

Powering Your Bottom Line Through Employee Engagement



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Introduction

The greatest concerns of most CEOs are operational excellence, innovation, risk, the regulatory environment, and competing globally. Underpinning those areas is their primary concern—human capital. The “people thread” is what prepares an organization to compete and win. The greatest asset that organizations have is the power of their employees. Employee engagement—the emotional commitment of employees—is a tremendous competitive advantage that impacts the bottom line when strategically managed.

The majority of organizations have an opportunity to further leverage employee engagement as a business driver. A recent Gallup poll found that more than 70 percent of American workers are either actively or passively disengaged from their work. HR, talent management professionals, and business leaders need to assess (or re-assess) how widespread and entrenched employee disengagement is in their organizations and partner together to improve it.

This white paper:

- Discusses the costs of employee disengagement in organizations.
- Links employee engagement to an organization’s bottom line and offers reasons why employee engagement should be a strategic business priority.
- Offers steps that HR and talent managers can take to improve employee engagement throughout their organizations.
- Provides examples of what organizations are doing to boost employee engagement.

The Costs of Employee Disengagement

The financial cost of employee disengagement for organizations and economies is staggering. The authors of the Gallup study on employee disengagement, for example, estimate that the 70 percent of U.S. workers who are disengaged costs the U.S. economy \$370 billion a year in lost productivity (Biro, 2013). A study by HR research and advisory firm McLean & Company found that disengaged employees cost organizations an average of \$3,400 a year for every \$10,000 in annual salary (Haydon, 2013). Furthermore, a Watson Wyatt report estimates that turnover—the inevitable outcome of employee disengagement—costs between 48 and 61 percent of an employee’s annual salary (ADP staff, n.d.).

The financial costs to organizations include more than lost productivity and increased employee turnover. Disengaged workers are absent from work more often than engaged workers, are more likely to engage in theft, have more safety incidents, and exhibit poorer customer service. The Gallup poll found that organizations with higher employee engagement levels experience:

- 37 percent less absenteeism
- 25 percent less turnover in high-turnover organizations
- 65 percent less turnover in low-turnover organizations
- 28 percent less shrinkage (theft)
- 48 percent less safety incidents
- 41 percent less patient safety incidents
- 41 percent less quality incidents (defects)
- 10 percent higher customer metrics
- 21 percent more productivity
- 22 percent more profitability (Moreland, 2013).

Disengaged workers not only have a negative impact on employee morale, they are also detrimental to an organization’s financial health. It is imperative that HR and talent management professionals regularly take the pulse of employee engagement levels in their organizations and take steps to ensure that senior leaders understand and support boosting those levels to impact organizational results.

The Link between Employee Engagement and an Organization's Bottom Line

Clear and mounting evidence continues to link employee engagement to an organization's bottom line. An AON Hewitt study linked employee engagement to an organization's competitive growth, finding that organizations that had actively managed employee engagement relative to their peers during the recent economic downturn were now seeing "dramatic, positive impacts to their revenue growth." (AON Hewitt staff, 2013). The Gallup study found similar results, noting that organizations with high employee engagement seemed to have recovered from the recession at a faster rate.

A McLean & Company study yielded similar results, concluding that organizations with highly-engaged employees had an average three-year revenue growth of 20.1 percent, versus the average 8.9 percent revenue growth rate, and had employees who were three times more likely to be top performers (McLean & Company staff, 2012). Other studies have found that when organizations have engaged workers, they are 18 percent more productive than their competitors, 12 percent more profitable, have 22 percent higher-than-average shareholder returns, and have employees who are 57 percent more effective and 87 percent less likely to leave (ADP staff, n.d.).

Company Spotlight: Molson Coors Brewing Company

Employee engagement is a high



priority for the Molson Coors Brewing Company, and the organization prides itself on linking engagement to the bottom line. The company conducts an annual employee engagement survey. In 2010, 87 percent of the company's employees were engaged, much higher than the 30 percent average found in the Gallup survey. As a result, the company estimates that their employees are five times less likely to have safety incidents. In 2002, for example, Molson Coors reported saving \$1,721,760 in safety incidents, which it directly attributes to improved employee engagement. The company also tracks the performance differences among low-engagement and high-engagement teams, and in 2005, found that the number of low-engagement teams fell far behind the number of high-engagement teams, with a difference in performance-related costs of \$2,104,823 between the teams.

