 2005, ABC's profit had on the order of doubled and, by the end of 2008, had more than tripled (approximately $165B). In short, with succession planning focused only on the Top 100 current and potential executives, Gallup helped ABC achieve a 30% compound growth rate.
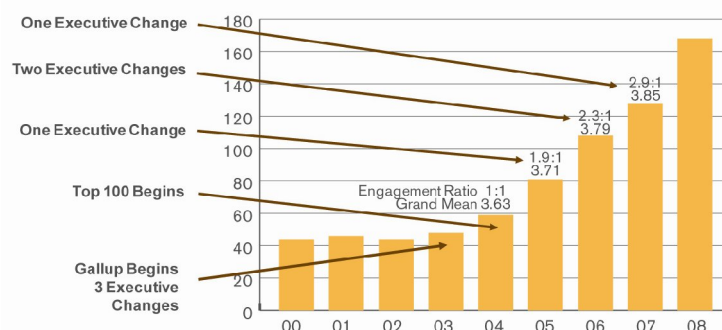
Other effects were equally apparent. Succession planning also affects employee engagement — the overall effectiveness and discretionary effort applied by an organization's workforce. During the same time period, employee engagement and the ratio of engaged to disengaged improved significantly each year. This is important because as much as a 0.2 change in the GrandMean for an enterprise's engagement affects

outcomes relevant to all organizations, including customer loyalty, productivity, safety, theft, loss and damage, retention, and absenteeism.

Naturally, not all organizations — particularly those in the government and nonprofit spaces — measure themselves by money. That is, money is not both an input and output for them. This begs two comments. First, the continuous and publicly disclosed outcomes regarding profitability provide an objective means of judging the utility of our methods, proving their effectiveness and applicability to other spaces. Second, while other clients will measure themselves differently, these clients can anticipate similar impact on the basis upon which they do measure themselves.

That said, the effect of objective leadership selection and succession planning is equally as evident for government clients. Consider outcomes experienced by the United States Army Corps of Engineers, for whom Gallup has conducted leadership assessment for 20 years. In the most recent validation study conducted in January 2009, more talented leaders reported dramatically larger mean cost savings. Those selected by a Gallup instrument realized an average savings of $178,665,333 while the mean cost savings from traditional restructuring efforts was $16,565,580.

Summary: Succession Planning

Leadership succession is best done with an *objective assessment* that is *calibrated for potential*, *targeted investment*, and *determination of readiness* for an executive role. Doing so has an effect on enterprise performance and continuous improvement. Similarly, organizations generally do not suffer from too much objectivity. Rather, the best organizations often want to be more objective but typically lack the proven means to do so. To that end, a research-based executive selection instrument and succession planning process rooted in objective performance and benchmarked leadership potential offer a substantial opportunity for executives and for enterprise performance.

Strengths-Based Development

Turning to a larger workforce perspective, developing employees based on their talents is key to improving engagement and organizational performance. Leaders, managers, and supervisors who understand their strengths, and those of their employees, show stronger outcomes than those who do not. More specifically, managers who proactively discuss strengths with employees — positioning them in such a way that they have an opportunity to do their best every day, and providing performance feedback in this context — have a dramatic impact on engagement and performance.

Definition

Talent is defined as *naturally recurring patterns of thought, feeling, or behavior that can be productively applied*. Gallup research has shown a clear difference among skills, knowledge, experience, talent, and strength. More specifically, talent as the most critical precursor to individual performance. Skills are the "how-to's" of a role. They are what you practice. Knowledge is what you know — what you've learned via whatever means. Experience is what you do or have done. Talent is innate potential. A strength is essentially talent realized.

Naturally, skills, knowledge, and experience reinforce each other and play a role in catalyzing talents into strengths. However, it is important to note the significance of strengths alone. Skills, knowledge, and experience are necessary but insufficient for optimal performance, while strengths are predictive of performance. More precisely, a strength combines talents with knowledge, skills, and experience to create *the ability to consistently provide near-perfect performance in a specific task.*

Research

The concept of strengths was originally developed by Dr. Don Clifton, who believed that talents could be operationalized, studied, and capitalized upon in work and academic settings. Clifton found that talents are behaviorally manifested in life experiences characterized by yearnings, rapid learning, satisfactions, and timelessness or "flow." Talents represented "raw materials" and were believed to be the products of normal, healthy development and successful experiences throughout developmental and adult stages of life.

Extending from original research regarding employee selection and semistructured talent interviews in the workplace, an initial pool of more than 5,000 potential assessment items was constructed. A smaller pool was derived from quantitative review of item groups or "themes" and the individual items within each theme. This evidence was used to evaluate item pairs among more than 100 predictive validity studies, and Gallup subsequently administered more than two million individual interviews for the purposes of personal development and employee selection. The items with the strongest psychometric properties were retained and formed the basis of the Clifton StrengthsFinder (CSF) assessment.

Implementation

CSF is an online measure of personal talent that *identifies areas where an individual's greatest potential for building strengths exists*. The first version of CSF was launched in 1999. Gallup has used CSF in development programs for more than 3 million people, across hundreds of roles, in 50 countries and 22 languages, and within every industry in which we have had clientele. After several months of data collection, researchers revisited the instrument and, based on analyses of theme uniqueness and redundancy, determined 180 item pairs and 34 themes that best and most reliably *linked to performance*.

