

The impact of Employee Engagement on Organisation Performance

The links between engagement and performance were set out during the 1990s at Harvard by James Heskett and colleagues (Heskett, J. L., T. O. Jones, G. W. Loveman, W. Earl Sasser, and L. A. Schlesinger. "Putting the Service-Profit Chain to Work." *Harvard Business Review* 72, no. 2 (March-April 1994): 164-174; Heskett, J., W. E. Sasser Jr., and L. Schlesinger. *The Service Profit Chain*. N.Y.: Free Press, 1997). Their research established that employee satisfaction drove higher productivity and better employee retention and that these in turn led to better value for customers, customer satisfaction, repeat business and recommendation.

1. **Best Buy** reported in October 2010 (in Harvard Business Review) proved the value of a 0.1% increase in engagement at a particular store was worth \$100k.
2. **Gallup** latest meta-analysis (152 organisations) have proven that engaged organizations have 3.9 times the earnings per share (EPS) growth rate compared to organizations with lower engagement in their same industry.
3. **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.
4. **Gallup** 2009 analysis of 199 surveys found that business units scoring in the top half on employee engagement double their odds of delivering high performance compared to those in the bottom half. Those at the 99th percentile are nearly five times more likely to deliver high performance than those at the 1st percentile. Companies in the top 10 percent on employee engagement bested their competition by 72 percent in earnings per share during 2007-08. For companies that scored beneath the top quartile, earnings fell 9.4 percent below their competition
5. **Towers Perrin** has proved that there is a link between employee engagement and financial performance, and it provides some compelling evidence. Towers Perrin 50 companies across the globe, looking at both their employee engagement scores and their financial data. Our analysis focussed on the impact of employee engagement on operating income, net profit and earnings per share (EPS). Over the 12 months studied, organisations with high levels of employee engagement outperformed those with below average levels of employee engagement on all three financial measures.
 - Operating income. Companies with highly engaged employees collectively saw operating incomes rise by \$389.95 million or 19.2%, but companies with below average levels of engagement collectively saw it fall by \$664.14 million or 32.7%.
 - Net income growth. The group of companies with highly engaged employees saw net income grow by 13.7% or \$121.38 million but it fell by 3.8% or £33.67 million among companies with low levels of employee engagement.
 - Earnings per share. Organisations with highly engaged employees collectively saw earnings per share increase by 27.8% compared to companies with low levels of engagement which saw a fall of 11.2%.



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6. **Hewitt Associates:** high engagement firms had shareholder return that was 19% higher than average in 2009. Low engagement firms had 44% lower than average return.
7. **Standard Chartered Bank** reported in 2007 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.
8. **Innovation** Gallup indicate 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 organisation as innovative, 92 per cent of managers felt proud to work there
9. Engaged employees in the UK take an average of 2.69 sick days per year; the disengaged take 6.19 (Gallup 2003).
10. Seventy per cent of engaged employees indicate they have a good understanding of how to meet customer needs; only 17 per cent of non-engaged employees say the same. (Corporate Leadership Council, Corporate Executive Board (2004)'Driving Performance and Retention through Employee Engagement: a quantitative analysis of effective engagement strategies)
11. Engaged employees are 87 per cent less likely to leave the organisation 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.
12. 67 % of engaged employees advocate their company or organisation against 3% of the disengaged.
13. 78% of engaged employees would recommend their companies' products or services against 13% of disengaged employees (Gallup 2003).
14. Public sector staff are less likely to be advocates than private sector staff.

Useful Sources of Information

www.davidzinger.com

<http://www.gallup.com/tag/Employee%2bEngagement.aspx>

www.cipd.co.uk

MacLEOD, D. and CLARKE, N. (2009) *Engaging for success: enhancing performance through employee engagement*. London: Department for Business, Innovation and Skills. Available at:

<http://www.berr.gov.uk/whatwedo/employment/employee-engagement/index.html>

