

# Employee Engagement Business Case

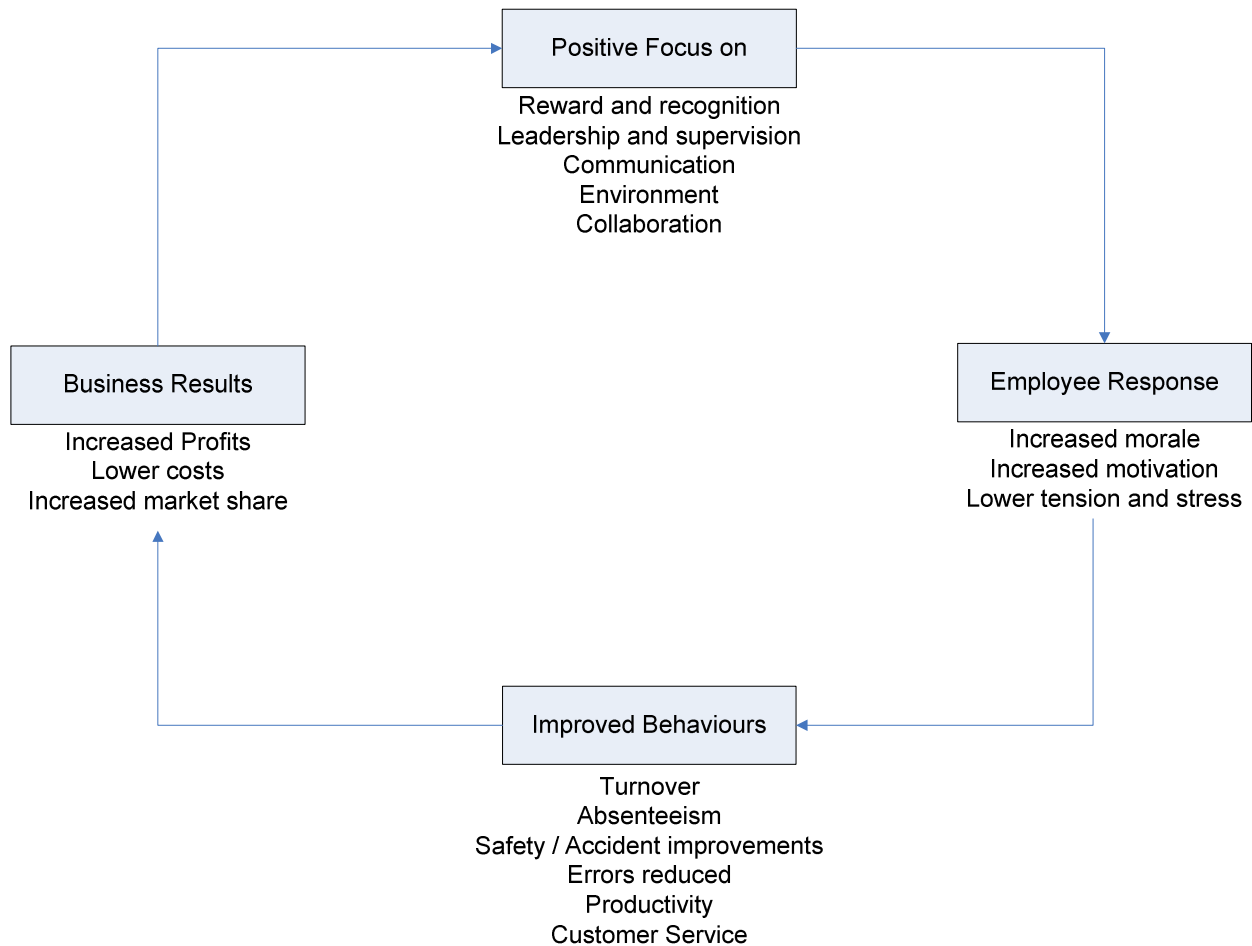
A People & Culture White Paper

## Purpose

This document is a module from the People & Culture training course on Strategic Employee Engagement.