(McLean & Company staff, 2012)

Like the AON Hewitt and McLean & Company studies, the Gallup study found that organizations with engaged employees outperform their competition by 147 percent in earnings per share and enjoy a 90 percent better growth trend (Crowley, 2013). Other findings from the Gallup study linking employee engagement to the bottom line include:

- Work units high in employee engagement (in the top half) were two times more likely to succeed as compared with work units in the bottom half.
- Work units in the 99th percentile for employee engagement were four times more likely to succeed than work units in the first percentile.
- Work units in the top 25 percent of employee engagement outperformed their peers in the bottom 25 percent in customer ratings, profitability, and productivity (Sorenson, 2013).

During the recent economic downturn, many senior leaders did not consider employee engagement to be a priority, perhaps understandably so—they had other short-term imperatives to focus on, like staying in business. However, a 2012 survey by the employee retention firm TalentKeepers indicates that employee engagement is making its way back onto strategic priority agendas. The survey of U.S. executives representing 430 organizations found that 81 percent of the senior leaders surveyed wanted to improve performance and profitability by making employee engagement a strategic priority (PRWeb staff, 2012).

Company Spotlight: Caterpillar, Inc.

Caterpillar decided to focus on employee



engagement when their 2002 employee attitude survey showed that only half of their workforce was engaged. By 2009, more than 80 percent of their employees reported being engaged. The company credits improved employee engagement with an annual savings of \$8.8 million from the drop in attrition, absenteeism, and turnover rates at their European plant and a 70 percent increase in output at their Asia Pacific plant.

(McLean & Company staff, 2012)

The renewed interest in improving employee engagement in organizations has originated from actions executives took during the recession. Sixty-one percent of the senior executives responding to the TalentKeepers survey said they had taken the opportunity to hire better-skilled employees from the larger talent pool available during the recession and were now worried that these employees may leave when the economy recovers (PRWebb staff, 2012). If this is the case, business leaders will expect HR and talent management professionals to not only monitor engagement levels, but to take proactive steps to improve employee engagement in their organizations.

Steps to Monitor and Improve Employee Engagement

There are four important, specific steps that HR, talent management professionals, and organizational leaders can take to identify, monitor, and improve employee engagement levels.

Step 1: Know the engagement levels of employees.

It is important for HR and talent management professionals to understand the distinction between happy, satisfied employees and engaged employees. Engaged employees are happy, satisfied employees, but not all happy, satisfied employees are engaged employees. Happy employees, for example, may gladly show up for work on most days, but that happiness does not necessarily translate into productivity and profitability. Similarly, satisfied employees are happy to show up to work each day and do their work, but will be equally happy to take their satisfaction elsewhere for a salary increase.

Employee engagement, according to James L. Lewis, Ph.D., director of research for KornFerry International, “reflects the extent to which professionals are satisfied with and emotionally invested in their jobs, and whether they will expend discretionary effort for their organization.” (Lewis, 2013). AON Hewitt staff (2013) note that employee engagement is the extent to which employees *say*, *stay*, and *strive*. Engaged employees speak positively about their organizations to their co-workers, potential employees, and customers (*say*); have an intense sense of belonging and a desire to be a part of their organizations (*stay*); and are motivated to exert effort for the success of their jobs and organizations (*strive*).

Not all satisfied, emotionally invested professionals are engaged at the same level in an organization. There is a sliding scale when it comes to employee engagement, running the gamut from highly engaged to disengaged. HR and talent management professionals must understand these various engagement levels before embarking on an employee engagement initiative because action steps to improve engagement need to be customized based on where employees fall on the scale.

- **Engaged employees** exhibit passion in their work, purpose, pride, and energy. They take on extra tasks and consider their organization’s strategic objectives as equal to or greater than their own objectives.
- **Almost engaged** employees exhibit satisfaction and commitment to their organizations, and at times, are motivated to go the extra miles. They will sometimes take on extra tasks.
- **Indifferent** employees do not exhibit a sense of purpose or pride in their work. They meet only the minimum requirements and will not volunteer for extra tasks.
- **Disengaged** employees exhibit little care for their jobs and their organizations. They do not meet minimum requirements, and put little effort into their work. They are disinterested in their organization’s objectives (McLean & Company staff, 2012).

Step 2: Measure employee engagement.

After HR and talent management professionals understand the levels of engagement, it is important to measure it. This is usually done through an employee engagement survey. Jim Harter, chief scientist of workplace management and well-being at Gallup, recommends that HR and talent management professionals measure engagement at every organizational level, noting that top organizations make employee engagement “as big a priority as performance.” (Crowley, 2013). Harter, who designed Gallup’s first “State of the American Workplace” survey in 1997, recommends using Gallup’s Q12 feedback system, a series of 12 questions designed to measure whether employees are engaged, disengaged, or actively disengaged.