Following further analysis and validation, 177 item pairs now measure an individual's personal talent based on the mean of the intensity of their self-description in the assessment. The respondent is given three response options for each self-description: strongly agree, agree, and neutral. Each item lists a pair of potential self-descriptors, such as "I just want to help people" and "I want to lead an enterprise." The descriptors are placed

as if anchoring opposite poles of a continuum. The respondent is asked to choose the statement that best describes themself, and the extent to which that chosen option is descriptive of him or her. Participants are given 20 seconds to respond to a given item before the system moves on to the next item since developmental research showed that the 20-second limit resulted in a negligible item non-completion rate.

A proprietary formula assigns a value to each response category. The CSF measures the presence of talent in 34 distinct themes based on respondents' answers. Scoring of items, though proprietary and transparent to the user, occurs via values for individual item responses that correspond to a theme or themes, and are averaged to derive individual and rank order among the 34 themes. For example, one of these themes is "Positivity." Several statements within the CSF measure "Positivity," while other items measure and correspond to the other themes.

Upon completion, respondents receive their five Signature Themes and corresponding descriptions of each theme based on rank-order scoring. Respondents also receive performance coaching when their organization couples Gallup-led performance coaching with the assessment. When coupling performance coaching and the assessment, participants are provided with the ranking and description of all 34 themes.

Client Outcomes

Naturally, some organizations may object to the use of yet another personality profile. To that end, consider the substantial effect strengths has on engagement and performance. The fact that the CSF assessment and strengths-based approach are not merely *descriptive* of *preferred psychological modes* but also *drive performance* indicates its distinguishing value relative to other seemingly similar assessments and approaches.

The graph on the right shows the effect of a strengths-based approach on engagement, depicting differences across workplaces that provide little or no supervisory/managerial feedback (ignored), focus on weaknesses, and focus on strengths. The latter shows an Engagement Ratio of 60:1 and a near elimination of actively disengaged employees. Using a strengths-based approach is also superior to other approaches that, by accident or design, are more common. Note that there is nothing worse than being ignored, resulting in nearly 100% of the workforce being not engaged or actively disengaged. Similarly, managers who focus on employees' weaknesses engaged more of the workforce but leave 50% not engaged or actively disengaged.
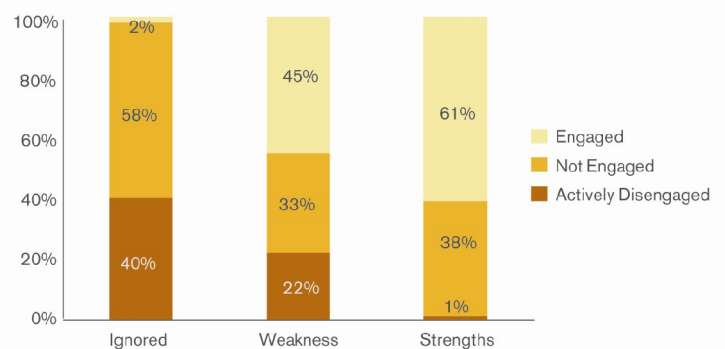
Strengths-based development also shows a substantial impact on *individual performance*. In instances where only managers completed CSF, received a coaching session, and used that understanding as a basis for conversations with employees, productivity and retention increased approximately 20%. That said, this is a fairly conservative impact estimate. Other examples suggest much stronger results. Consider the use of the strengths-based approach among students, whose reading speed was measured before and after completing a similar strengths-based intervention. Average readers read 66% faster (90
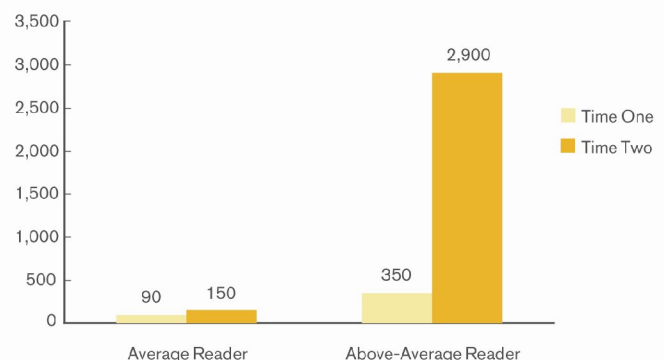
to 150 words per minute) than before a strengths-based intervention. While this is impressive, a strengths-based approach is still more useful for above-average performers, who increased their reading speed over eight times (350 to 2,900 words per minute).

Due to the importance of strengths-based development in increasing engagement and improving unit performance, Gallup uses a four-item Strengths Index among other survey items to provide benchmarked feedback regarding the extent to which managers take a strengths-based approach with employees. These four items include the following:

- In the last three months, my supervisor and I have had a meaningful discussion about my strengths.
- My organization is committed to building the strengths of each associate.
- Every week, I set goals and expectations based on my strength.
- I can name the strengths of five people I work with.