The purpose of this module is to provide a structure for the preparation of an outline business case (OBC) to support the introduction of an employee engagement programme. The intention of the OBC is to begin the quantification of the impact of an engagement strategy as a whole.

The business case is a quantification of the promise of employee engagement.



## Introduction

Engagement is defined in various ways by various firms however in these definitions there is some underlying commonality:

- A belief in the organisation
- A desire to work and make things better
- An understanding of the business context and the bigger picture
- Respectful of, and helpful towards, colleagues
- Willingness to go the “extra mile”

All of these have a positive impact on business performance but are not achieved easily. It requires the organisation to put some key building blocks in place:

- Good quality line management and management practices
- Two way communication
- Effective internal collaboration
- A focus on personal growth and development
- A commitment to employee well-being

It is likely that investment will need to be made to achieve these. The business benefits that accrue from these investments fall into the following areas:-

- Employee performance (productivity)
- Workforce retention and attendance
- Improved customer relationships

The key elements of the business case include:

- 1) Impact on current cost base
- 2) Programme implementation costs
- 3) “Cashable” benefits
- 4) Qualitative or soft benefits
- 5) Statement of underlying assumptions

In preparing the business case it is unlikely that all of the metrics of information required will be available. It will therefore be necessary to use assumptions and in assessing the quality of the business case it is necessary to understand the sensitivity of the business case to these assumptions. We have therefore added various assumptions from widely published research studies to aid in developing the assumptions.

## Employee Engagement Facts and Figures

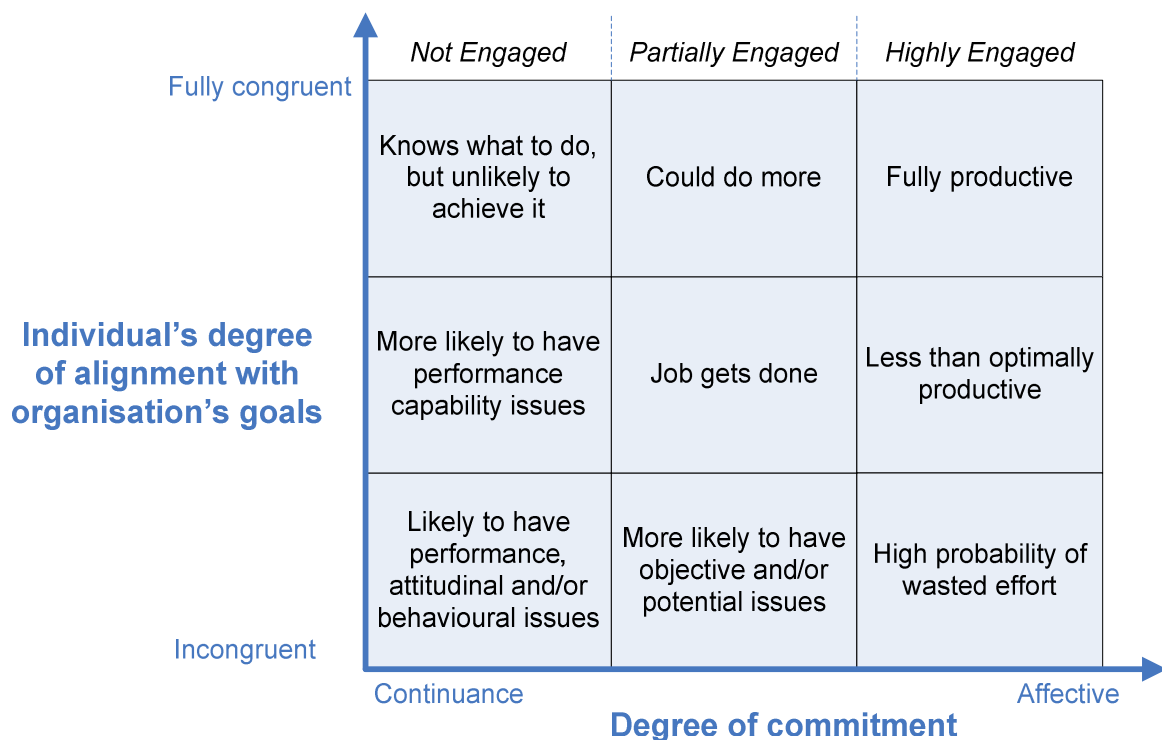
Engaged employees have a positive effect on their organisations. The following findings provide a compelling case for adopting an employee engagement approach:

- Analysis of research across 200 organisations shows that moving a workforce of 10,000 employees from low to high engagement can have a £21million impact on the bottom line. (*DDI "The key to realising competitive advantage, 2007"*)
- A study of 664,000 employees from around the world when compared to key business ratios showed a 52% gap in one year performance improvement in operating income between companies with highly engaged employees versus companies with low engagement scores. (*ISR : Engaged Employees Help Boost the Bottom Line 2006*)
- Research by Gallup (1999 / 2005)
  - Customer loyalty increases by 56% above the average
  - Employee retention is 44% above the average
  - Safety record improves by 50%
  - Productivity increases by 50%
  - Overall profitability increases by 33%
- Watson Wyatt 2001 research across 750 companies showed that total return to share holders over a 5 year period:
  - Companies with strong engagement + 64%
  - Companies with weak engagement + 21%
- Productivity - engaged employees generate 43% more revenue than disengaged ones (*Hay Group: Engage employees and boost performance 2001*)
- Attendance – Engaged employees take an average of 2.69 sick days per year; the disengaged take 6.19 (*Gallup2003*)
- Customer focus – 70% of engaged employees indicate they have a good understanding of how to meet customer needs, while only 17% of non-engaged employees say the same. (*Right Management : Measuring Employee Engagement 2006*)
- Employee satisfaction – 86% of engaged employees say they very often feel happy at work, versus 11% of the disengaged. (*Gallup Feeling Good Matters in the Workplace 2006*)
- Retention – engaged employees are 87% less likely to leave the organisation than the disengaged (*Corporate Leadership Council : Driving performance and retention through employee engagement 2004*)

## Section 1 – Impact on current cost base

Whilst strong correlations have been shown between high engagement firms and higher levels of profitability it is likely that at the profit level there are a number of other variables at play. We therefore recommend building the business case from the cost base up.

The following chart may be helpful in assessing the degree of productivity improvement that might be achieved



Source: *Journal of Applied Human Capital Management* 2007

Improved productivity through greater application of discretionary effort:

Increased unit production	£	<input type="text"/>
Increased sales	£	<input type="text"/>

Improved quality through greater conscientiousness:

Reduced rework (error reduction)	£	<input type="text"/>
Reduced maintenance	£	<input type="text"/>
Reduction in accidents	£	<input type="text"/>
Reduced cost of employer insurances	£	<input type="text"/>
Reduced waste	£	<input type="text"/>

Reduced sickness and absenteeism:

Reduction in average sick days per employee	£	<input type="text"/>
Reduction in unspecified absenteeism	£	<input type="text"/>

## Calculating the cost of voluntary employee turnover

Various research projects have calculated the cost of employee turnover as being between 50% (Sorenson 1995) and 100% (Ettorre 1997) of the leaver's salary package. As a working assumption 75% (Price Waterhouse) is a well substantiated figure.

The equation becomes  $\text{Total leavers} \times 0.75 \times (\text{average salary} + 30\% \text{ Taxes/ benefits})$

Should the actual data be available then the turnover cost can be calculated using the following:

