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Employee Line of Sight to the Organization's Strategic Objectives – What it is, How it can be Enhanced, and What it Makes Happen

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This paper has not undergone formal review or approval of the faculty of the ILR School. It is intended to make results of Center research available to others interested in preliminary form to encourage discussion and suggestions.

**Employee Line of Sight to the Organization's Strategic Objectives –
What it is, how it can be enhanced, and what it makes happen**

Aligning employees with the organization's strategic goals has become increasingly important as organizations struggle to promote retention, ensure consistency and speed of execution, and gain or sustain a competitive advantage. Despite much discussion among researchers and business writers, we still have limited knowledge about what line of sight (LOS) is, how to measure it, how it can be enhanced, and what it makes happen. In this research, we set out to address some of these knowledge gaps with a focus group meeting with HR professionals from four member companies of the California Strategic Human Resource Partnership (CSHRP) and a quantitative study involving one of those companies. A total of 661 employees responded to the survey.

Alignment on *Both* Goals and Actions is Key

The focus groups and the relevant research made it clear that understanding about both goals and actions was important. So, we developed two measures: 1) understanding *what contribution means* – the organization's strategic objectives *(LOS-Objectives)* and 2) understanding *how to contribute* – how individual actions align with those objectives *(LOS-Actions)*. We also explored the role of "perceived line of sight" – whether an employee *believes* he/she understands the objectives and aligned actions.

Summary of the Findings … LOS Affects Attitudes and Performance, and it Can be Enhanced

Our research found LOS-Actions was higher with employee involvement in decisions, increased autonomy, and participation in cross training and was more likely among more tenured and higher level employees as well as those who had held fewer positions within the organization. Like LOS-Actions, LOS-Objectives was more likely among more tenured and higher level employees as well as those who had held fewer positions within the organization. We examined different types of employee communication (e.g., company-wide meetings vs.

direct performance feedback) to see if they affected LOS differently. Company-wide meetings enhanced LOS-Objectives, while departmental meetings and providing information directly to employees about the organization's strategy, values, and goals enhanced LOS-Actions. Interestingly, part-time and temporary employees *perceived* themselves as having less LOS than full-time workers, despite the fact that their *actual* LOS was no different.

Both LOS elements associated with enhanced job satisfaction, organizational commitment, loyalty, perceived pay plan effectiveness, and lower anxiety and job burnout; but LOS-Actions was the stronger and most consistent predictor. Further, actual LOS-Actions had a positive effect beyond the perceptions of LOS, suggesting perceptions are not always enough to influence important work outcomes. We found that LOS-Actions indeed positively associated with self-reported performance. However, the effect is complex and interesting. First, actual LOS affects performance through LOS perceptions. Actual LOS seems to increase LOS perceptions, which enhances performance, perhaps by increasing motivation. In addition, LOS actions and objectives reinforce each other. The lowest-performing employees were low on both LOS actions and objectives, and the highest performers were high on both LOS actions and objectives. To achieve maximum performance, it appears that both LOS elements are required. We also found that LOS affected performance differently for different types of employees. LOS-Actions related to performance more strongly and positively for core employees (e.g., those with frequent client/customer contact), than for more peripheral employees. Core roles seem to give greater opportunity to act on LOS.

Implications for Managers

Few would argue against the importance of aligning employees with the larger goals of the company if the company hopes to get the most from its human capital and ultimately attain strategic success.

Whether employees understand the *actions* that align with strategic objectives is more important to attitudes, retention and performance than merely being able to articulate the organization's broad strategic goals. Organizations should look beyond simply communicating their strategic direction, and focus on whether employees accurately understand *how* to contribute. Our research suggests that organizations can accomplish this by involving employees in organizational decision processes and through direct and personal communication, rather than relying on "company-wide" information sessions.

Line of sight is higher among employees at high levels and with longer tenure, so extra efforts may be needed to ensure that some employees are not overlooked. Yet, lower-level and newer employees often have the greatest customer contact or take action with the greatest influence on the bottom-line. Organizations may be wise to focus alignment efforts throughout the organization, or at least strategically targeted to where it may matter most (Boudreau & Ramstad, 1997). Such efforts may include ensuring managers share information with all employees, allow and encourage employee participation in decisions affecting the organization and their job, and implementing new employee socialization efforts aimed at clearly linking employee behaviors to firm success.

Despite the importance of LOS, we still have very limited understanding of the processes and practices that help enhance and sustain employee alignment. This research has made a start, but it poses many more questions than it answers. Continued research on employee alignment, will improve our understanding of employees' role within the "big picture" and hopefully enable organizations to better capitalize on their human capital potential.