Summary: Strengths-Based Development

Quantitative research and continuing validation confirm that the Clifton StrengthsFinder and Gallup's strengths-based approach have a substantial effect on engagement and individual and organizational performance. By providing individual assessment, coaching, and actionable developmental insights, clients have typically seen 20% improvement in important organizational outcomes, and individuals have experienced as much as an 8 to 9 times performance improvement. Related benefits are summarized below.

Understanding: Strengths-based development provides a starting point in the identification of specific personal talents, guidance regarding how to develop strengths within roles, and a springboard for discussion among managers, colleagues, and employees to optimize individual, organizational, and enterprise performance.

Framework and Common Language: Strengths-based development creates a common framework and language across an enterprise regarding how to achieve high performance in individual employees.

Coaching: Semiannual talent feedback from a certified Strengths Performance Coach includes developmental suggestions customized to the individual's Signature Themes and the role.

Performance-Based Development: Strengths-based development compels positive behavioral change, focusing on acquiring knowledge, skills, abilities, and experiences that complement talent and organizational outcomes.

Comparative Advantage: The Clifton StrengthsFinder is superior to other personality-type tools and descriptors. While other tools provide information about how an individual experiences and makes sense of his or her surroundings, CSF provides insights into recurring patterns of thought, feeling, and behavior that link to performance.

Employee Engagement

Gallup's employee engagement model is research-based, predictive of performance, and benchmarks the effectiveness of an enterprise, its organizations, and local teams. A census survey whose items have known and quantifiable links to organizational outcomes provide scorecards, consulting, and facilitated training sessions allowing leaders, managers, and supervisors to understand and act on factors most important for performance.

Research

Based on a meta-analysis of more than one million employees and eighty thousand manager survey responses among four hundred organizations, twelve items emerged as the most predictive of performance. The resulting items comprise a survey named "Q^{12}." These items and corresponding outcomes remain validated based on a database that now includes more than 12 million respondents. Continuous validation from the three most recent years includes 5.4 million respondents, 620,000 work units, 504 clients, and 16 major industries across 7 regions of the world, 137 countries, and 47 languages.

As an aside, a meta-analysis is a means of integrating statistical data accumulated across many different studies. It provides uniquely powerful information because it determines and validates the true relationship between two or more variables, explores the presence or lack of moderators of relationships between variables, and controls for measurement, sampling, and other errors that might otherwise distort the results of individual studies.

> **Basic Needs**
> Q01. I know what is expected of me at work.
> Q02. I have the materials and equipment I need to do my work right.
>
> **Management Support**
> Q03. At work, I have the opportunity to do what I do best every day.
> Q04. In the last seven days, I have received recognition or praise for doing good work.
> Q05. My supervisor, or someone at work, seems to care about me as a person.
> Q06. There is someone at work who encourages my development.
>
> **Teaming**
> Q07. At work, my opinions seem to count.
> Q08. The mission or purpose of my organization makes me feel my job is important.
> Q09. My associates or fellow employees are committed to doing quality work.
> Q10. I have a best friend at work.
>
> **Learning and Growth**
> Q11. In the last six months, someone at work has talked to me about my progress.
> Q12. This last year, I have had opportunities at work to learn and grow.

The wording for each Q^{12} item has been carefully researched to ensure it not only links to a psychological disposition (engagement) but that it is linked to meaningful organizational performance outcomes and was better in that regard than seemingly similar items. Gallup refers to this as a *sorting effect*. For example, employee responses to "I feel I am paid the right amount" indicate nether differences between more and less productive workgroups nor any link to outcomes. In contrast, the statement "At work, I have the opportunity to do what I do best every day" is both linked to outcomes and shows differences among more and less productive workgroups.

Research Outcomes

Several other findings from Gallup's engagement research are important to note. First, *employee satisfaction* is not linked to outcomes. Satisfaction does not explain or predict high performance. Satisfied employees are not more productive and, in some cases, are actually less productive. Similarly, because satisfaction-based surveys take into account how employees feel about the company as a whole, changing satisfaction is usually beyond the control of the local manager.

Second, three categories of *workgroups* are apparent: Engaged, Not Engaged, and Actively Disengaged. Engaged employees are loyal, psychologically committed to the organization, and *routinely apply discretionary effort* at work. Employees who are Not Engaged may be productive, but they are not psychologically connected to their organization. They do their job faithfully but *apply no discretionary effort*. Actively Disengaged employees are physically present but *psychologically absent*. They are unhappy with their work situation and typically share that unhappiness with their colleagues.

Third, and most striking, are the comparable performance outcomes generated by Engaged versus Actively Disengaged workgroups. In particular, large differences in absenteeism, retention, shrink (a term for theft, loss, and damage), safety, productivity, profitability, and customer loyalty are apparent. In short, engaged employees come to work more dependably, stay with their employer longer, cause less damage, and suffer fewer accidents while producing more efficiently and serving customers better. The accompanying graphic illustrates the performance difference between Engaged and Actively Disengaged workgroups across the entire Gallup Public Administration Database.