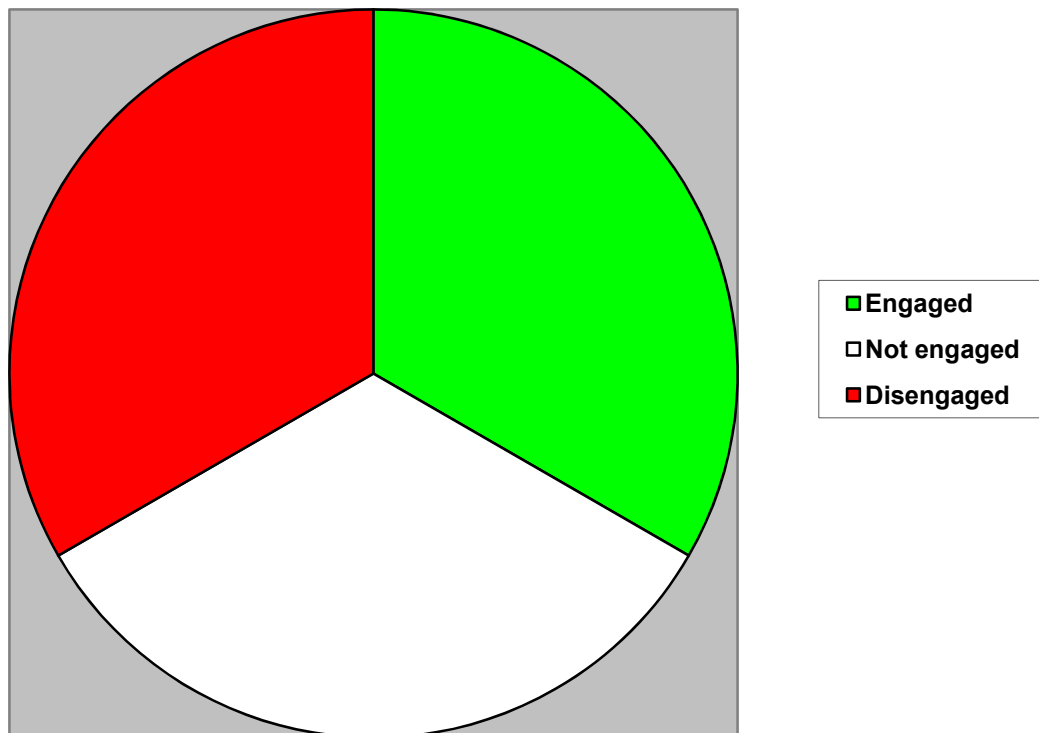
- Selection process direct costs (Internal HR / management time interviews medicals etc.)
- Separation costs (exit interviews, admin, reduced productivity)
- Agency costs (Advertising etc.)
- Workload cover
- Induction / orientation / training costs
- Learning curve to full productivity
- Impact on management attention
- Effects on customers
- Lower staff morale

## Section 2 – Costs of implementation

The costs and benefits associated with improving employee engagement will depend on the organisations objectives and business focus. It is not always possible at the outset to determine what the costs of potential programmes might be. There are some engagement strategies such as communicating the vision, developing a compelling employer proposition and listening to employees that need not involve significant costs.

However the first element of cost is to understand the current position and degree of engagement of staff across the organisation.

### What does our chart look like?



- How many highly engaged employees do we have?
- How many of our highly engaged people are in core positions?

Gallup 2000

A typical business operates at 1/3 of its people potential:

### Section 3 “Cashable” Benefits

This is a statement of the realistic quantifiable benefits that are likely to accrue from an employee engagement over a five year period

Benefit	Value		
	Year 1 (£k)	Year 2 (£k)	Year 3 (£k)
1.			
2.			
3.			
4.			
5.			
6.			