Gallup's 12 questions (rated on a scale from 1 to 5) are:

1. Do I know what is expected of me at work?
2. Do I have the materials and equipment that I need in order to do my work right?
3. At work, do I have the opportunity to do what I do best every day?
4. In the last seven days, have I received recognition or praise for doing good work?
5. Does my supervisor, or someone at work, seem to care about me as a person?
6. Is there someone at work who encourages my development?
7. At work, do my opinions seem to count?
8. Does the mission or purpose of my company make me feel that my job is important?
9. Are my co-workers committed to doing quality work?
10. Do I have a best friend at work?
11. In the past six months, has someone at work talked to me about my progress?
12. This past year, have I had opportunities at work to learn and grow?

An employee engagement survey is more than just a feedback tool. A well-designed engagement survey should not only measure engagement, but also isolate areas of concern and be able to contrast results against past surveys and among peers (McLean & Company staff, 2012). The results of the survey should then be used to construct an action plan (Step 3).

Step 3: Design and implement programs and initiatives designed to target disengaged workers.

Harter emphasizes that one of the most important things when designing employee engagement initiatives is to get the basics right. Most employees, he contends, become disengaged because they are not getting their basic needs met. These basic needs include getting the right people into the right jobs, setting clear expectations, and giving people what they need to do their jobs (Crowley, 2013). Organizational leaders can not underestimate the criticality of setting people up for success in relation to employee engagement and commitment.

Another consideration when designing engagement programs is to understand that what might engage one worker may not engage his or her co-worker, so tailoring programs to meet different needs is important (Moreland, 2013; Gaskell 2013; AON Hewitt staff, 2013). The most effective approach when designing employee engagement initiatives is to tie them to the organization's strategic priorities (Moreland, 2013; Gaskell, 2013).

HR and talent management professionals may want to consider some of the engagement drivers AON Hewitt has identified when designing employee engagement initiatives. These drivers, sorted into six categories, are what inspire employees and engage them at work:

1. **Work:** Includes empowerment/autonomy, sense of accomplishment, work tasks.
2. **People:** Includes relationships with senior leadership, supervisors, and collaboration in the workplace.
3. **Opportunities:** Includes career opportunities and learning and development activities.
4. **Total rewards:** Includes the employer's brand and reputation, pay, benefits, and recognition.
5. **Company practices:** Includes communication, diversity and including, having an enabling infrastructure, performance management, customer focus, innovation, talent, and staffing.
6. **Quality of life:** Includes job security, safety, and work/life balance (AON Hewitt staff, 2013).

With these drivers in mind, HR and talent management professionals can design employee engagement initiatives that fit their organization's culture, strategic goals, and multi-cultural, multi-generational, and global workforces.

Pitfalls to Avoid when Targeting Employee Engagement

When implemented correctly, employee engagement initiatives can improve employee morale, create a more positive corporate culture, and significantly impact the bottom line. When done incorrectly, however, these initiatives can create additional disengagement. Experts recommend that HR and talent management professionals avoid these frequent mistakes:

1. **Lack of follow-up after an employee engagement survey:** This can lower engagement if results of the survey are not communicated to employees and actions are not taken.
2. **Focus on the wrong areas of improvement:** The first reaction many HR and talent management professionals may have is to make changes in areas on the survey that score poorly, but that do not actually affect employee engagement. Survey results should be carefully analyzed with a concentration on improving employee engagement.
3. **Poor communication:** Any initiative will fail, even if employers follow-up, if employees do not know about it. HR and talent management professionals should ensure communication plans are built into all employee engagement initiatives.
4. **Failure to take responsibility:** All too often, managers cede the responsibility of the employee engagement initiative to HR and talent management professionals. The success of an employee engagement initiative relies on full participation and accountability at all organizational levels.
5. **A "one-size-fits-all" approach:** Organizations often make the mistake of failing to deal with disengaged workers on a one-on-one basis.

(McLean & Company staff, 2012)

Step 4: Ensure that leadership teams are on board with and held accountable for employee engagement levels on their teams.