The rest of this report provides more detail and explanation of these findings, organized into the following sections:

Section 1:   Line of Sight Measure Development

Section 2:   Profile of Respondents

Section 3:   Study Results – What Line of Sight Makes Happen

Section 4:   Study Results – What Moves Line of Sight

Section 5:   Study Results – How Line of Sight Differs Among Employees

Section 6:   Study Results – Line of Sight and Conceptually Related Variables

Section 7:   Conclusion and Practical Implications

Section 8:   Suggested Readings

Section 1:

Building the Line-of-Sight Measure

Possible items for the strategic objective component of the line of sight measure were drawn from previous measures, <u>descriptions</u> of generic strategies discussed in prior research, and participants of the focus group's descriptions of company strategies. The strategic objectives developed were based on Boudreau and Ramstad's (1997) definition of a firm's strategic advantage: "Company-wide goals or key value propositions (e.g., How do we compete?)" (see Boudreau, Dunford & Ramstad, in press for a detailed application of their model). This produced an initial set of ten strategic objectives. The completeness and relevance of the list was further verified by the divisional top management team of the organization involved in the quantitative study.

Action items were developed for each strategy to assess whether employees understand <u>how</u> to contribute. The action items were developed to be specific enough to assess whether employees understand how to contribute, yet generic enough to be used across employee groups. The items were also developed to correspond with the strategic objectives, providing an opportunity to investigate whether an employee merely understands the organization's strategic objectives, merely knows what behaviors are appropriate but not why, or understands the objectives as well as how to effectively contribute.

Top HR managers from the CSHRP organizations involved in the focus group and the divisional top management team of the division involved in the study were used to develop the action items. First, the focus group participants were asked to choose one or more strategies they were most familiar with (e.g., followed by their firm) and list 2-3 actions consistent with each strategy. The actions were to be observable, accurate, and controllable by an employee. This resulted in dropping two of the initial ten strategies (i.e., increase market share, focus on one consumer market) because none of the respondents indicated these strategies as a source of competitive advantage; thus there were no action items developed. Further, "increase market

share" is perhaps best viewed as an outcome rather than as a specific source of competitive advantage.

The divisional top management team members were sent surveys asking them to first rate the eight strategic objectives as to how critical each is to the success of the organization. The managers were given the opportunity to list other important organizational strategies and to reword any strategies for clarity or precision for their particular organization. This provided respondents a frame of reference and helped determine whether any strategies had been overlooked. Two strategies were reworded to better reflect the healthcare industry (e.g., "one stop shopping" added to the integrated service strategy). The managers were then assigned three strategies from the list and asked to list congruent employee actions. The top management team generated 33 items and the focus group generated 22. Each manager was also asked to indicate his/her personal level of confidence in understanding the strategy and behaviors that contribute to it (1-5 Likert scale; 1=not confident, 5=very confident). Only actions where the respondent indicated confidence (i.e., responded 4 or 5) were retained, resulting in dropping two items. All items were then analyzed and grouped based on similarity, producing 37 aligned action items.

The aligned action items were then content coded by five independent judges (graduate students and professors) who had on average 4.6 years of full-time business experience. The judges were asked to match each action to the strategy it fit best. The actions matched correctly to the strategy for which the item was developed by four of the five judges were used in the analyses. This resulted in retaining the 27 action items on the survey.

Setting the Standard for Alignment Using the Top Management Team

Once the items were developed, the divisional top managers were sent a survey asking them to rate the importance of each strategic objective and aligned action (1-7 Likert scale; 1=definitely not important, 7=definitely important). Eight of the 11 mangers completed and

returned the survey: Divisional President; Vice Presidents of Strategy, Human Resources, Legal Counsel, Marketing, Quality; and two vice presidents in Operations. The standard for accuracy was the average of these managers' importance rating for each objective and action.

The managers' level of agreement was assessed by computing r_{wg}, a measure of agreement. The managers' agreement for the strategy items ranged from .67 to .82 with an average r_{wg} of .75. A common rule of thumb is that aggregation is justified at values of .70 or higher. Thus the management team had a moderate level of agreement on the importance of the various strategies to their organization. For the 27 action *items*, the managers' within-group interrater reliability (r_{wg}) ranged from .52 to .87 with an average r_{wg} of .66. When the action items were combined to create each action scale (2-4 items per scale), the agreement index for the eight action <u>scales</u>, averaged r_{wg} of .75. It appears that managers generally agreed on both the goals and the actions

Comparing Employee Survey Responses to the Alignment Standard

Employees completed the same survey of objectives and actions as the top management team. Employee alignment was measured for both actions and objectives by taking the absolute difference between an employee's response and the average of the top managers' average response to the corresponding item, then summing across strategic objectives and across actions. These differences were then multiplied by –1 so that a high score would indicate greater line of sight. The graph below shows how LOS varied on selected employee characteristics.