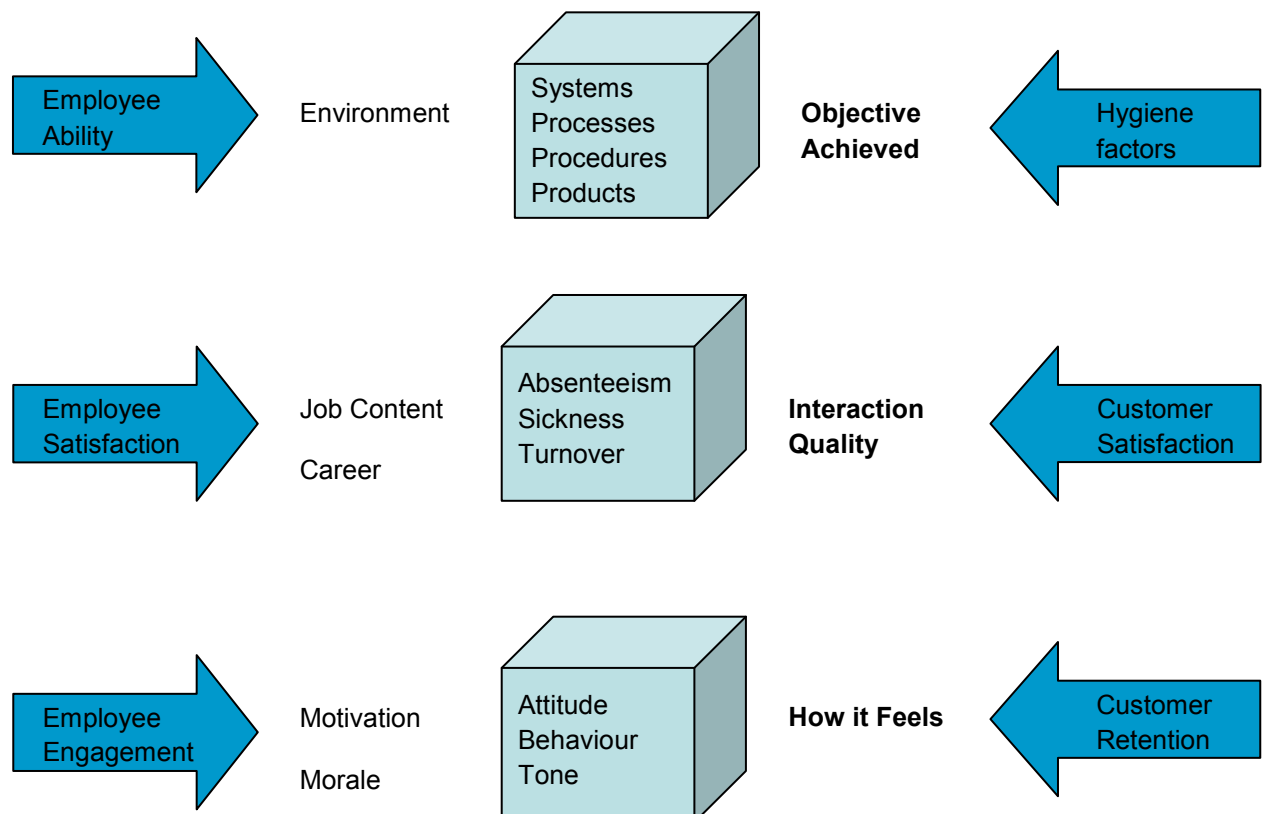
## Section 4 – Qualitative or Soft Benefits

The following benefits accrue from an engagement programme but they are less easy to quantify:

- Greater flexibility to meet organisational needs
- More inclined to share knowledge
- Less likely to suffer stress
- Less likely to commit fraud or sabotage
- New forms of dialogue with employees leading to new ideas and innovation
- Stronger training and development programmes
- Reduced loss of core skill sets

In addition there are a range of customer related benefits from longer employee tenure and higher motivation leading to improved perceptions by customers and stakeholders

- Improved customer experience
- Increased customer satisfaction with service which in turn give rise to
- Increased customer loyalty and repurchase behaviour



## Business Case Summary

	Data Source	% + / -	Value
<b>Productivity:</b> <ul style="list-style-type: none"> <li>○ Increased sales</li> <li>○ Increased unit production</li> <li>○ Increased profit</li> <li>○ Improved safety</li> </ul>			
<b>Soft Factors:</b> Improved teamwork <ul style="list-style-type: none"> <li>○ Time savings</li> <li>○ Efficiency</li> <li>○ Quality</li> <li>○ Innovation</li> <li>○ Creativity</li> <li>○ Waste reduction</li> </ul>			
<b>Cost Reduction:</b> <ul style="list-style-type: none"> <li>○ Reduced absenteeism</li> <li>○ Reduced turnover</li> <li>○ Reduced recruitment costs</li> <li>○ Reduced training costs</li> </ul>			
<b>Customer:</b> <ul style="list-style-type: none"> <li>○ Customer satisfaction</li> <li>○ Increased satisfaction</li> <li>○ Increased loyalty and repurchase</li> </ul>			
<b>Total Benefit</b>			