

The High Cost of a Lack of Engagement

Is your company's payroll an investment or an expense? In many companies a lack of employee engagement is costing the organization anywhere from 35% to 50% of payroll. Employees are paid 100% of their pay and benefits, but 35% to 50% of that money, if not more, is wasted because employees are not giving the organization 100% of what they are capable of producing. Companies that have learned the value of employee engagement are reaping the reward – turning 100% of their payroll into an investment.

Since *The Gallup Organization* released the book First, Break All the Rules, the subject of *employee engagement* has gained the attention of many business leaders. It is well understood that an increase in *employee engagement* is highly likely to contribute to an increase in productivity, staff retention and customer satisfaction... and, ultimately, profitability.

Yet, despite the attention this subject has received, very few organizations have made the investment of time or money to improve their engagement levels. Maybe if business leaders understood how much a lack of engagement is costing their organization, they might be more inclined to do something about it.

What is the real cost of a lack of engagement?

Let's look at an example of how organizations can benefit from higher employee engagement.

According to recently published figures from *The Gallup Organization*, the American workforce consists of 29% *Engaged* employees, 55% who are *Not-Engaged* and 16% who are *Actively Disengaged*. That is a total of 71% of the workforce who are not "switched-on" when they are at work, are not paying full attention, or perhaps are even working against the organization's goals.

While these are average numbers for the whole of America and your organization might be better off than this, it would make sense that many organizations are actually operating with engagement levels worse than this average.

So what is the cost of having 70% of employees disengaged? One way to estimate it is to think about the return an organization gets from employees for the investment they make in payroll and benefits.

What percentage of their capabilities are the different types of employees contributing to the organization? When we ask people that question, the best response we get for the *Not-Engaged* people is 50%, and for the *Actively Disengaged* people is 20%. Some people believe that the *Actively Disengaged* people in their organization are a negative factor... they are taking away from what the *Engaged* employees are doing.

For the sake of this example, let's be conservative and assume that all *Not-Engaged* and *Actively Disengaged* employees are giving you 50% of what they are capable of, and we'll assume that the *Engaged* employees are giving you 100%. We'll also assume an average pay and benefits per employee of \$50,000, and that you are paying all employees 100% of their pay and benefits with the expectation that they will give you 100% of what they are capable of.

Here is the bottom line:

In an average company in terms of employee engagement, 70% of employees are giving back only 50% of what they are being paid. That means 35% of payroll is pure cost... there is absolutely no return on investment.

Using these numbers, that lack of engagement in a 100 person company is costing \$1,750,000 (35% of payroll), and for a 1000 person company the cost is \$17,500,000. And remember we are assuming that the *Actively Disengaged* employees are giving you 50% of their capabilities, and the *Engaged* employees 100%. Because I have used conservative estimates, the real cost could be substantially more.

What is the cost of a lack of engagement in your organization?

Yes, increasing the engagement and commitment of employees does require a significant investment of time and money... but what is the cost of doing nothing? Over and above the percentage of payroll that is not returning your organization anything, what is the lost opportunity cost?

How many talented employees would not have left your organization if they had been working for a manager or supervisor who created an environment where people wanted to work, and knew how to get the best out of each of their people?

How many customers would you not have lost if all of your employees were really engaged?

What is your organization capable of? How much more could your organization achieve if all employees were engaged and committed and supported your management team in achieving the organization's vision?

Reducing the cost of employee turnover in healthcare

In late 2002 one of our clients, an 800 person hospital in Oklahoma was experiencing a high turnover of nursing and support staff and had difficulty filling the vacancies. At that time they consistently had between 40 and 50 vacant positions they could not fill with the obvious outcomes of increased pressure on existing staff to provide essential services and a reduction in patient satisfaction.

This situation is widespread in the healthcare industry, and the management of this hospital could have easily just accepted that their situation was unavoidable and continued with business as usual. However the President and Vice President of Support Services saw things differently... they realized that most people don't leave organizations, they leave managers. They understood that the starting point for creating a workplace that people don't want to leave and other people want to come and work in, is leadership.

Leadership affects everything!

- Leadership behavior creates the climate employees work in.

- Employee attitudes and behavior are significantly affected by their perception of the climate.
- Talented employees won't stay in what they perceive to be a negative climate.
- Talented prospective employees won't join an organization unless it has a reputation of being a *great place to work*.
- Improving workforce performance is not possible without attracting and retaining talented employees.

So this hospital embarked on a two year process to increase the emotional intelligence and leadership skills of their managers. The process required all managers to tackle the culture head on and create a culture where there was a high level of trust for management, and where employees are more engaged and want to perform at their best.

The results have been stunning. Vacancies in nursing and support staff have come down significantly from between 40 and 50 to just 2... a major cost reduction, and increased patient satisfaction has improved their reputation in the community, increasing their ability to compete with larger hospitals in nearby Oklahoma City.

Increasing Engagement Starts with Your Managers

Some organizations attempt to increase engagement by *buying* it. That is, they offer above industry standard compensation and benefits, share options, child care facilities etc. These things can increase engagement to some degree, but it is the relationship the employee has with their immediate manager that matters most.

Do your managers, at all levels, have the *emotional intelligence* to understand the impact they are having on employee engagement?

Almost everyone starts out as an engaged employee. When they turn up to your organization on day one they are excited about getting the job and want to make a contribution. What managers do from that day onward will determine whether the employee continues to be engaged or switches off and becomes *not engaged* or *actively disengaged*.

Many organizations make the mistake of attempting to increase emotional intelligence and leadership skills with some form of *event training*. A two, three or even five day training program on its own will not produce behavior change, except in the case of those rare individuals who have the self-discipline to work on what they have learned until it becomes a habit.

In the best-selling book *Primal Leadership*, authors Daniel Goleman, Richard Boyatzis and Annie McKee explain why most management and leadership development fails to result in behavior change:

"... although we've sometimes referred to leadership development "programs" in these pages, in fact what many organizations need aren't just one-time programs but a process built as a holistic system that permeates every layer of the organization. The best of these leadership development initiatives are based on an understanding that true change occurs through a multifaceted

process that penetrates the three pivotal levels of the organization: the individuals in the organization, the teams in which they work, and the organization's culture.”

And since it is primarily the manager’s behavior that creates the culture that employees work in, the goal of leadership development should be a measurable change in culture and employee engagement.

Achieving high levels of employee engagement across the entire organization not only can be done, it is being done... hopefully, not by one of your competitors. You have the opportunity to set yourself apart from the competition, but you can’t do it without a serious commitment to creating a culture that sustains the high level of engagement your employees start out with.

About the Author:

Keith Ayers has earned his reputation as a consultant and speaker who gets results for CEO's and senior executive teams who want to develop an organizational culture that is supportive of their business initiatives and impacts their bottom line. As CEO of Integro Leadership Institute, Keith has had the opportunity to work with executive teams across the globe. For more information, visit www.integroleadership.com