

Studies Linking Company Practices to Results

Impact on Productivity

- The average cost of losing, replacing, and restoring equivalent productivity when a valued professional leaves is one times salary. (Saratoga Institute study, 1997)
- A study of 30 steel mini-mills—some characterized by a “control” management approach and other based on a “commitment” style with more training, decentralized decision making, small-group team problem solving, higher wages, and a higher-skilled workforce—concluded that “commitment” mills required 34 percent fewer labor hours to produce a ton of steel and showed a 63 percent better scrap rate. (Ichniowski, Shaw, and Prensushi, 2000)
- Disengaged workers are costing Australia's economy about \$31.5 billion a year. A new Gallup Australia study found 20 per cent of employees were 'actively disengaged' at work, costing the country billions of dollars...employees who are actively disengaged are less productive, profitable, loyal, less likely to provide excellent customer service and are often disruptive. (PeopleStreme, 2007)
- Organizations with high engagement are 78% more productive and 40% more profitable than those organizations with low levels of engagement. Those with disengaged employees had an average profit loss of \$8,000 to \$10,000 profit each year for each disengaged employee. (Tower Perrin Global Workforce Study—Global report, 2007)
- Gallup in 2006 examined 23,910 business units and compared top quartile and bottom quartile financial performance with engagement scores. They found that:
 - Those with engagement scores in the bottom quartile averaged 31 – 51 per cent more employee turnover, 51 per cent more inventory shrinkage and 62 per cent more accidents.
 - Those with engagement scores in the top quartile averaged 12 per cent higher customer advocacy, 18 per cent higher productivity and 12 per cent higher profitability.
- A second Gallup study of the same year of earnings per share (EPS) growth of 89 organizations found that the EPS growth rate of organizations with engagement scores in the top quartile was 2.6 times that of organizations with below-average engagement scores.
- Tower Perrins-ISR carried out a global survey in 2006 which included data gathered from opinion surveys of over 664,000 employees from over 50



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companies around the world, representing a range of industries and sizes. The survey compared the financial performance of organizations with a highly-engaged workforce to their peers with a less-engaged workforce, over a 12 month period.

- Those companies with a highly engaged workforce improved operating income by 19.2 per cent over a period of 12 months, whilst those companies with low engagement scores saw operating income decline by 32.7 per cent over the same period.
- Over a 12 month period, those companies with high engagement scores demonstrated a 13.7 per cent improvement in net income growth whilst those with low engagement saw net income growth decline by 3.8 per cent.
- Most noticeable was the near 52 per cent gap in the performance improvement in operating income over the year between companies with highly-engaged employees versus companies whose employees had low engagement scores. Companies with high levels of employee engagement improved 19.2 per cent in operating income while companies with low levels of employee engagement declined 32.7 percent over the study period.
- Standard Chartered Bank reported that in 2007 they found that branches with a statistically significant increase in levels of employee engagement (0.2 or more on a scale of five) had a 16 per cent higher profit margin growth than branches with decreased levels of employee engagement.
- The Corporate Leadership Council reported that engaged organizations grew profits as much as three times faster than their competitors.
- Hewitt reported that companies with a greater than 10 per cent profit growth had 39 per cent more engaged employees and 45 per cent fewer disengaged employees than those with less than 10 per cent growth.
- IES in their 1999 study *From People to Profits* found a link between employee satisfaction, customer satisfaction and increases in sales,. based on a study of 65,000 employees and 25,000 customers from 100 stores, over two years. They concluded a one per cent increase in employee commitment (using a five point scale) can lead to a monthly increase of nine per cent in sales.