Average Level of Line of Sight

Based on Employee Characteristics

(Scale: 1=low LOS 7=high LOS)
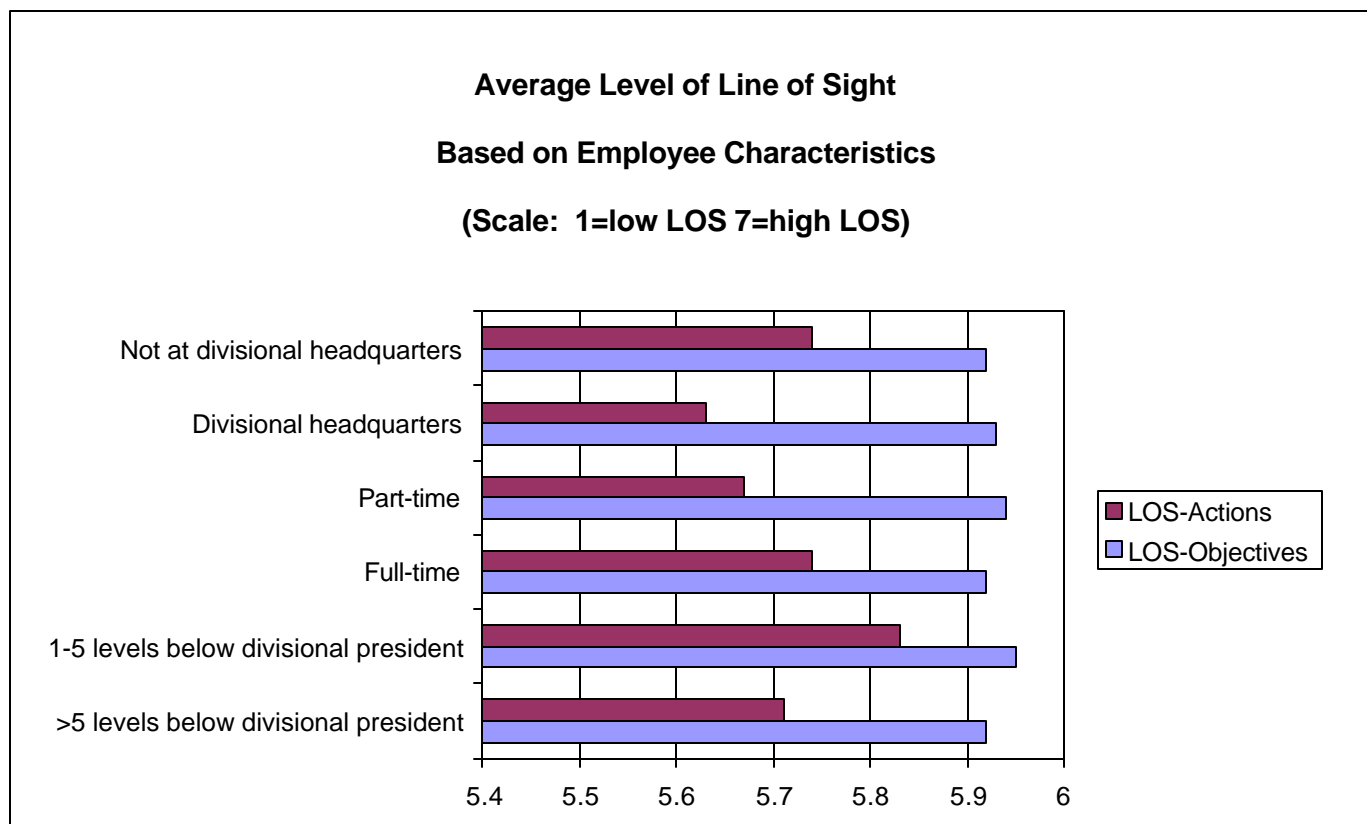
Section 2:

Profile of the Study Respondents

Employees from one division of a large healthcare organization were used to investigate the relationship between line of sight and employee and work characteristics and outcomes. We focused on one division in order to control for divergence in strategic objectives across the organization's divisions. A survey was sent to 2,385 employees via the company's internal mail system. Participants represented all areas of healthcare service (e.g., medical billing, nursing, call center services, health education) and organizational administration (e.g., accounts payable, HR management, facility services). A total of 661 surveys were returned (28% response rate). Information was also collected from company records where possible (i.e., demographics, performance ratings). Respondents were assigned a confidential code number so that survey responses could be matched to company records.

Respondents were primarily female (85%), married (64%), had a college degree (64%), and worked fulltime (76%). Thirteen percent worked at the divisional headquarters. The average respondent was 43.59 years old, had been with the company for 6 years and in the current position for just over 3 years, and had held 2 different positions at the company. The majority of respondents (82%) were more than five levels below the regional president, though there were employees in the sample one or two levels below.