Meta-Analysis of the 12 Elements

Difference between top and bottom quartiles
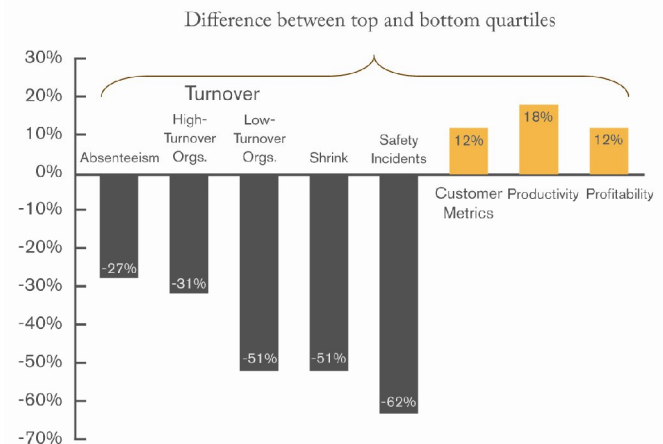
Fourth, the U.S. employee population is comprised of roughly 30% Engaged, 50% Not Engaged, and 20% Actively Disengaged. Since approximately 70% of the U.S. population is not applying discretionary effort in the workplace, this represents a substantial opportunity for any organization attempting to improve performance.

Implementation

As convincing as the research and business case for Gallup's employee engagement model is, it remains necessary for leaders, manager, and employees to receive engagement results that enable them to act, increasing engagement and improving unit performance over time. To that end, Q^{12} is administered as a census workforce survey in which all items are answered by all employees on a scale of 1 (Strongly Disagree) to 5 (Strongly Agree). Following the engagement survey, leaders, managers, and supervisors receive a scorecard so workgroups can analyze and act on their results. Any manager with more than five employees who responded to the survey will receive a scorecard. Managers with five or less responding employees will receive a scorecard with some results suppressed to protect respondents' anonymity.

A few means of interpretation are commonly used. First, The 12 elements fall into four main groups representing an Engagement Hierarchy. In order of their criticality for performance, the four groups are Basic Needs (Q01-Q02), Management Support (Q03-Q06), Teamwork (Q07-Q10), and Growth (Q11-Q12). Engagement is best strengthened by *ensuring managers focus on the basics* before advancing to the next stage in the hierarchy. For example, high Mean scores on elements five, six, and seven (Someone Cares, Encouraged Development, Opinions Count) would naturally confirm a fairly positive work environment. However, in the case of correspondingly low Mean scores on elements one and two (Expectations, Material

and Equipment), a lack of clarity and tools would comparatively negatively affect performance in a fundamental way.

Second, each scorecard includes a GrandMean score that is benchmarked to Gallup's overall engagement database. This provides the best benchmark for a manager and his or her workgroup and is essentially the weighted average of all respondents' answers. The Mean for responses to each Q^{12} item and a corresponding item-specific percentile benchmark are also provided. Together, these details provide the ability to analyze organization- and team-level results, dialogue about how to capitalize on items with the highest scores, and identify any opportunities in weaker or foundational items.

Third, the rating individuals give and the net rating a Mean or GrandMean provides tell a story. Those who most strongly identify with a particular item may give a 5 (Strongly Agree) on any of the 12 elements. This is essentially an emphatic or whole-hearted "Yes." Those who respond with a 4 on a specific item are saying "Yes, but . . ." They feel quite positive, yet something is missing for them to be able to respond more strongly. Respondents, who answer with a 3 on a question are giving a "Polite No." Those who give a 2 are saying "No" and are certain they disagree. Finally, those who select a 1 are giving an emphatic "NO" — a no with real conviction, energy, and emotion. Workgroups generally find the greatest return on investment by focusing on any dimension where their score was a 4. It is easiest to move an individual or workgroup from a 4 to a 5. This is also where organizations see the most impact on organizational performance.
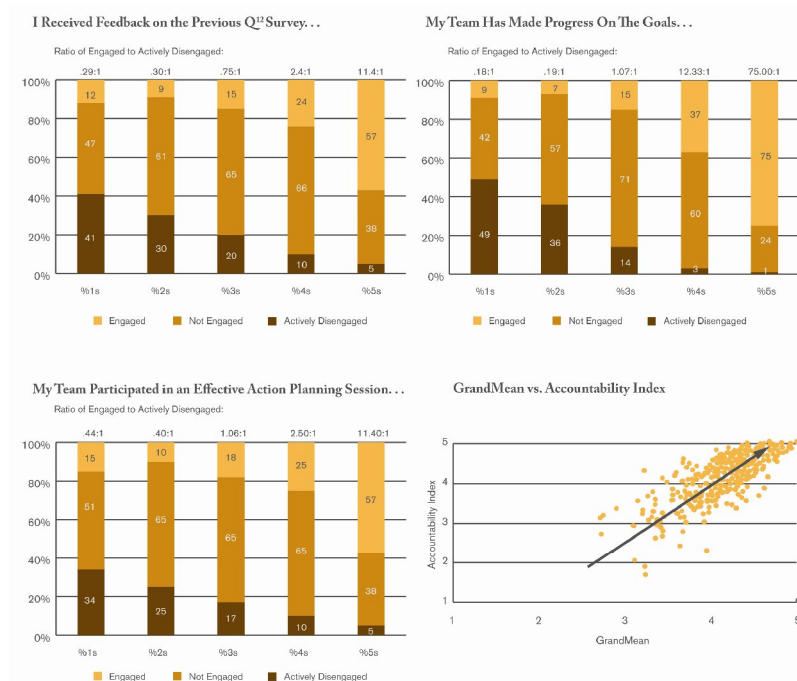
Continuous Improvement