Buy-in and alignment from senior leadership is essential to success. HR and talent management professionals may use the information in this white paper (see Fact Sheet) to make the case to senior leaders that the higher the employee engagement, the better the organization's bottom line. Once on board, managers at all levels should be held accountable for their employees' engagement levels. This may require annual employee engagement surveys and adjustments to an organization's supervisory performance management metrics to capture employee engagement. It may also require leadership development activities to help leaders, managers, and supervisors develop more inspirational and engaging leadership styles to drive engagement.

Conclusion

To achieve stronger bottom line results, it is essential that HR and talent leaders partner with business leaders to create and communicate a culture of engagement. As the economy continues to recover and talent remains the last true competitive advantage, business leaders are right to be concerned about employee engagement. There is a real fear that the 70 percent disengaged workers will leave, taking their knowledge and talents to competitors, or worse, stay with the organization physically, but not mentally. The timing could not be more crucial for HR and talent managers to prioritize engagement as a strategic initiative.

HR and talent professionals in sync with business leaders can start by taking the pulse of their organization's engagement levels and designing and implementing programs and policies that will re-engage and retain their talent. Engaged employees feel emotionally connected to the organization, understand what it takes to help the organization succeed, and drive for that result. Increasing an organization's employee engagement and commitment can dramatically impact and fuel operational excellence, innovation, and the ability to compete.

Employee Engagement and the Bottom Line Fact Sheet (Part I)

The Price of Disengagement

- Disengaged workers costs the U.S. economy \$370 billion a year in lost productivity (Gallup in Biro, 2013).
- Disengaged employees costs organizations \$3,400 a year for every \$10,000 in salary (McLean & Company in Haydon, 2013).
- Turnover—the inevitable outcome of disengagement—costs organizations between 48 and 61 percent of an employee’s annual salary (Watson Wyatt in ADP staff, n.d.).

The Perks of Engagement

Organizations with higher employee engagement levels experience:

- 37 percent less absenteeism
- 25 percent less turnover in high-turnover organizations
- 65 percent less turnover in low-turnover organizations
- 28 percent less shrinkage (theft)
- 48 percent less safety incidents
- 41 percent less patient safety incidents
- 41 percent less quality incidents (defects)
- 10 percent higher customer metrics
- 21 percent more productivity
- 22 percent more profitability (Gallup in Moreland, 2013)

Employee Engagement and the Bottom Line Fact Sheet (Part II)

Financial Implications:

- Organizations with highly engaged employees had an average three-year revenue growth of 20.1%, versus the average 8.9% revenue growth rate, and had employees who were three times more likely to be top performers (McLean & Company staff, 2012).
- Organizations with engaged workers are 18% more productive than their competitors, 12% more profitable, have 22% higher-than-average shareholder returns, and have employees who are 57% more effective and 87% less likely to leave (ADP staff, n.d.).
- Organizations with engaged employees outperform their competition by 147% in earnings per share and enjoy a 90% better growth trend (Gallup in Crowley, 2013).
- Work units high in employee engagement (in the top half) are two times more likely to succeed as compared with work units in the bottom half (Gallup in Crowley, 2013).
- Work units in the 99th percentile for employee engagement are four times more likely to succeed than work units in the first percentile (Gallup in Crowley, 2013).
- Work units in the top 25% of employee engagement outperform their peers in the bottom 25% in customer ratings, profitability, and productivity (Gallup in Sorenson, 2013).

About UNC Executive Development

Our approach to program design and delivery draws upon the power of real-world, applicable experiences from our faculty and staff, integrated with the knowledge our client partners share about the challenges they face.

We call this approach [The Power of Experience](#). We combine traditional with experiential and unique learning to ensure that all individuals gain relevant new skills that they can easily implement within their own organizations. Through action learning and business simulation activities, we challenge participants to think, reflect and make decisions differently.

Our Approach: The Partnership

Our team customizes each leadership program through a highly collaborative process that involves our clients, program directors, faculty and program managers. We are dedicated to following-up with our clients and individual participants to ensure that their learning experiences have been meaningful and impactful. This integrated approach consistently drives strong outcomes.

Our Approach: The Results

Our executive education programs are designed with results in mind, and we are focused on successfully meeting our clients' business and academic expectations. Below are a few examples of the results our client partners have achieved:

- Leadership refocused with new strategy and cohesive vision
- Strategic plans created for the global marketplace
- Supply chains streamlined
- Products redefined
- New markets targeted
- Cost-saving measures developed
- Silos leveled
- Teams aligned

Participants leave empowered to bring in new ideas, present different ways to grow business and tackle challenges. The result is stronger individuals leading stronger teams and organizations.

Contact Us

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