Respondent Demographics

	Average	Range
Age	42.06	19 - 68
Organizational tenure	6.03	0 - 26
Job tenure	3.79	0 - 26
# of different positions at company	1.84	1 - 11
Hierarchical level	7.23	1 - 8
Education level	Undergraduate degree	High school - Graduate degree
Annual salary	$41,240	$10,070 - 102,294
Supplemental income (e.g., bonus)	$1,726	$0 - 45,073
Year began working full-time	1990	1953 - 1999
# of different companies worked for in career	4.22	0 - 15

Section 3:

What Line of Sight Makes Happen

Does LOS relate to anything important? Despite all the rhetoric about alignment, there is really little specific evidence about this question. The focus group participants consistently believed that line of sight increases job satisfaction, attachment to the organization, and employee retention. Yet they all admitted they had not examined these beliefs with data. Prior research and theory had proposed that employees with high LOS should receive more reinforcement from others, perceive greater fit with the organization, and have greater role clarity, but this had not been tested either.

Our results showed that both LOS-Actions and LOS-Objectives related positively to job satisfaction, commitment, and loyalty, and negatively to turnover intentions. LOS-Actions was consistently the stronger predictor. Even more interesting, *actual* **LOS-Actions had their positive affect** *beyond* **the** *perceptions* **of LOS. Perceptions are not always enough to influence important work outcomes.**

Our focus group participants remarked that while LOS was a key *assumption* in designing their incentive systems (stock options, pay-for-performance), none had any data on how LOS related to pay system beliefs or outcomes. **We found that line of sight associated positively with employee perceptions of incentive pay effectiveness. Employees high in LOS may better understand how they can affect organization success, and their rewards. Thus, LOS emerged as an important, but often overlooked, factor in how employees perceive incentive-based rewards.**

The focus group participants felt that LOS might enhance performance, but again had no data. **We found that LOS-Actions associated positively with self-reported performance, but not directly. Actual line of sight increased LOS perceptions, which enhanced performance. It is possible that LOS perceptions enhance employee motivation. Also,**

employees with the highest level of performance were high on both LOS Actions and LOS Objectives.

LOS affected performance differently for different employees. Among those with low LOS-Actions, self-reported performance was highest for those with high involvement/discretion. Greater employee involvement may compensate for low line of sight. Employees with low LOS-Actions and also low involvement/discretion were the poorest performers.
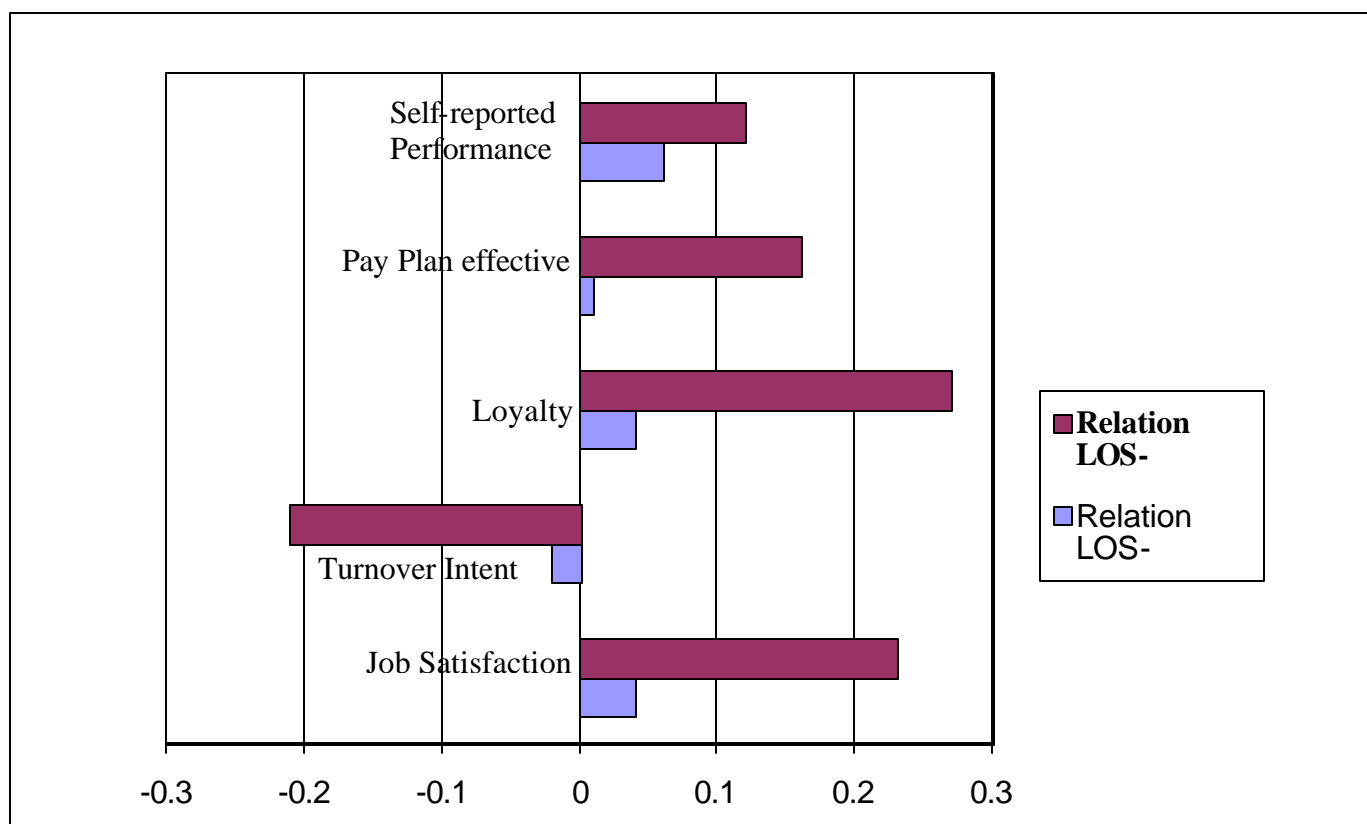
**How Line of Sight Relates to Performance and Key Attitudes**