As important as the nature of Gallup's Q^{12} model is, and as useful as the post-survey scorecards are, it is helpful to understand that follow-up Action Planning conducted in partnership with Gallup, managers, and workgroups represents the best way to improve engagement. As illustrated by the previous graphic, improving engagement has a dramatic effect on workgroup and organizational performance. However, while leaders should set the stage and hold their subordinates responsible for both engagement results and the engagement process, it is *managers who most affect engagement and performance.*

The Action Planning process that compels improvement is very similar. Managers should provide their employees with feedback on engagement results, collaboratively develop a plan based on engagement results, and ensure progress is made on those goals. After following this process, the specific efforts taken to improve engagement will look somewhat different in each workgroup because each will have different engagement results, needs, and interventions. In order to provide a benchmark of the degree to which an organization and its managers have conducted Action Planning, Gallup uses an Accountability Index whose items have known links to increasing engagement.

- I received feedback on the previous employee engagement survey.
- My team participated in an effective action planning session following the last employee engagement survey.
- My team has made progress on the goals set during the action planning session following the last employee engagement survey.

Gallup consistently finds a high correlation between those workgroups that execute the full Action Planning process and their engagement level the following year. Note that the more employees answering "strongly agree," the larger the percentage engaged and the larger the ratio of Engaged to Disengaged employees.

I Received Feedback on the Previous Q12 Survey...

My Team Has Made Progress On The Goals...

My Team Participated in an Effective Action Planning Session...

GrandMean vs. Accountability Index

Summary: Employee Engagement

Employee engagement provides a research-based, validated, performance-predictive means of continuous improvement. As engagement measurement, benchmarking, reporting, training, and action planning continue year to year, these efforts will institutionalize a process for increasing engagement and improving unit performance. Furthermore, this system does not merely provide data but also provides individualized, actionable feedback for leaders, managers, and supervisors. Other survey and measurement approaches typically provide one or the other of these components but not both. Other benefits include the following:

Research Based: Sound research and methodology assure the model is correct.

Performance Driver: Specific items have known and substantial links to organizational outcomes.

Meaningful Focus: The most significant workforce factors that drive performance are clarified.

Performance Predictive: The process provides a leading, not lagging, indicator of workforce effectiveness.

Benchmark: Baselines an organization's current status and provides a prioritized basis for improvement.

Survey Length: Avoids alternatives, which are lengthy and measure non-actionable items.

Superior to Satisfaction: Provides feedback on performance-related factors rather than on employee attitude alone.

Individualized Scorecards: Leaders, managers, and supervisors receive local-level results.

Actionable: Analyzing results and inferring opportunities enable action and improvement.

Central Metric: Engagement ratio provides a simple metric for judging the overall workforce relative to best practice goals.

Customer Engagement

While talented individuals and engaged workgroups are necessary for a world-class enterprise, their performance is only meaningful if it has an effect on external customers. Just as employee engagement measures the *discretionary effort applied by a workforce*, customer engagement measures the extent to which the organization as a whole and its many local teams have created a *meaningful connection* with its customers. Just as there is a rational and emotional hierarchy within employee engagement, customers have a similar hierarchy of needs. Furthermore, these are remarkably consistent from industry to industry and can be measured and managed over time.

Research

To develop a model linked to outcomes, Gallup compiled an exhaustive set of candidate items drawn from prior surveys and academic research among different product and service categories, which rated customer experiences with their current or most-often-used provider. More than 60 candidate measures were used. Our initial research scope included 4,637 respondents providing a total of 6,798 ratings among 6 industries followed by a similar international research study including 10,000 respondents and ratings. Eleven items emerged as predictive of performance.

Since our original research study, the same 11 items have been corroborated by continuous validation among 2.99 million respondents from 47,696 business units among 197 clients, 6 global regions, and 53 countries. Customer engagement has also been validated in six major subpopulations or customer types, including business-to-business, business-to-consumer, call centers, luxury brands, consumer products, and professional services.

> **Rational Foundation**
> CE1. Overall, how satisfied are you with [Brand]?
> CE 2. How likely are you to continue to choose/repurchase [Brand]?
> CE 3. How likely are you to recommend [Brand] to a friend/associate?
>
> **Confidence**
> CE4. [Brand] is a name I can always trust.
> CE5. [Brand] always delivers on what they promise.
>
> **Integrity**
> CE6. [Brand] always treats me fairly.
> CE 7. If a problem arises, I can always count on [Brand] to reach a fair and satisfactory resolution.
>
> **Pride**
> CE8. I feel proud to be a [Brand] customer.
> CE9. [Brand] always treats me with respect.
>
> **Passion**
> CE10. [Brand] is the perfect company for people like me.
> CE11. I can't imagine a world without [Brand].

