

The Cost of Being *“Good Enough”*



The Real Impact of Mediocre Employee
Engagement on Organizational Performance



**Resource
Development
Systems** LLC

Managing the Human Side of Business SM

©2010 by Resource Development Systems LLC

All Rights Reserved

Reprint Rights and Article Publication

If you would like to use this article or parts of this article in any form, then please contact us and we will be happy to work with you to accomplish your goal. We are also available for interviews regarding the Seven Elements of High Performance™ model.

We are happy to discuss the inclusion of the Seven Elements of High Performance™ as part of a training program. Please contact us using the information at the end of this article explaining how you would like to use the model in your training program and we will be happy to discuss with you about the authorization for use of the model.

Note: the US Navy's Center for Naval Leadership is already utilizing our model in their leadership development programs with our permission.

For a more in-depth look at the Seven Elements of High Performance™ model and how it can help drive performance in organizations we invite you to read our new book **Leadership Lessons From the Medicine Wheel: The Seven Elements of High Performance** (ISBN 978-1-59932-111-0).

The Cost of Being “Good Enough”: The Real Impact of Mediocre Employee Engagement on Organizational Performance

For over a decade the research has shown that employee engagement is a huge factor in achieving higher levels of organizational performance, yet, managing employee engagement is still not a major priority of most managers in most organizations. While the research is clear, understanding how it impacts an organization on a daily basis is murky for most managers. However, using some simple metrics and examples, we show how mediocre employee engagement levels have real dollar and performance impacts for any organization. Also provides is a simple formula for any manager to determine the financial impact their engagement levels are having on their organization.

By Gary Lear, President and CEO
Resource Development Systems LLC

Over the past 8 years **Resource Development Systems LLC** has been involved in conducting and reviewing research to help us determine what makes a difference in the performance of organizations, and then understand that difference in terms that will allow us to help our clients achieve higher levels of performance for their organization. Over the course of this timeframe we reviewed a tremendous amount of other research studies, most of them large-scale studies involving many organizations and large numbers of employees. Even after we completed our study and finalized our model, we continued to review research and articles as they are published to insure that the model that we discovered from our initial research is still valid. To date, we have reviewed over 1000 studies, articles and research-based books in our quest to determine what drives organizational performance.



Over and over again we kept finding huge discrepancies between the performance of the average, mediocre organization and the performance of the best organizations. We have shared in previous whitepapers specific examples from this research (see *The Dynamics of High Performance*, 2003. This whitepaper will provide you with a basic understanding of the **Seven Elements of High Performance™** model to help in the understanding of the concepts that are being shared below. It is therefore suggested that you might want to review this whitepaper before continuing.), as well as in the book *Leadership Lessons From the Medicine Wheel: the Seven Elements of High Performance* (www.LeadershipLessonsFromTheMedicineWheel.com).

One of the concepts that seem to have a tremendous impact on this disparity in organizational performance is that of **employee engagement**. First introduced by Gallup, the concept of employee engagement has a solid foundation in the Seven Elements research. Employee Engagement is a direct outcome of six of the Seven Elements. It begins with Putting People at the Center and having a foundation of Trust. And as Dan Pink has recently shared in his book *Drive*, it flows from employees being able to master their Strengths, take Personal Responsibility by having autonomy over their work, and having a connection to Purpose, which is contained in the Vision of the organization. This is all brought together through Leadership and helping employees make those emotional connections between their work and the organization's Purpose, Values, and Goals.

The relationship between the **Seven Elements of High Performance™** is fairly obvious. It is also fairly intuitive to understand that employee engagement is important to the performance of the organization. When employees provide greater levels of discretionary effort towards their work they will accomplish more. But what is not so intuitive is how, according to Gallup, the average organization can be throwing away one-third of their payroll simply because they have lower levels of employee engagement. As we have worked with this concept for the past decade we tend to get the same reactions from managers; they acknowledge the importance of engagement, but not the cost that results from not having higher levels of it in their organization. After all, their organization is performing "good enough," so having higher levels of employee engagement surely can't have that much of an impact, can it?

Actually, it can, and a significant impact, at that.

Employee Engagement Defined

The positive emotional connection that an employee has to the organization and to its Vision (Aligned Purpose, Values, and Goals) that drives positive behaviors by the employee, which results in the success of the organization.

In order to explore this further we need to understand a couple of labor economic concepts: **Payroll Efficiency** and **Payroll Effectiveness**.

A Review of Some of the Research

Over a period of 11 years: Average Organization increased revenues by 166%. They were able to increase Profits by only 1%. Exceptional Organizations were able to increase revenues by 682% and increased profits by 756%! Source - *Corporate Culture and Performance*, Kotter & Heskett

Over a period of 30 years: Exceptional Organizations' stock out-performed the Average Organization by an average of 6.9 times. Source - *Good to Great*, Jim Collins

Over a period of over 50 years Exceptional organizations out-performed Average Organizations by over 1500%! Source - *Built to Last*, Jim Collins & Jerry Porras.

