

A photograph of three people in a meeting. A woman on the left is smiling and looking at a man in the center who is also smiling and looking at a man on the right. They are sitting around a table with a laptop, a pen, and a small potted plant. The background is a modern office setting with large windows.

Finding The Way to Happy Customers Through the Voice of Your Employees

If your employee surveys are falling short, you're not alone. But, beware: your competitors may have figured out the secret to delighting customers — theirs and yours.

Medallia
INSTITUTE



WHY THIS MATTERS

While 78 percent of frontline employees report that their leaders have made customer experience (CX) a top priority, nearly 60 percent say they believe that their ideas for improving that experience often go unheard.

Medallia's research suggests that operationalizing employee feedback not only highlights specific insights into improving customer service, it also increases employee satisfaction and loyalty, and reduces the likelihood of costly employee turnover.

In this report, Medallia identifies five mistakes companies often make when designing and executing their employee feedback systems and discusses how companies can avoid them.

KEY FINDINGS

Companies that design and develop effective employee feedback systems recognize that frontline employees provide a unique perspective on the customer experience. They interact daily with customers and have firsthand knowledge of the organizational practices that affect customer perceptions.

Companies that successfully leverage employee input to improve the customer experience develop systems that:

- Solicit feedback regularly
- Ask questions that are actionable, relevant, and aligned with the company's value proposition
- Communicate the purpose of surveys, their results, and the actions taken
- Maintain employee anonymity and trust
- Take direct action based on employee input

Engaged Employees Create Loyal Customers

Popular wisdom tells us that engaged employees produce satisfied customers. Fred Reichheld, creator of the well-known Net Promoter System, argues that companies “can’t earn the loyalty of customers without first generating enthusiastic engagement and loyalty from employees, especially frontline employees.” Others echo these sentiments. “Without a good employee experience there could never be a great customer experience because the most precious interface is the people on the selling floor who interact with customers,” says the chief design officer at one big-box retailer.

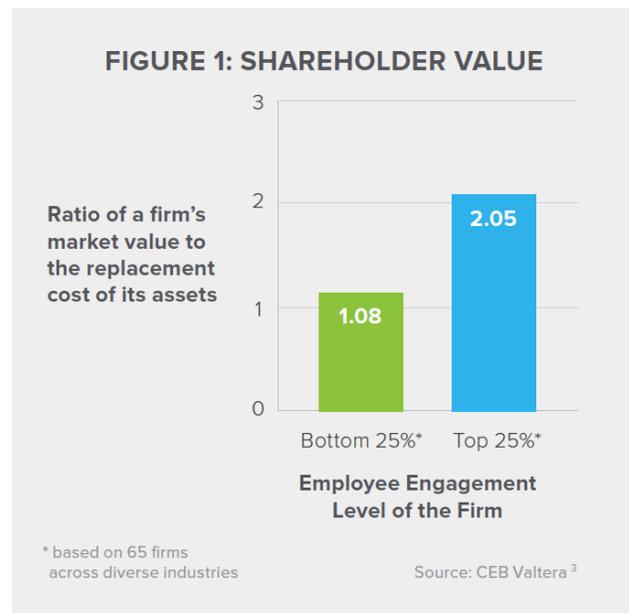
When employees are engaged – when they feel emotionally energized and take actions that go above and beyond what is typically expected of them – they are more likely to delight customers. Equally important, engaged employees are often more committed to and capable of creating value for their companies. This is especially true for customer-facing employees, who are usually the first point of contact for customers and have direct knowledge of what’s working and what’s not. Frontline employees know when a company’s IT systems are slow and creating excessive wait times. They know which product features are failing and why customers are frustrated. And they know why customers are returning products, canceling contracts, or simply taking their business elsewhere.

“Without a good employee experience, there could never be a great customer experience.”