Impact on Customer Satisfaction and Retention

- Business units with employee engagement scores in the top half compared with those in the bottom half reported 86 percent higher customer ratings and 50 percent higher productivity. (Coffman and Gonzalez-Molina, *Follow This Path*, 2002)
- The 2007 American Society for Training and Development (ASTD) Employee Engagement Survey in the U.S. found that engagement is crucial for business success like enhancing customer service, boosting productivity, and driving bottom-line results. (Influences Engagement, *T+D Magazine*; Jan. 2008, Vol. 62 Issue 1, pp 54-59)
- Formal and occasional use of flexibility and supportive work-life policies were related to greater employee engagement and longer than expected retention. WFD Consulting of studies conducted between 1996 and 2006, *Community, Work & Family*; May 2008, Vol. 11 Issue 2, pp.183-197.

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- GTE found that a 1 percent increase in its Employee Engagement Index resulted in nearly a 0.5 percent increase in customer satisfaction with service. (Ulrich and Smallwood, *Why the Bottom Line ISN'T*, 2003)
- How do the surveys, HR initiatives and meetings contribute to the bottom line? We know that in our companies where employee engagement is high we have better customer satisfaction indices than in our companies where employee engagement is low.” That trickles through to better overall performance. Studies conducted at two divisions—Axa France and Axa Equitable—show that satisfied customers have a two to four times higher cross-sell rate and a two to three times lower cancellation rate than dissatisfied customers. (CFO Europe Magazine, 2008)
- 67 percent of customers leave because of an attitude of indifference on the part of a company employee. (American Society for Quality, 2000)
- Serco were able to measure the significant impact their leaders had on creating a values-led environment focused on delivering great service. Increased employee engagement was accompanied by a 12 per cent increase in customer satisfaction and significant double-digit revenue and margin growth over the past three years.
- PricewaterhouseCoopers, who use staff and customer engagement levels as one of their four Key Performance Indicators (KPIs) have found a strong correlation between highly engaged staff and client satisfaction.

Impact on Quality

- Enthusiastic workers often increase the quality of work by huge percentages—up to a 75 percent reduction in defect rates. (Sirota, Mischkind, and Meltzer, *The Enthusiastic Employee*, 2005)

Impact on Innovation

- Gallup indicates that higher levels of engagement are strongly related to higher levels of innovation. Fifty-nine per cent of engaged employees say that their job brings out their most creative ideas against only three per cent of disengaged employees.
- This finding was echoed in research for the Chartered Management Institute in 2007 which found a significant association and influence between employee engagement and innovation. Based on survey findings from approximately 1,500 managers throughout the UK, where respondents identified the prevailing management style of their organization as innovative, 92 per cent of managers felt proud to work there.
- Professor Julian Birkinshaw of the London Business School: “employee engagement is the sine qua non of innovation. In my experience you can have engaged employees who invest their time in multiple directions (such as servicing clients, creating quality products) but you cannot foster true innovation without engaged employees.”

Impact on Safety

- After factory floor workers were given the training and freedom to make repairs to their own equipment rather than having to call a supervisor every time they had a problem, they reported fewer occupational injuries and increased job satisfaction. (University of Sheffield, 1990)

Impact on Wellness

- Employees in the UK take an average of 2.69 sick days per year; the disengaged take 6.19. The CBI reports that sickness absence costs the UK economy £13.4bn a year.
- Gallup found that engagement levels can be predictors of sickness absence, with more highly engaged employees taking an average of 2.7 days per year, compared with disengaged employees taking an average of 6.2 days per year.