From Gallup's research, the most "engaged" workplaces (top 25%) were:

- ◆ 50% more likely to have lower staff turnover
- ◆ 56% more likely to have high customer loyalty
- ◆ 50% more likely to be above the median in Safety outcomes
- ◆ 38% more likely to have high productivity
- ◆ 27% more likely to report higher profitability

Payroll Efficiency

The measure of how much work is being performed in relation to the amount of payroll dollars invested. In the past this theory postulated that the more a person was paid the more work they would accomplish. Recent research indicates that this might not be true and that the real impact on work performed is that the more engaged an employee is the more work they will accomplish. While wages can be a negative impact on engagement, they aren't necessarily a driver of performance.

Payroll Effectiveness

The measure of how well the work being done is impacting on the achievement of the goals of the organization. While some employees can appear to be busy all the time, the work they are doing doesn't necessarily impact on the achievement of organizational goals. Factors that impact the ability of work to impact the achievement of organizational goals are focus and alignment of work towards those goals.

We also need to review the research findings regarding engagement levels in the average organization. Research by Gallup, Towers Perrin (now Towers Watson), and others are all fairly consistent. What we find is that the average organization only has about 26% of their employees as being engaged, 55% being unengaged, and 19% as being actively disengaged. In other words, close to 75% of an organization's employees are either doing only what is necessary to get by and stay out of trouble, or they are actively, although perhaps not overtly, dissident about their unhappiness with the organization and their jobs. Again, according to Gallup, it is this 75% of the organization that is impacting on performance and leading them to claim that it is like having one-third of the organization's resources not showing up for work every day. So let us examine this in more detail.

The Payroll Efficiency Factor™

In order to more easily understand this, let's use one of the exercises that we conduct with our clients. We ask them to evaluate the overall performance of their staff on a couple of different measures. The first is to compare their organization with the average organization on how well they have engaged their employees. Most executives and managers admit that they might not be doing as good of a job as they could on this issue, and indicate that they tend to do about as well as the average organization.

We then ask them to rate on a scale of 1 to 10 the performance levels of each of these categories of employees, with 1 being poor performance, 5 being average performance, and 10 being exceptional performance. Most of the time executives and managers rate their engaged employees as performing somewhere in a range of 8 to 10, with an average rating of 9; unengaged employees in a range of 5 to 7, with an average rating of 6; and actively disengaged employees somewhere at 4 and below, with the average rating being about 3.

These two evaluations, engagement levels and performance ratings, when combined results in what we call the ***Payroll Efficiency Factor™***. An example of this is contained in the table below which is using data for the average organization.

Engagement Levels in the Average Organization				
		<u>Range</u>	<u>Average</u>	<u>Factor</u>
Engaged Employees	26%	8 to 10	9	24
Unengaged Employees	55%	5 to 7	6	33
Actively Disengaged Employees	19%	1 to 4	3	6
Efficient Use of Payroll				63% Payroll Efficiency Factor™

In the example above, we have taken the average ratings for each class of employees and multiplied it by the percentage of employees in that class. This gives us a Factor rating for each class, and when added across all classes of engagement levels we end up with the **Payroll Efficiency Factor™**. When we multiply this factor by the average payroll, we can then see how efficient the organization is at utilizing its payroll investment. Based on Gallup's research for the average organization we would find that a typical organization would have a **Payroll Efficiency Factor™** of only 63%, or about two-thirds.

This **Payroll Efficiency Factor™** is in keeping with Gallup's previous assertion that the average organization is wasting about one-third of their payroll. But just how much money are we talking about? Let's explore this further.

The Cost of Mediocre Engagement

If we take an average 100 person organization with 6 executives, 10 managers, and 84 employees, we find that we have a payroll of about \$4 million. This is derived from using the US Department of Labor's median wage of \$16 per hour (as of May 2009). At 40 hours per week and 50 weeks per year, the average wage per employee is approximately \$32,000 per year. Of course, some employees will earn less, and others will earn considerably more, especially executives. In fact, some organizations might be paying their employees considerably more, but this DOL median wage rate gives us a reasonable average, although we agree that this is probably a bit low for most organizations.

In addition to the payment of actual wages, payroll also includes other expenses, such as social security tax, unemployment tax, workers' compensation, healthcare, and other benefits that an organization might see fit to provide to the employee. If we estimate these expenses at 25% of the employee's wages (probably a conservative number), then we are now up to an average annual payroll of \$40,000 per employee, or \$4 million for all 100 employees. Again, some organizations might be able to spend less and many organizations are probably spending more.

The Results: With a **Payroll Efficiency Factor™** of 63%, which was calculated above, multiplied by a payroll of \$4 million, the average organization of 100 employees is actually getting productivity out of those employees that is worth only about \$2.5 million. So the organization is paying for \$4 million worth of work, but is only getting \$2.5 million of actual work. This means that the organization is losing about 1/3 of its payroll. That is \$1.5 million that the organization is investing into its performance that it isn't getting a return on.

Cost of Mediocre Engagement = \$1,500,000 per year per 100 employees!

That is \$1.5 million that is coming right off of the bottom line of a for-profit organization, and \$1.5 million of resources that are being wasted for non-profit and governmental agencies. Is this something that any organization can really afford?