When You Engage The Frontline, You Impact The Bottom Line

The business case for engaging customer-facing employees is compelling. Gallup estimates that companies with highly engaged workforces

outperform their peers by 147 percent in earnings per share and have fewer quality defects, lower shrinkage, and less absenteeism¹. CEB Valtera, a global talent management company, reports that shareholder value for companies that rank in the top quartile of employee engagement is nearly double for companies in the bottom quartile, even when using measures that account for industry².



Given the substantial benefits of employee engagement⁴, the question is how companies engage their employees and realize the benefits. We believe the secret to engaging employees is empowering them to make a difference. One of the most effective ways companies can do this is by developing well-designed feedback systems.

¹ John H. Flemming, Curt Coffman, and James K. Harter, “Manage Your Human Sigma,” *Harvard Business Review*, July-August, 2005.

² CEB Valtera, William H. Macey, Benjamin Schneider, Karen M. Barbera, and Scott A. Young (2009), *Employee Engagement: Tools for Analysis, Practice, and Competitive Advantage*, John Wiley & Sons: 3.

³ *ibid*

⁴ For a more complete discussion of the financial impact of employee engagement and its influence on customer satisfaction, see Jack W. Wiley (2010), *Strategic Employee Surveys: Evidence-based guidelines for driving organizational success*, Jossey-Bass; and Anthony J. Rucci, Steven P. Kirn, and Richard T. Quinn (1998), “The Employee-Customer-Profit Chain at Sears,” *Harvard Business Review*, Vol. 76, No.1, January; and Jack W. Wiley (2010), *Strategic Employee Surveys: Evidence-Based Guidelines for Driving Organizational Success*, Jossey-Bass.

By giving employees access to customer feedback and collecting and using employee feedback to make organizational improvements, organizations empower their employees. Customer feedback surveys help frontline employees improve their performance, while employee feedback provides the information needed to make organizational improvements. Both types of feedback ultimately benefit the customer by driving changes that create a better customer experience.

Josh Bersin, principal and founder of Bersin by Deloitte, maintains that just as customer feedback has transformed the customer experience, employee feedback has the potential to transform the employee experience. Yet, despite significant investment in these programs — more than \$1 billion annually — most employee feedback systems aren't generating the value that companies want⁵. Employee surveys appear to be falling short in their empowerment potential. Companies are doing little to tap the knowledge of employees and, as a result, are failing to leverage their unique perspective to benefit customers. Ultimately, neither employees nor customers feel that companies are being truly responsive to their needs, so why would they reciprocate with greater loyalty or engagement?

Cross-functional silos account for a significant part of the problem. Customer experience initiatives are often fragmented and uncoordinated, making it difficult to gain a coherent understanding of customer feedback⁶. Likewise, employee feedback programs are typically run by HR, which tends to have limited information about customer improvement efforts. Even when employees provide input that might improve service delivery or streamline other processes, HR may not have a way to route that feedback to business units or functions where it could have the greatest impact.

⁵ Josh Bersin (2015), "Feedback Is the Killer App: A New Market and Management Model Emerges," *Forbes*, Aug. 26, 2015, <http://www.forbes.com/sites/joshbersin/2015/08/26/employee-feedback-is-the-killer-app-a-new-market-emerges/>.

⁶ Gartner, "Gartner Surveys Confirm Customer Experience Is the New Battlefield", October 23, 2014.

The secret to engaging employees is empowering them to make a difference. One of the most effective ways companies do this is by implementing well-designed feedback systems.

Many frontline employees point to other factors that limit the effectiveness of feedback programs. To better understand the strengths and weaknesses of these programs — especially for empowering and engaging employees around the customer experience — The Medallia Institute conducted a survey of 1,000 frontline employees across five industries. Based on the results, we identified five ways that employee feedback systems are falling short and analyzed the implications for designing better ones.

