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The Soft Stuff Is the Hard Stuff

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Many leaders know first hand: Companies that ignore the “soft stuff”—including employee engagement metrics—do so at their own peril. The so-called “soft stuff” is what progressive, forward-thinking leaders recognize as the hard stuff.

A recent Deloitte Touche Tohmatsu survey reveals that while CEOs know that financial indicators alone do not reflect the health of their businesses, they often have few processes in place to measure the “soft” metrics that impact bottom-line performance.

Four out of five CEOs agree that financial indicators alone do not fully capture their company’s strengths and weaknesses—in part because they reflect only past performance. That figure rises to 85 percent of respondents at companies with over \$1billion in revenues. But the executives cite as inadequate their companies’ ability to monitor and report what they describe as key drivers of performance—such as employee commitment, customer satisfaction, and innovation.

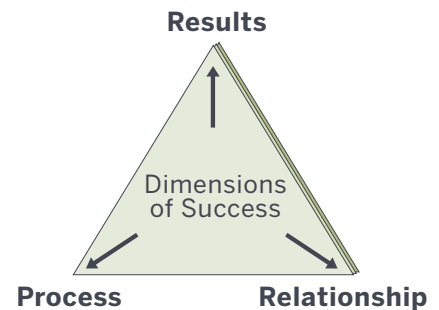
At Interaction Associates, we define success across three dimensions: results, process, and relationship. These dimensions are interdependent, and must be measured.

The two dimensions often overlooked or undervalued—Process and Relationship—are leading indicators of financial performance. These predictive tools help analysts forecast economic performance or trends. For example, a company may experience flagging employee morale in the Relationship dimension and disorganized team meetings that don’t yield desired outcomes in the Process dimension. Inevitably, these poor showings predict poor financial numbers.

For most companies, measuring Results is routine. But many leaders have less experience or confidence in evaluating Process and Relationship. To evaluate a Process, you need to consider a core set of questions: “Is the process clear and logical? Is the process efficient? Is it appropriate for the task?”

To evaluate the Relationship dimension, you should ask, “Do employees feel supported? Do they trust each other? Do they feel valued?” Are they offering discretionary effort outside their job descriptions? Are they speaking out with recommendations for improvements? Measuring attitudes through employee

surveys and exit interviews, and tracking retention trends over time, are also good ways to evaluate your success in the relationship area.



Increasing levels of employee engagement also impacts financial performance. A 2005 Towers Perrin study equated a 5 percent increase in employee engagement to a .7 percent increase in operating margin. Another study showed correlations between the level of employee engagement and operating margin and net profit margin. Customer engagement levels correspond closely with employee engagement levels—even in cases where employees have no direct contact with customers. Increasing employee engagement has a positive impact on customer satisfaction.

HR leaders can develop measures to track such metrics as employee commitment, collaboration, team effectiveness, and innovation. For example, Comcast Cable Corporation’s North Central division, a multi-billion business unit with 12,000 employees, carried out an 18-month collaborative effort to boost employee engagement and customer satisfaction. Under the leadership of Carolyn Fischer, VP of Learning & Organizational Effectiveness, the group established metrics—such as employee turnover rates, employee satisfaction survey scores, and customer satisfaction survey scores, as well as financial metrics—to gauge their success. Bonus and compensation structures were shifted to reward targeted behaviors. As a result, the division improved operating results and earned several awards, including “Best Place to Work” in the region.

So the “soft stuff” is the hard stuff — as many CEOs know. As you move the needle on key employee metrics, you change behaviors—and ultimately the company’s financial performance. **LE**

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Action: Put metrics and rewards in place for three dimensions.