Section 4:

What Moves Line of Sight

Communication can enhance LOS, but the focus group participants admitted that organizations don't always inform employees about company goals, let alone how an employee's actions can contribute to those goals. We examined different types of employee communication (e.g., company-wide meetings vs. direct performance feedback) to see if they affected LOS differently. **Company-wide meetings enhanced LOS-Objectives, while departmental meetings and providing information directly to employees about the organization's strategy, values, and goals enhanced LOS-Actions. Company-wide meetings may get employees to correctly articulate the company's mission, but they apparently don't make a difference in understanding the aligned actions.** This is important because many companies measure LOS only with regard to objectives, and might miss the differential impact of communications at different levels.
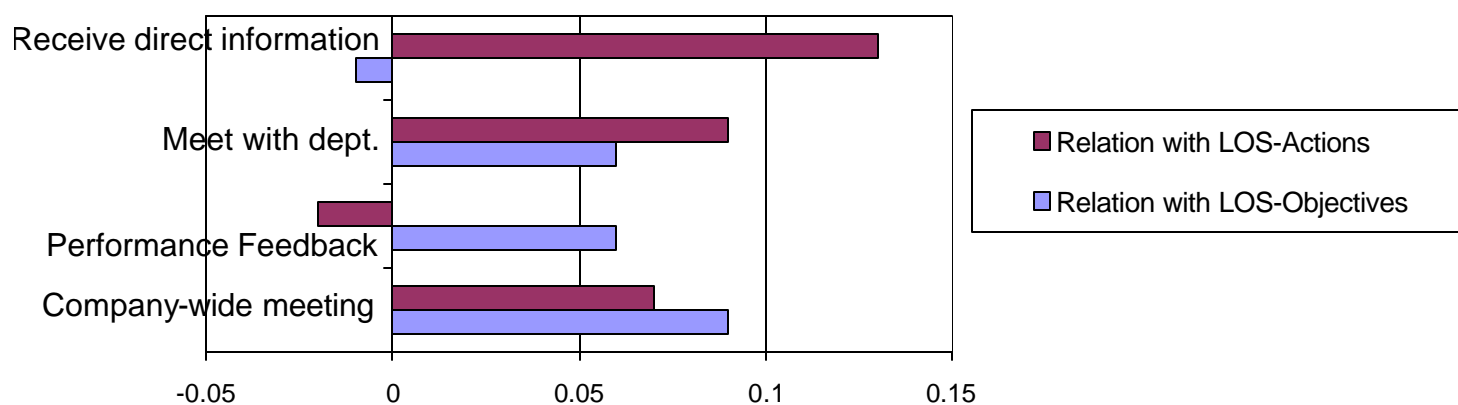
As we have seen, LOS has strong and complex relationships with performance and retention, suggesting that organizations can enhance their success by enhancing LOS. So, we need to understand what human resource practices and organizational factors enhance and support LOS. Our focus group and research review suggested that practices related to
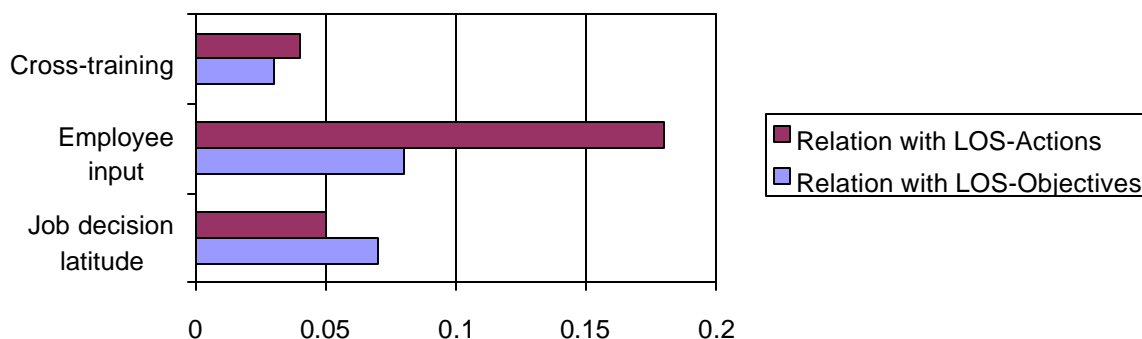
employee participation and empowerment, job development, and organizational communication efforts were promising potential LOS movers. **Results from our study showed that more job control, greater involvement in decision making, and participation in cross-training associated positively with LOS-Actions; with involvement in decision making the strongest predictor. It appears that employee involvement contributes to employee understanding of how to effectively contribute to the organization's goals. It's also possible that more aligned employees are given more involvement opportunities.**