Impact on Income and Revenue

- Operating income increased 19.2 percent over a 12-month period for companies with more highly engaged employees, with net income up by 13.7 percent. Companies with more disengaged employees had significant decreases in operating income and suffered financial losses. (Towers-Perrin study of business results of 50 global companies, 2006)
- A comprehensive review of the research showed that revenue gains of 40 percent or so can be realized by companies implementing work practices that result in high employee commitment. (Pfeiffer, *The Human Equation*, 2000)
- A five-point improvement in employee commitment on a Sears employee survey drove a 1.3 percent improvement in customer satisfaction, which in turn drove a 0.5 percent improvement in revenue growth. (Rucci, Kern, and Quinn, "The Employee Customer Profit Chain at Sears," *Harvard Business Review*, 1998)
- The 20 percent of Taco Bell stores with the lowest turnover yielded double the sales and 55 percent higher profits than the 20 percent of stores with the highest turnover rates. (Jac Fitz-Enz, *The ROI of Human Capital*, 2000)
- Companies with high employee engagement had a 19% increase in operating income and almost a 28% growth in earnings per share. Conversely, companies with low levels of engagement saw operating income drop more than 32% and earnings per share decline over 11%. (Hewitt Quarterly Asia Pacific, 2007)
- The investment involved in adopting high involvement workplace did increase operating costs; however, these cost increases were more than offset by increased cost-efficiency and employee discretionary effort. In dollar terms, this is a savings of 51.50 per patient served, from \$3851 to \$3799.50. (US Dept. of Veterans' Affairs, 2003)

Impact on Profits

- Less Engagement, Less Profit, Research Finds, Companies with the highest levels of employee engagement obtain more profit. More than 80 percent of engaged employees think that they can help to improve the quality of products and customer satisfaction. (Towers-Perrin study, cited in *HR Magazine*; Dec. 2007, Vol. 52 Issue 12, p. 20)

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- ISR studied the relationship between different levels of employee engagement and corporate financial performance, measured by change in operating and net profit margin. The research firm surveyed 41 international companies with 360,000 employees. Those organizations enjoying a highly engaged workforce experienced a 3.7 percent increase in operating margins and a 2.1 percent boost in net profit margin for the year surveyed. By contrast, companies with poorly engaged employees suffered dwindling results. (ISR, 2007)
- Companies in the top quarter in training expenditure per employee per year (\$1,500 or more) average 24 percent higher profit margins than companies that spend less per year. (Susan J. Wells, *HR Magazine*, April 19, 2001)
- A 5 percent increase in employee retention at advertising agency Leo Burnett increased productivity by more than 20 percent and profits by 50 to 100 percent. (Reichheld and Teal, Bain & Company, 1996)
- Companies that successfully implemented high-performance work practices and increased the use of such practices by 1 standard deviation achieved, on average, a 7 percent decrease in turnover and, on a per-employee basis, \$27,004 more in sales and \$18,641 and \$3,814 more in market value and profits, respectively. (Huselid, 1995)
- A spread of more than 5% in operating margin and more than 3% in net profit margin was found between the companies with high employee engagement and those with low engagement. (Hewitt Quarterly Asia Pacific, 2007)
- 73% of organizations who have initiated engagement programs have seen an increase in operating profit. (according to Welbourne 2007)

Impact on Employee Retention/Turnover

- Engaged employees are 87 per cent less likely to leave the organization than the disengaged.
- The cost of high turnover among disengaged employees is significant; some estimates put the cost of replacing each employee at equal to annual salary.
- The Corporate Leadership Council report that highly engaged organizations have the potential to reduce staff turnover by 87 per cent and improve performance by 20 per cent.
- A study of representing 183,454 employees in 22 different companies found that while flexibility was a powerful positive predictor of engagement for all employees, it was a more powerful predictor of engagement and retention for employees ages 45 and older. (The Multi-generational Workforce: Workplace Flexibility and Engagement. Community, *Work & Family*; May 2008, Vol. 11 Issue 2, p215-229.)
- At companies where the training is poor, 41 percent of employees plan to leave within a year versus 12 percent of employees at companies with excellent training. (American Society for Training & Development, 2003)
- Companies that spend \$273 per employee per year on training average 7 percent voluntary turnover, compared with 16 percent for companies that average \$218 per employee per year. (Carroll Lachnit, *Training* magazine, September 2001)

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- Employers with high employee engagement survey scores experience fully one third lower employee turnover rates. (*Hewitt Associates Employee Engagement Report*, 2004)
- Employee engagement has a direct impact on retaining the most valued workers. (Towers-Perrin study, cited in *HR Magazine*; Dec. 2007, Vol. 52 Issue 12, p. 20)

