How Much Does Employee Engagement Correlate With Profitability?

A Partial Summary of Dick Finnegan's presentation at the SHRM Annual Conference in Orlando, Florida, June 24th, 2014

Perhaps the greatest challenge for Chief Human Resources Officers, or CHROs going forward, is to convince their executive teams…and especially their CEOs…that employee engagement scores really matter. Matter in a way that the front-line supervisor is the major driver of these scores and those managers who cannot increase their scores over time are likely in the wrong chair.

Data has been presented in previous white papers regarding this individual leader power. This power trumps any activity that HR can do including pay, benefits, or my favorite punching bag example which is employee appreciation week. It is profoundly clear that the primary reason employees engage or disgengage…and stay or leave…is their relationships with their direct supervisors.

Many executives, though, have difficulty seeing both this conclusion and also the immense power of employee engagement. This paper has been developed to summarize major studies that correlate engagement to various metrics of profitability. Examples of studies follow.

Gallup

Most of us see Gallup as the world's survey leader, having gathered employee survey data from more than 25 million respondents in 189 countries and in 69 languages. In their *State of the American Workplace* report, Gallup tells us the following about engagement data and correlations to those same metrics your CEO checks each morning.

When comparing engagement levels for the top 25% of Gallup's survey database to the bottom 25%, the more engaged groups showed the following improvements:

- 22% in profitability
- 21% in productivity
- 10% in customer ratings
- 41% in quality defects
- 48% in safety incidents

- 41% in patient safety incidents
- 37% in absenteeism
- 28% in shrinkage

I sequenced these data based on my estimates of which are most important to your CEO. But if the data only told us that profitability increased by 22%, shouldn't that be sufficient evidence to convince? The remaining findings all contribute to that profitability increase.

As importantly, Gallup tells us that those with high engagement have much higher sticking power, too. Turnover was lower by 65% in what Gallup classified as low-turnover organizations and 25% in high-turnover organizations. And Gallup goes on to say that all of these above correlations are highly consistent across different organizations from diverse industries and regions of the world.

But *more* importantly, Gallup reports that companies with engaged workforces have higher earnings per share, or EPS, and seem to have recovered from the recession at a faster rate. Specifically, organizations with an average of 9.3 engaged employees for every actively disengaged employee experienced a 147% higher EPS compared with their competition. In contrast, those with an average of 2.6 engaged employees for every actively disengaged employee experienced 2% lower EPS compared with their competition during that same period.

Gallup segments surveyed employees into "engaged", "not engaged", and "actively disengaged", and summarizes with the following:

> *Engaged employees are the ones who are the most likely to drive the innovation, growth, and revenue that their companies desperately need. These engaged workers build new products and services, generate new ideas, create new customers, and ultimately help spur the economy to create more good jobs.*
>
> *Actively disengaged employees cost the U.S. between $450 billion and $550 billion each year in lost productivity. They are more likely to steal from their companies, negatively influence their coworkers, miss workdays, and drive customers away.*

Based on these definitions, is it any surprise, then, that clusters of engaged employees create more profitability than actively disengaged employees?