Section 5:
How Line of Sight Differs Among Employees

We have seen that organizations can affect LOS by programs for existing employees in their current roles. They can also affect it by the types of employees they recruit, and how they are deployed. Individual characteristics such as tenure, hierarchical level, and employment status may associate with line of sight. These associations can indicate who is getting the message and how to target more effort where it is most needed. Our review of prior research

and theory, combined with our focus group comments, suggested that employees lower in the hierarchy were less likely to see or even be told of the organization's goals. **Consistent with these predictions, employees closer to the top had greater line of sight in both objectives and actions**. This may be serious in an age where lower-level employees are increasingly those with the greatest customer interaction and bottom-line impact. Strategic talent is not defined by hierarchical level, but by where real value can be added and where key strategic constraints exist (Boudreau, Dunford & Ramstad, in press; Boudreau & Ramstad, 1997).

   Line of sight for both objectives and actions was lower for employees with less organizational tenure. So, LOS may take time to develop and organizations may be able to achieve a competitive advantage by bringing new employees more quickly up to speed on the objectives and aligned actions of the organization. **Unexpectedly, we found that employees who had held *fewer* different positions within the organization had greater LOS.** Consistency in job roles may give employees time to master their job tasks, and then to learn about organization goals and how they can act on them. Frequent job-hopping within the organization may also indicate a lack of LOS, and help identify employees who are not aligned. These findings also suggest that LOS may offer a way to determine the optimum time in role, and avoid moving employees too soon for them to understand how they contribute.

**Line-of-Sight Relationships with Tenure, Number of Positions, and Level**
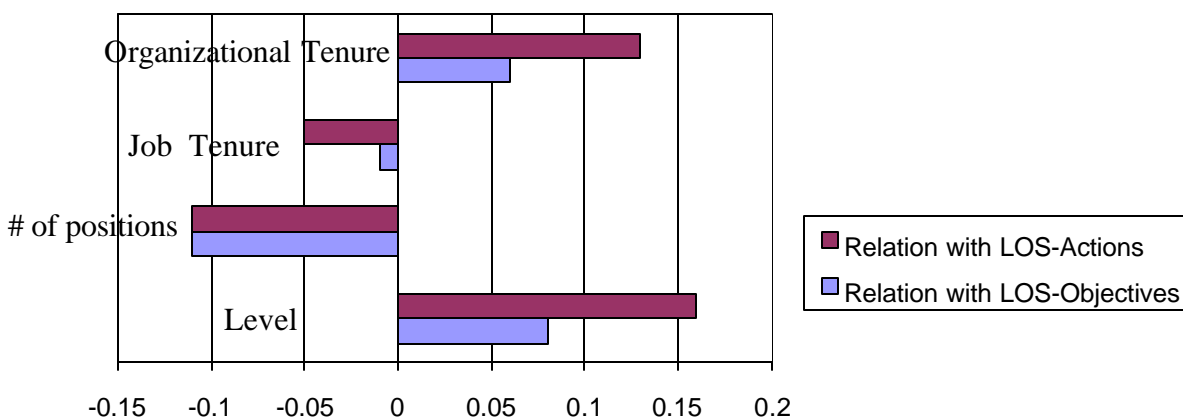
Setion 5 (Continued):

How Line of Sight Differs Among Employees

Contrary to our initial expectations, LOS-Actions was *lower* for those employers working at the divisional headquarters. This may not be unexpected at this organization given the nature of the work and the organizational context. Those working at the regional headquarters were primarily administrative staff and arguably less able to see a link between their work and what the organization is about. Perhaps not surprisingly employees closer to the customers were better able to identify what is really important to the strategic success at this company.