The State of Employee Feedback Systems

Employee feedback is not solicited regularly. Among the employees we surveyed, only two in five say their companies regularly ask for their feedback, especially when it comes to improving the customer experience. While 61 percent of employees report that they are "likely" or "very likely" to come up with new ways to delight customers, about a third are asked for their input once a year or less, and nearly 20 percent say they are never asked about improving customer satisfaction. In an age when corporate executives characterize employee engagement as critical to creating a great customer experience, this is both surprising and worrisome. Employees want to make a difference, and they want to be heard.

While 31 percent of frontline employees say they are surveyed by their employers once a year or less, 51 percent have suggestions for improving customer satisfaction at least quarterly, and 22

percent have feedback to share daily or weekly. Employees want to have an impact on their workplace and contribute to their company's success (Figure 2). Among our survey respondents:

- 44 percent say they could offer feedback for improving employee satisfaction at least quarterly
- 56 percent have suggestions for improving company processes and practices
- 43 percent say their observations and insights could reduce company costs

Given how seldom employees are asked for feedback, companies are missing a huge opportunity. By simply soliciting employee feedback regularly and more often, many organizations could dramatically enhance their performance, improving processes, increasing customer satisfaction, and eliminating unnecessary costs.

Companies ask the WRONG questions

Companies collect employee feedback in a variety of ways, including surveys, performance reviews, meetings, suggestion boxes, and online forums. But in many cases, companies are just going through the motions — asking generic, outdated, and irrelevant questions that do little to elicit valuable insights. Less than half of employees (46 percent) surveyed by their employers say they believe their companies are asking the “right” questions in employee surveys.

Companies fail to communicate

An effective employee feedback system is both operational and highly responsive. Employees must understand that their feedback matters, that the company is using it, and that it's producing results. When employees know all of this they feel — and are — more empowered. Yet fewer than three in five employees report that their employer shares the results of employee feedback surveys. And only half say their company communicates the actions taken based on that feedback. Communicating both the purpose of surveys and how the information they gather is being used increases the chance that a company will reap the full benefits of an employee feedback system.

Confidentiality of feedback is often a big concern

Only half of frontline employees surveyed by their employers say they are comfortable sharing negative feedback about their employer and/or direct manager in employee surveys. Twenty-six percent are afraid to say what they truly think. In part, this lack of candor stems from concerns about confidentiality. Less than 39 percent of frontline employees surveyed by their employers say they believe their responses are truly confidential. Medallia research finds that frontline employees who question the anonymity of their survey responses are almost three times more likely to leave the company than employees who consider survey responses truly anonymous. Even among employees who report being satisfied with

FIGURE 2: HOW LIKELY ARE YOU TO COME UP WITH NEW WAYS TO...?



Source: Medallia Institute, Frontline Employee Survey, 2015

their job, the probability of leaving their employer is twice as high when they are afraid to share their honest opinions in employee surveys.

“[Employee surveys] are basically a waste of time since management does not take action: they just go through the motions...”

**Financial Services
Frontline Employee**

Companies take little to no action based on employee insight

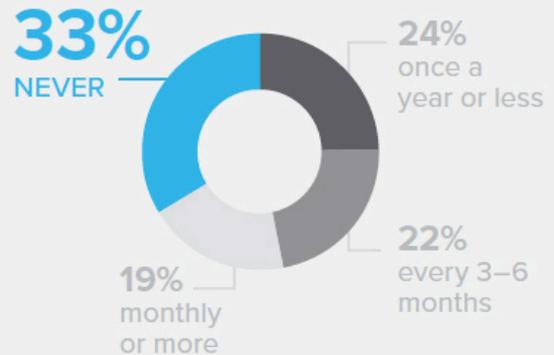
Sixty-one percent of employees say they believe that their team’s suggestions can significantly improve their employer’s business, yet a third of frontline employees also say their company is “unlikely” or “very unlikely” to act on their feedback. An employee feedback system that fails to operationalize the information it collects can be even more detrimental to company performance than having no employee feedback system at all. Medallia research finds that poorly managed feedback programs not only fail to capitalize on insights that could lead to improvement, but can ultimately decrease employee satisfaction and increase the likelihood of costly employee turnover.

