Why engagement matters

Extensive research on employee engagement in the last decade has revealed that the key to unlocking the discretionary effort that lies within your employees is simple: give them the right leader and engagement will occur naturally.

In 2006 US consulting firm The Conference Board published their findings on the issue in a report called *Employee Engagement, A Review of Current Research and Its Implications.* They found that twelve major studies on employee engagement had been published over the previous four years by research firms such as Gallup, Towers Perrin, Blessing White and The Corporate Leadership Council.

These studies have found that there are numerous tangible benefits for organisations that increase their employees' engagement levels, including:

Cost benefits

- Less staff turnover and lower recruitment costs
- Fewer accidents and injuries
- Avoid bullying and harassment claims
- Reduce sick leave

Innovation

- Easier to attract good people
- Improved teamwork
- Healthier workplace culture
- More focus on generating new ideas

Better results

- Less time spent fixing people issues
- Improved customer service
- Enhanced image in the market
- Increased bottom line results

There have been numerous calculations done on the cost of employee turnover, with a wide range of results, depending on what factors you include. Generally, however, the researchers agree it looks something like this:

Cost of turnover

50% to 200% of employee annual salary

The cost of turnover is one thing, but what about the cost of people coming to work every day who are not working anywhere near their capacity and, perhaps, even doing their work so badly that other people have to redo it? Just because these costs don't easily show up on a balance sheet, it doesn't mean they aren't real. Every underperforming employee you have is costing you money. If we take a very simplistic view of the issue you can easily come up with a base figure that will give you something to think about.

Cost of lack of engagement

Average salary of employees pa (from ABS statistics)	$60,000
Estimated drop in productivity per employee (very conservative)	10%
Cost per employee per annum	$6,000

Now, multiply that by the number of employees you have and you can see the costs starting to add up. However, there is more to it than just wasted salary costs. The costs of lack of engagement can be divided into two key areas: the bottom line financial cost and, the more difficult to calculate, human cost.

Lack of engagement has a major affect on bottom line profits and we have the statistics to prove it! In 2006, a survey of 664,000 employees worldwide by ISR found there was a measurable difference between companies with highly engaged employees and those with low engagement. Their research came up with the following statistics:

Financial impact of engagement levels

On operating income:
High engagement = 19.2% gain
Low engagement = 32.7% decline

On net income growth:
High engagement = 13.2% gain
Low engagement = 3.8% decline

On earnings per share:
High engagement = 27.8% gain
Low engagement = 11.2% decline

These figures represent some significant costs and are hard to ignore. But here is some further evidence in case you need convincing. James Heskett and his colleagues from Harvard Business Review devised the 'Service-Profit chain' model for demonstrating the important role of employee engagement in delivering bottom line results. It states that:

- Profit and growth are stimulated primarily by customer loyalty
- Loyalty is a direct result of customer satisfaction
- Satisfaction is largely influenced by the value of services provided to customers
- Value is created by satisfied, loyal and productive employees
- Employee satisfaction results from high quality support services and policies that enable employees to deliver results to customers

To back up their model, they quote research by Reichheld and Sasser who estimate that a 5% increase in customer loyalty can produce profit increases from 25% to 85%.