Is LOS incompatible with diminished job security, frequent job or career hopping, and an increased use of contingent workers? This is a big question, raised by the focus group, and it will need further research to answer, but we were able to examine the relationship between LOS and employment status (full-time vs. part-time or temporary employees). **We found that part-time and temporary employees *perceived* lower line of sight.** As we saw earlier, perceived LOS affects commitment, satisfaction, and motivation, so organizations would do well to help all employees understand their actual LOS levels.

**Line-of-Sight Relations with Location, Full-Time Status, and Patient Contact**
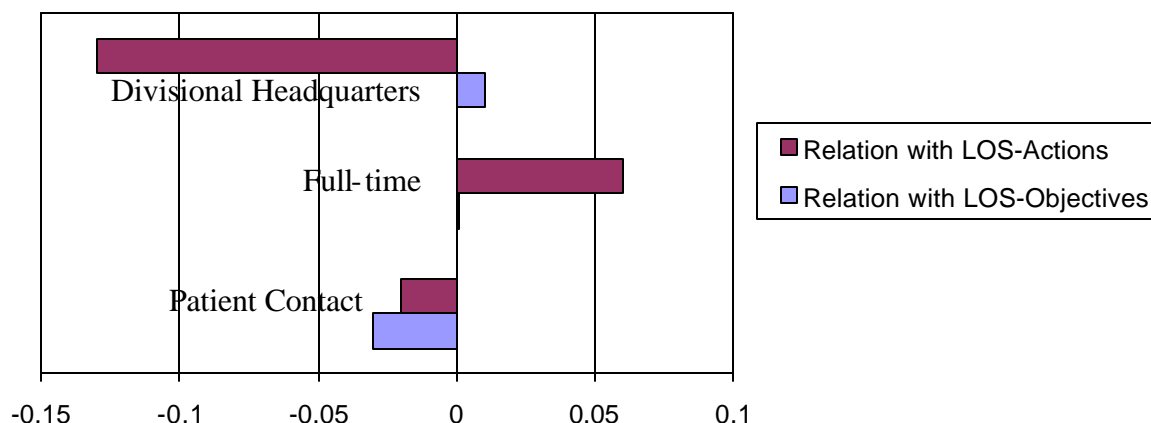
Section 6:

Line of Sight and Other Work-Related Perceptions

Perceptions versus Reality

Our focus group gave several examples of employees who believed and acted on incorrect LOS perceptions (for example, selling services below a profitable price in the interest of "customer satisfaction"). So, we measured individuals' perceptions of aligned goals and actions, in addition to their *actual* alignment with the views of top managers. **Perceived LOS was different from actual LOS. The chart below shows that on a scale from zero to 1.0, perceptions and actuality reached a maximum correlation of only .20. Also, perceived understanding of objectives is not related to actual understanding of objectives. Asking employees if they *think* they understand is a poor substitute for measuring their actual understanding.**
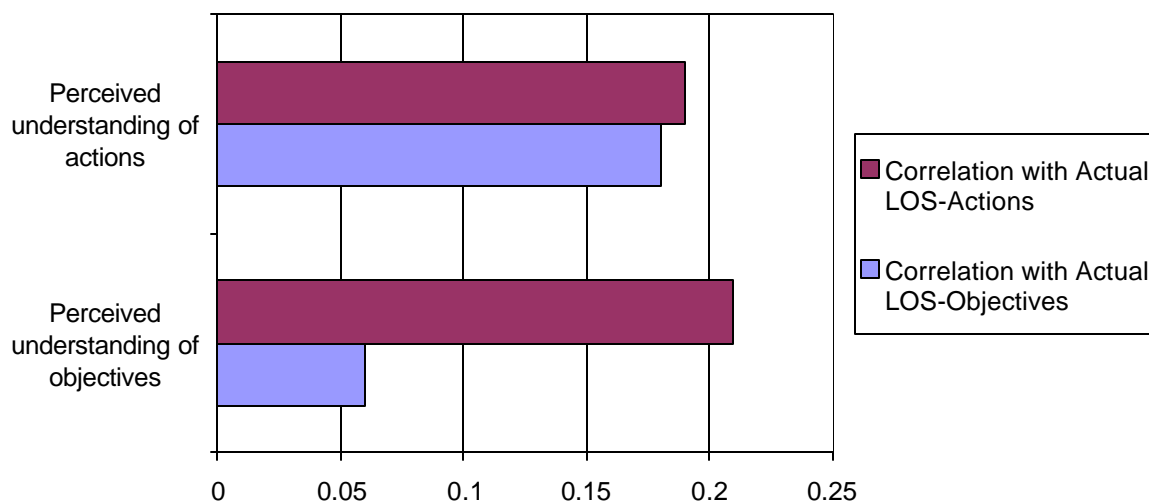
We also investigated the relation between line of sight and other work-related perceptions such as task significance, perceived fit with the organization, and role clarity. **Results indicated positive, yet moderate relations between LOS and these variables**
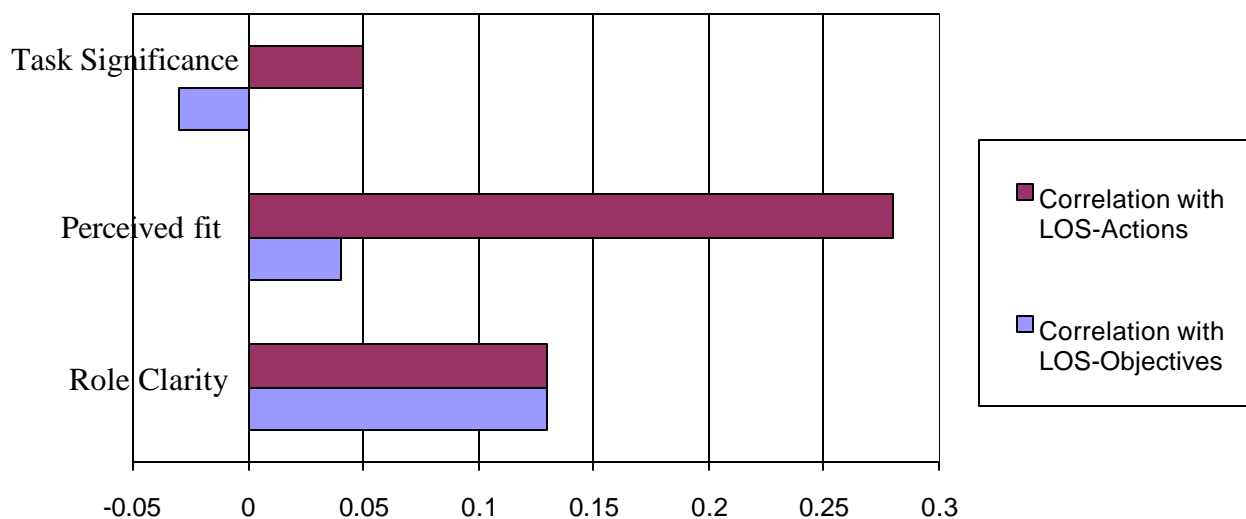
suggesting that these are indeed distinct constructs with perhaps divergent relationships with important employee and work characteristics and outcomes. LOS is different from these commonly-used proxies, so it is important to measure it specifically.