Impact on Employee Recruitment

- Companies with higher employee engagement survey scores receive, on average, twice as many unsolicited job applications as other employers. (*Hewitt Associates Employee Engagement Report*, 2004)

Impact on Stock Growth, Shareholder Return, and Market Value

- Compared with their industry competitors, publicly traded organizations with more than four engaged employees for every one actively disengaged employee saw 2.6 times more growth in earnings per share than did organizations with a ratio of slightly less than one engaged worker for every actively disengaged employee (Bryant Ott, "Investors Take Note: Engagement Boosts Earnings," *The Gallup Management Journal*, June 2007)
- Companies with higher levels of employee engagement are likely to have an average five-year total shareholder return (TSR) of greater than 20 percent, compared with 5.6 percent average TSR for those with average engagement scores and [Comp: Please set hyphen that follows as a minus sign]-9.6 percent for those with low engagement scores. (*Hewitt Associates Employee Engagement Report*, 2004)
- Organizations that view their people strategy as a source of competitive advantage outperform those that do not by a margin of more than two to one, delivering a median shareholder return of 109 percent between 1996 and 1998, versus 52 percent for other employers. (Watson Wyatt, 1998)
- Public companies in the top 25 percent based on number of performance management best practices in use achieved a 7.9 percent higher total shareholder return. (Hewitt Associates, 1996)
- Stock growth of public companies on *Fortune* magazine's "Great Places in America to Work" list outperformed companies on Standard & Poor's by 133 percent to 25 percent for the five-year period 2001–2005. (Great Place to Work Institute, 2005)
- An additional 26 percent of shareholder value was attained by companies with significantly better people management practices. (Watson-Wyatt Human Capital Index, 2002)
- Over a five-year period (1996–2001) companies with effective human capital management practices (human capital index scores) achieved a 64 percent total shareholder return versus 21 percent for those with low human capital index scores. (Watson Wyatt, 2002)
- Companies with higher employee engagement scores outperformed their matched competitors by an average of 20 percent higher return on assets, 23 percent higher market-to-book ratios, and nearly double cumulative stock returns. (*Hewitt Associates Employee Engagement Report*, 2004)

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- Human capital practices that most drive shareholder value are above-market pay, the linking of rewards to performance, competitive benefits with choice, commitment to performance management, a flexible and collegial workplace, high trust in senior leadership, and managers that demonstrate company values. (Watson Wyatt Human Capital Index Study, 2002)
- Nonfinancial human performance, culture, and leadership factors drive at least 35 percent of a company's evaluation by stock analysts and investors. (Ernst & Young)
- Companies whose employees understand the mission and goals enjoy a 29 percent greater return than other firms. (Watson Wyatt Work Study)
- According to one long line of research, differences in the quality of enterprise wide people systems can increase a firm's market value by as much as \$73,000 per employee. (Huselid, 1995)
- A study of 4.5 million respondents at 332 companies found that the Earnings Per Share (EPS) growth rate of top-quartile organizations (those with the most highly engaged employees) was 2.6 times that of organizations with engagement levels in the third and fourth quartile. (Gallup, 2006)
- Share prices of organizations with highly engaged employees rose by an average of 16% compared with an industry average of 6%. (Sirota Consulting, 2008)

Overall Economic Impact

- High-performing companies share a set of general practices that lead to superior economic results: (1) reasonable job security, (2) highly selective hiring, (3) higher pay, (4) strong autonomous teams with decentralized decision making, (5) reduced status distinctions, (6) extensive training, (7) open information sharing, and (8) linking of performance and reward. (Pfeffer, 1998)
- Fifty percent of HR executives report that their companies are increasing their investments in tracking the impact that metrics such as turnover rates, productivity, and employee morale have on the bottom line. (*Workforce Management*, 2004)

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