Research Outcomes

Two main findings related to satisfaction and employee-customer relationships emerged from our initial research and continuing validation.

Satisfaction: Customer "satisfaction" is not enough. First, traditional satisfaction measures have remained relatively high and unchanged in every major industry for more than a decade. Second, while organizations can claim some level of success, these same results indicate the need for a more sensitive measurement. Third, it is evident that no leadership or management efforts to affect satisfaction have been successful, likely

extending from the fact that satisfaction represents an enterprise-level impression that does not necessarily apply to, and is not typically actionable at, each local business unit.

Fourth, satisfaction is a lagging indicator. It reveals how a customer felt about a past experience, rather than providing insight regarding future behavior. Fifth, by relying on largely rational measures, satisfaction fails to link to purchasing or funding behavior. Satisfied customers do not stay with, return to, recommend, purchase from, or provide funding more to product and service providers who only achieve customers' satisfaction. Sixth, this is true with both traditional business-to-consumer relationships, such as retail, consumer products, and automotive sales, and with business-to-business relationships, more similar to government organizations that typically provide advisory, information, and analytical products and services to customers and consumers such as policymakers and decision-makers.

Emotion: Truly affecting customers — and realizing dramatically improved unit performance — requires an emotional connection between employees and customers. People stay faithful to a product or service provider when the provider earns both their rational trust and their emotional attachment. That dynamic is a much better predictor of behavior than customer satisfaction measures.

Measuring and benchmarking via CE[11] illustrates the categories in which customers may fall and provides leaders and local-level managers actionable feedback regarding the customer engagement hierarchy.

Customer Categories: Four general customer categories are apparent. Fully Engaged customers are strongly attached and loyal. These are your best prospects for additional revenue (commercial) or funding (government). Engaged customers are attached, but not attitudinally loyal. Customers who are Not Engaged are emotionally and attitudinally neutral, providing no positive association or recommendation. These customers are typically price (commercial) and budget (government) sensitive. Actively Disengaged customers are emotionally detached and antagonistic. They encourage would-be customers not to use your products or services and refuse to purchase or provide funding. Roughly 9% of today's customers are Fully Engaged and 24% Engaged, while 48% are Not Engaged and 19% are Actively Disengaged. Of course, this represents a substantial opportunity for any organization given that *nearly 70% of all customers are Not Engaged or Actively Disengaged* and *do not meaningfully provide or compel additional funding or resources* to the organization.

Customer Engagement Hierarchy: The hierarchy embodied in CE[11] items provides a basis for benchmarking and improving employee-customer interactions:

- Confidence: This represents the extent to which customers believe the brand/organization is trustworthy and keeps its promises.
- Integrity: This represents the extent to which customers feel the brand/organization treats them fairly.
- Pride: This represents the extent to which customers feel good about the brand/organization and how patronage reflects upon them.
- Passion: This represents the extent to which customers feel passionate about their relationship with the brand/organization and view it as an irreplaceable part of their life or business.

Client Outcomes

Naturally, it is not just important that CE[11] is better than satisfaction measures, clarifies the importance of an emotional employee-customer connection, or provides an actionable hierarchy and benchmark. What is most important is the effect on outcomes and performance. To that end, consider two examples.

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First, consider per customer contribution. In the commercial space this relates to purchasing behavior. In the business-to-business or government space this is analogous to funding behavior. Gallup's research reveals that Fully Engaged customers represent an average 23% *premium* in terms of share of wallet, profitability, revenue, and relationship growth over the average customer. In stark contrast, actively disengaged customers represent a 13% *discount* in those same measures.

Second, outcomes more analogous to the government domain show similar results. In particular, federal organizations are not concerned about profitability and purchasing behavior per se. Rather, each has a relatively well-defined mission and business scope to execute, making its concern more directly related to the maintenance of existing customers and increasing its ability to own and perform a function or mission. This is more akin to account retention and share of procedures, respectively. To that end, Fully Engaged customers deliver approximately 40% better account retention and own a 20% larger share of procedures. Also note that, perhaps counterintuitively, there is little behavioral difference between dissatisfied and rationally satisfied customers, again underscoring the *importance of emotional connection* between employees and customers, independent of the setting in which they work.

Per-Customer Contribution
Indexed Performance (Average = 100)

Fully Engaged	123
Engaged	107
Not Engaged	99
Actively Disengaged	87

Indexed Performance
Average = 100

Dissatisfied — Rationally Satisfied — Emotionally Satisfied

Account Retention: 88, 85, 127

Share of Procedures: 95, 92, 115

Implementation

Gallup uses the same 5-point rating scale with CE[11] as it does with Q[12]. This enables similar reporting, scorecards, and benchmarking, as well interpretation, consulting, and action planning. The natural contrast is the difference in specific items and hierarchy, and the fact that there are four meaningful categories of customers, versus three categories of employees.