While 78 percent of the employees surveyed by Medallia reported that delighting customers is a top priority of their company’s leadership, nearly 60 percent also reported that their companies don’t really listen to them. Twenty-four percent said their organizations act on suggestions from the frontline to improve customer satisfaction once a year or less; one-third complained that their

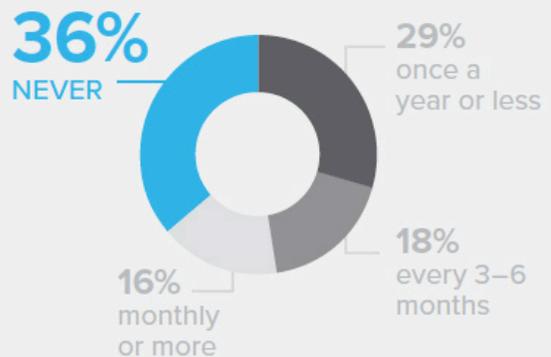
employers never take action based on feedback. Less than half of employees said they can count on their leadership to remove obstacles to delighting customers. Companies are similarly unresponsive when it comes to improving employee satisfaction. Thirty- six percent of respondents said their company never acts on their feedback.

FIGURE 3: IN YOUR EXPERIENCE, HOW OFTEN DOES YOUR COMPANY TAKE ACTION BASED ON YOUR INPUT ABOUT WAYS TO IMPROVE...

CUSTOMER SATISFACTION?



EMPLOYEE SATISFACTION?



* 2% of employees responded "Other"

Source: Medallia Institute, Frontline Employee Survey, 2015

KEY PRACTICES FOR SUCCESSFUL EMPLOYEE FEEDBACK SYSTEMS

Solicit feedback regularly. To fully leverage your company's collective intelligence, listen to employees on a regular basis through multiple feedback mechanisms. Ask for input on specific issues only when you are willing to take action based on the feedback you receive.

Ask the "right" questions. Survey questions should be actionable and relevant, and they should align with the company's mission, values, and strategic objectives. Include open comment opportunities to elicit new and unexpected findings and give employees a stronger voice.

Communicate the purpose of surveys, their results, and the actions to be taken. Before fielding a survey, inform your organization about its purpose and make sure employees understand the importance of their input

and how it will be used. Once employee feedback is collected, distribute and explain the survey results and lay out an action plan. Finally, inform your employees once you actually take action.

Guarantee confidentiality of survey responses to maintain trust. To obtain employees' honest insights and maintain a high level of trust within the organization, make sure that employee surveys are anonymous and that your workforce knows and trusts that their responses will remain anonymous.

Take continuous action based on employee feedback. The quickest way to destroy workplace morale is to collect employee feedback and do nothing with it. When you solicit employee feedback, take action to address concerns and realize opportunities.

Methods

Medallia conducted this panel survey in October 2015. The survey polled 1,000 customer-facing employees (supervisors and their direct reports) working in the U.S. automotive, banking and financial services, retail, telecommunication services, and travel and hospitality industries. Respondents were limited to individuals employed by companies with a minimum of 250 employees, with almost half of the employees in the sample working for companies with 10,000 or more employees.

About Medallia

Medallia is the pioneer and market leader in Experience Management. Medallia's award-winning SaaS platform, the Medallia Experience Cloud, leads the market in the understanding and management of experience for customers, employees and citizens. Medallia captures experience signals created on daily journeys in person, digital and IoT interactions and applies proprietary AI technology to reveal personalized and predictive insights that can drive action with tremendous business results. Using Medallia Experience Cloud, customers can reduce churn, turn detractors into promoters and buyers and create in-the-moment cross-sell and up-sell opportunities, providing clear and potent returns on investment. www.medallia.com

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