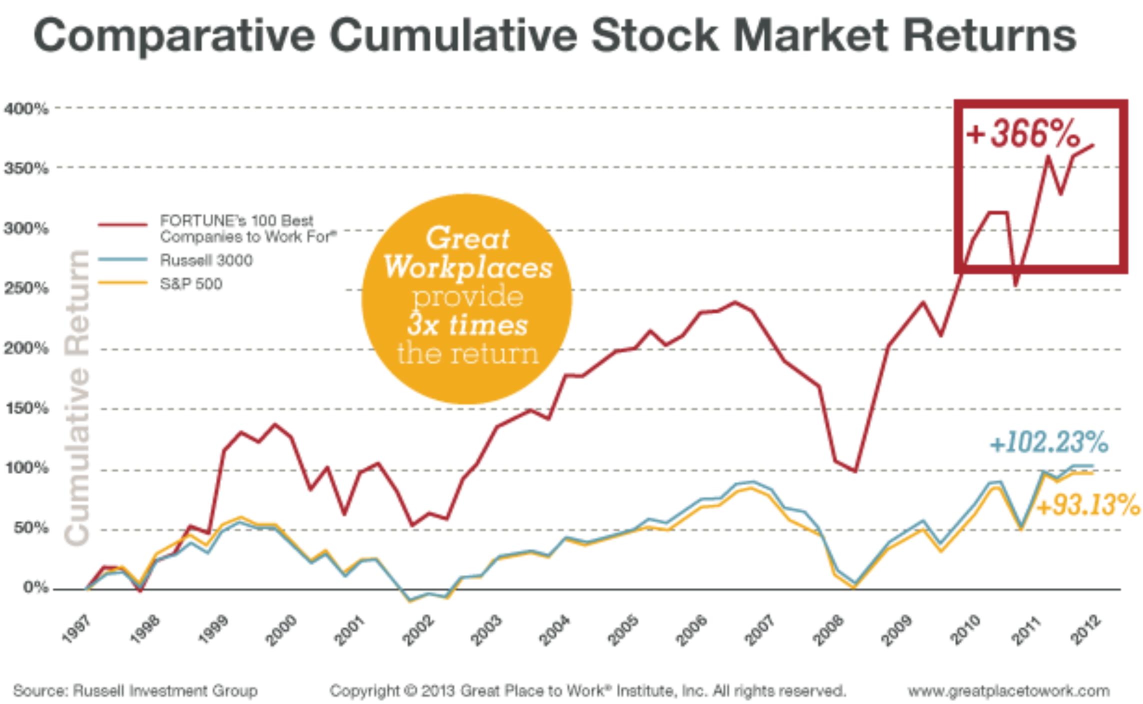
Great Place to Work Institute

The Great Place to Work Institute is the survey company that drives the Fortune Top 100 Companies to Work For® along with similar "best place to work" lists across 45 countries. Studying their database of "over 10 million employee voices", the Institute reports the following:

- Committed and engaged employees who trust their management perform 20% better than other employees

- Companies with committed and engaged employees have half the voluntary turnover rates of their competitors

- The financial performance of the publicly-traded companies on their 100 Best Company List consistently outperform major stock indices by 300%.



The graph above sits on the Great Place to Work's website and represents the extreme earnings-per-share gap between companies that earn a place on the Institute's lists versus companies that do not.

Engagement Drives Sales

Towers Perrin looked at engagement results for over 35,000 employees across dozens of companies and found a positive relationship between engagement and sales growth, lower cost of goods sold, customer focus, and reduced turnover.

Northwestern University professors researched the impact of sales personnels' extra efforts on customer spending. They found when salespeople give just 10% more effort, customers tend to spend 22.7 percent more.

Shareholder Returns Matter Most

Hewitt studied engagement results for 1,500 companies and reported the following:

- Where 60 to 70% of employees were engaged, average total shareholder return, or TSR, was 24.2%
- In companies with only 49 to 60% of employees engaged, TSR fell to 9.1%

- And companies with 25% or fewer engaged employees reported a negative TSR

Kenexa studied 64 organizations and found those in the top quartile for engagement achieved twice the annual net income of those in the bottom quartile. They conducted another, longer-term study of 39 organizations and those with engagement in the top quartile had seven times greater 5-year TSR than organizations in the bottom quartile.

Similarly, WorkUSA and Watson Wyatt surveyed 13,000 employees and found companies with highly engaged employees earn 26% more revenue per employee. And there are dozens of similar studies I've omitted here that all conclude the same thing, that high employee engagement drives all other important metrics

Closing Argument

Let us study what each of these research examples have in common: (1) *each tells that engaged employees do more things better that substantially drive your CEO's most important metrics* and (2) *each covers a broad range of industries and companies.* Databases for the studies from Gallup and the Great Place to Work Institute cover millions of employees. Hewitt drew conclusions from data that represents more than 1,500 companies. This eliminates queries about "How do we know the same will be true for our company?" We all believe our companies have unique obstacles to engagement, the "you don't understand how things work here" mantra, and it is likely that CEOs from all of Hewitt's 1,500 companies would have initially said the same. But the trendline for a total of 1,500 companies has proven that more engaged employees increases the amount of shareholder return *across all companies*.

This is required information for every CEO to study, fully appreciate, and apply to their organizations. Each manager of people on every level must contribute to profitability by increasing their employee engagement levels, just as sales people must contribute by increasing sales. Those leaders who achieve should be recognized and rewarded, and those who fail must be addressed.

Dick Finnegan has been cited by BusinessWeek, Chief Executive Magazine, and Consulting Magazine as the leading thinker on employee retention.

Dick is the CEO of C-Suite Analytics which helps organizations engage and retain their employees. He is the author ***Rethinking Retention in Good Times and Bad*** *as well as* ***The Power of Stay Interviews for Engagement and Retention****. The Stay Interviews book has been the top-selling SHRM-published book for the past two years. BusinessWeek has referred to Dick's work as "offers fresh thinking for solving the turnover problem in any economy".*

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