Just as employee engagement allows managers and leaders to action plan so that their employees and workgroup improve engagement and unit performance, customer engagement allows an organization's representatives to shape delivery of products and services so that customer attachment is improved. While action planning relative to individual CE[11] items is possible, customer relationships tend to be less discrete and controllable than with an employee workgroup for which all members are known and routinely present. As such, five general intervention zones are commonly used to improve customer outcomes.

Intervention Zone #1 (Low CE, Low Impact): The goal in this case is to either repair or reevaluate its relationship with their customer. These relationships may have already been flagged, so the repair could involve a significant shift in the existing approach. A reevaluation may also show that the relationship is not worth saving, particularly if it is a smaller or less strategic one. Existing resources may be better deployed serving other customers.

Intervention Zone #2 (Average CE, Average Impact): Again, senior management should discuss changes to the organization's approach and initiate action planning to increase engagement and impact. Reviewing existing policies and practices and creating greater visibility and accountability around the ability to consistently
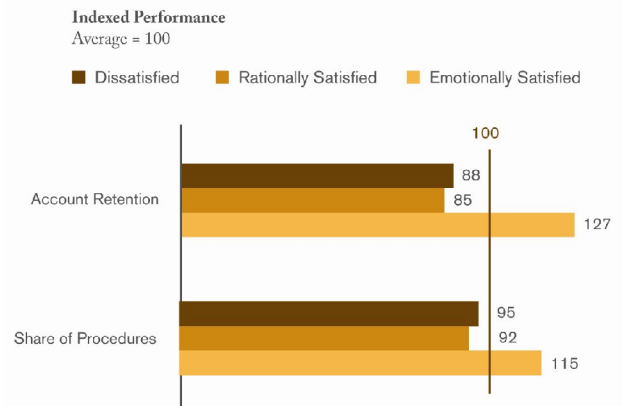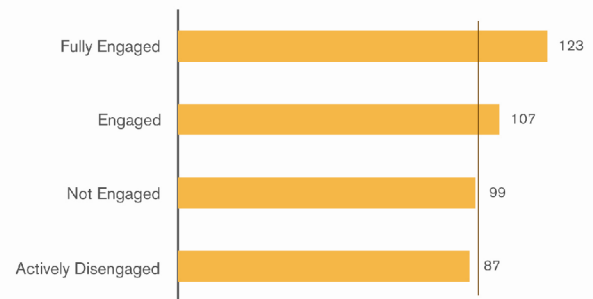
deliver quality is necessary. Management should typically conduct a series of stakeholder interviews to uncover the reasons for customers' criticism or limited praise for the provider's efforts.

Intervention Zone #3 (High CE, Low/Average Impact): The danger in this scenario is that the team may not hear anything about this from day-to-day contacts, yet it may jeopardize the organization's position with the senior customer stakeholders who make final purchasing decisions. Here, the delivery team needs to reposition itself for impact. As a first step, the team should examine its own orientation toward the customer. Considerations should include the customer's stated goals, the delivery team's alignment to those goals, and its ability to deliver a relevant value proposition and become a central business partner.

Intervention Zone #4 (Low CE, High Impact): In this least likely scenario, the delivery team assumes the role of "absent-minded professor" in the eyes of the customer. The team's actions, when executed properly, invariably drive impact. However, those actions are often fraught with errors or inattention to detail. In this event, the organization must get back to basics and ensure quality.

Intervention Zone #5 (High CE, High Impact): Here, the organization does not need to fix anything. However, an opportunity may exist to better leverage the strength of existing relationships and find new avenues for delivering additional value. These relationships tend to have the greatest opportunities.

Summary: Customer Engagement

Customer engagement provides a research-based model that measures, benchmarks, and enables continuous improvement of the rational and emotional factors that predict spending and funding behavior. More specific benefits include the following:

Understand Customer Needs and Channels: Customer outcomes are not delivered by a single monolithic enterprise or organization. As such, CE^{11} helps leaders and individual local-level managers understand differences among various customer and channels used to deliver products and services.

Emotional Attachment: CE^{11} provides understanding of the real and full basis upon which customers choose and stay with providers.

Local-Level Benchmarking: CE^{11} provides actionable feedback from customers' perspectives, enabling change based on specific factors with known links to outcomes and without assuming customer needs and issues are the same across an organization.

Consistency of Delivery: CE^{11} provides a benchmark to evaluate organizational and local-level outcomes.

Communicate Corporate and Local Brand: CE^{11} provides a means of understanding strengths and weaknesses in customer delivery, compelling improved communication to shape customer expectations.

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Performance Optimization

Finally, combining employee and customer engagement has a synergistic effect on unit performance. Gallup calls this HumanSigma®. Like Six Sigma, HumanSigma focuses on reducing variability in performance and improving quality. Unlike Six Sigma, HumanSigma focuses on the *human* aspects of organizational performance to drive *effectiveness* and *financial performance.* While Six Sigma applies to processes, systems, and output quality, HumanSigma benchmarks the quality of the employee-customer encounter. As such it provides a consistent, central measurement while also providing a basis for managing and improving employee and customer engagement in tandem.