Section 7:

Conclusion and Practical Implications

Our results suggest that LOS is actually a valuable predictor of key outcomes for organizations. Of course, in a dynamic environment, rigid adherence to the details of any strategy is unwise. However, our results also suggest that alignment with the broad goals and key actions supporting those goals remains important. In fact, we would argue that while rigidity may be bad, alignment around goals and principal actions is better, and dynamic alignment with changing imperatives is even better still.

What does all this mean for organizations? First, it appears that how well an employee understands the *actions* important to the organization's strategic objectives is more important (in terms of enhanced attitudes and retention) than simply being able to articulate the organization's strategic *goals*. Organizations may need to look beyond simply communicating their strategic direction to employees and instead focus on whether employees accurately understand *how* to effectively contribute. Our research suggests that organizations may accomplish this best by involving employees in organizational decision processes and through direct and personal communication rather than "company-wide" information sessions. The influence of organizational incentive pay systems and specific types of training and socialization programs remains unclear, but may also play an important role.

Our research also suggests that employees' perceptions of LOS are a poor proxy for objectively comparing their goals and actions to those of top management. Most organizations rely heavily on measures of perceptions. Our results suggest they may be missing significant information about LOS.

Line of sight's association with employee characteristics such as level and tenure suggests that line of sight may be more likely and feasible for certain individuals. Extra efforts may be needed to ensure employees perhaps missed by current means of fostering alignment do not get overlooked. Lower-level employees are often those with the most customer contact

and/or whose actions may have the greatest influence on the bottom-line, and it is perhaps most important to focus on where real value can be added and where constraints likely exist (Boudreau & Ramstad, 1997). Organizations may be wise to focus alignment efforts throughout the organization, or at least strategically targeted to where it may matter most. Such efforts may include ensuring managers share information with all employees, allow and encourage employee participation in decisions affecting the organization and their job, and implementing new employee socialization efforts aimed at clearly linking employee behaviors to firm success.

More important, despite the importance of LOS, we have very limited understanding of the processes and practices that help enhance and sustain employee alignment. Continued research on line of sight, and employee alignment more generally, will improve our understanding of employees' role within the "big picture" and hopefully enable organizations to better capitalize on their human capital potential.

Section 8:

Suggested Readings

Boswell, Wendy R. (2000). Aligning Employees With The Organization's Strategic Objectives: Out Of "Line Of Sight", Out Of Mind, Ph.D. Dissertation, School of Industrial and Labor Relations, Cornell University.

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