Research

HumanSigma grew out of a multiyear, research-based initiative designed to understand the nature of the employee-customer encounter. Using meta-analysis to analyze 1,976 business units in 10 different companies, an initial study of 67,072 individual employee and 214,656 individual customer responses to surveys were included. More specifically, there was an average of 34 employees and 108 customers per business unit and 198 business units per company. Over the past five years, Gallup has continuously validated HumanSigma based on more than four million employee and one million customer respondents among more than 500,000 workgroups or business units within 400 companies.

Research Outcomes

Four general hypotheses were proven by the meta-analysis and remain confirmed by continuing validation. First, there is a positive and generalizable relationship between EE, CE, and performance outcomes at the local *business unit level*. Second, EE and CE are more predictive of performance outcomes together than either is individually. Third, *incremental gains* in EE and CE drive improvement in performance outcomes. Fourth, the relationship between the HumanSigma metric and performance outcomes has substantial *practical value* to business units.

The quantifiable effect on unit performance resulting from increasing an organization's HumanSigma score is substantial. Consider movement between the four quadrants. There is a 70% performance improvement resulting from moving from low EE and CE to either high EE or CE. In contrast, there is a 240% (3.4X) performance impact from improving low EE and CE to high EE and CE.

Naturally, this assumes business units will move from the mid-point in one quadrant to the mid-point of another. However, consider performance would actually improve incrementally, through six standard distribution 'bands'. HumanSigma shows still more benefit. Moving from Human Sigma Level 1 through 6 yields a 1.8, 2.5, 3.8, 4.5, and 5.2 times performance impact, respectively. That is, moving from low EE and CE to high EE and CE yields as much as a 5.2 times impact on performance.
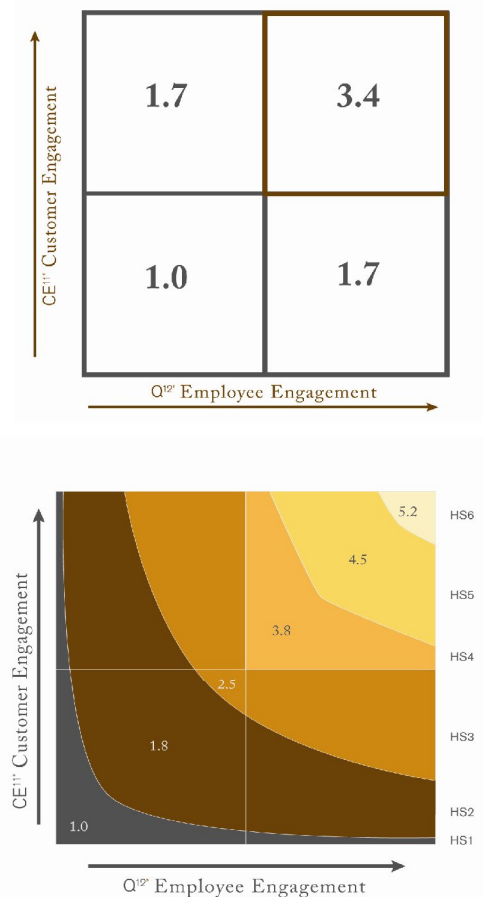
Implementation

A HumanSigma score allows an enterprise to benchmark and visualize its organizations' business units' performance among each other and within each performance band. With the insight provided by HumanSigma, business units (gold plot points) can plan actions that will drive local level improvement, while the enterprise can coordinate similar efforts based on its overall HumanSigma score (white circled plot). Some units may be in direct need of improvement (lower left quadrant; low EE and CE). Those units that engage employees without engaging customers (bottom right; high EE, low CE) have become too inwardly focused and have lost direction. Those that engage customers without engaging employees (upper left quadrant; high CE, low EE) are living on borrowed time. Over the long-term, customer engagement will tend to erode. Those units in the top quadrant (upper right; high EE, high CE) are considered optimized and serve as an internal best practice example for other parts of the enterprise.

Summary: HumanSigma

HumanSigma provides a research-based and performance-predictive model that allows an enterprise to plot performance and plan improvement of employee engagement and customer engagement simultaneously. Similarly, clear visualization of an enterprise as well as organizational and local business unit performance outcomes helps align improvement interventions to factors known to most affect performance. More specific benefits include the following:

Central Metric: HumanSigma provides an elegant metric that is predictive of performance. This avoids using a relative dearth or overabundance of performance metrics.

System Perspective: HumanSigma provides an understanding of the interaction among several measures improtant for high performance. Just as a heartbeat and respiration are both inherently necessary for bodily health, HumanSigma fuses the measures that are most important for unit performance.

Solidified Employee-Customer Concept: HumanSigma clarifies the interaction of rational and emotional factors related to workforce performance and customer outcomes, enabling effective management of seemingly immeasurable and intangible factors.

Local Measurement: HumanSigma provides a common metric that can be reported and benchmarked, at the enterprise, organizational, and managerial/supervisory level.

Continuous Improvement: HumanSigma reporting directly parallel to employee and customer engagement scorecards ensures transformational and transactional action planning can occur. Continuous improvement can be driven not only at the enterprise level but at the local level where most meaningful interactions take place and the largest improvements are possible.