This would be like spending \$4 per gallon of gasoline, but the hose going from the gas pump to the vehicle is old, cracked and leaky, and by the time the gas actually gets into the tank you are only getting about 2/3 of a gallon of gas instead of the full gallon. The rest is leaking all over the ground and is wasted. Would you continue to buy gasoline at this station if you were getting such low returns for your money or would you take action to insure that you were getting your full \$4 worth?

Payroll Effectiveness

Employee engagement not only has an impact on the amount of work that is done in an organization, it is also related to how effective that work is to achieving the goals of the organization, or in other words, the organization's **Payroll Effectiveness**. As previously shared, one of the drivers of employee engagement is a connection to the larger purpose of the organization, as well as an understanding of how the work that the employee is doing impacts the achievement of the organization's goals. This comes from the ability of the organization's top management to clearly focus on and define the long-term goals and measures of organizational success, as well as their ability to cascade and align division, department, team and individual goals throughout the organization. Unfortunately, most organizations aren't much better at doing this than they are at engaging their employees.

In the book *Leadership Lessons from the Medicine Wheel* I shared some alarming findings from one research study on organizations' abilities to communicate goals:

In a Harris poll a few years ago they discovered that 51% of employees do not understand what they personally need to do to help the organization achieve its goals. Employees also reported that they only spend about 49% of their time working on things that might impact those goals. What is worse is that only 15% of employees could even identify their organization's top goals. This is usually because organizations don't have clearly defined goals, or if they do have goals then they aren't being clearly communicated. How, then, does the ability to make an employee a higher level performer help the organization perform better if the employee's increased performance isn't focused on the organization's performance? If we want to have a high performance organization then we must focus on the things that make the organization perform, beginning with how we define and measure performance and then how we cascade that down through the organization.

In their 2005/2006 Communication ROI Study™, Watson Wyatt (now Towers Watson) found that those organizations that were the most effective in their communications had a greater than 19% higher market premium and a greater than 57% higher returns on

shareholder value than average organizations. They are also 4.5 times more likely to report higher employee engagement numbers and 20 percent more likely to have lower turnover rates.

On the other hand, when employees receive mixed signals from management about what is important, or when priorities change without reason, employees can become frustrated. Even highly engaged employees can fall prey to ambiguous goals and unclear directions. Soon, those engaged employees become unengaged, or worse, actively disengaged. Also, in the absence of clearly defined goals many line managers and employees will create their own set of priorities. These individuals and teams may be working very hard for the organization, but they are working hard on things that will not have a great impact on the performance of the organization. Either way, the lack of clearly defined goals that are aligned throughout the organization has an impact on both *Payroll Effectiveness*, and also on employee engagement, which impacts *Payroll Efficiency*.

Clearly, communication is a key factor in achieving both a high level of employee engagement and a higher potential for having a greater factor in achieving payroll effectiveness. While the *Payroll Efficiency Factor*[™] will never be greater than 100% and will never realistically reach that high of a level, your payroll effectiveness should be several multiples of 100%. Otherwise, the likelihood that your organization will remain in business, whether for-profit or not, is fairly slim. Having higher payroll effectiveness is only going to be achieved by insuring that your organization has clear, stable, long-term goals that employees can rely on, and open communication and feedback about those goals and the work that everyone is doing that is contributing towards reaching those goals.

Improving Payroll Efficiency and Effectiveness

Obviously, the best performing organizations have higher levels of payroll efficiency and effectiveness, which is a result of their ability to leverage the *Seven Elements of High Performance*[™]. They create a clear Vision of an Aligned Purpose, Values and Goals, and emotionally connect their employees to this Vision. They also align their employee's strengths with their daily work *and* to the larger goals of the organization, creating greater alignment with the organization. This is all done within the context of a culture that is founded on Trust and Personal Responsibility; a workplace where managers believe in their employees and allow them to make decisions about their jobs. In other words, they get people excited and engaged about why the organization exists and what it is trying to accomplish, explains to them how they can contribute, and then allows them to unleash their personal best to make things happen for the good of the organization.

But how does the average organization achieve this same kind of results? Where does an organization begin to create the kind of employee engagement levels that lead to higher efficiency and effectiveness of its payroll so that it can recapture more of its investment? Once again, the *Seven Elements of High Performance*[™] model and its underlying research provides that answer. Simply put, it begins with management and its commitment to providing leadership by creating those emotional connections that lead to employee engagement. It also begins with management putting People at the Center and understanding which constituency of the many constituencies that an organization must deal with that they can directly impact; the employees.

This is best accomplished through a comprehensive program that develops the role of Leadership in all managers throughout the organization. Typical leadership development programs fall far short of accomplishing this task, as they focus on the wrong things and wrong outcomes (see our whitepaper *Training's Role in Achieving High Performance*, 2010). A comprehensive leadership development program successfully incorporates the *Seven Elements of High Performance*[™], insures alignment of goals, and focuses on the real outcome – developing employee engagement.

Be – Do – Achieve

- ◆ To **Achieve** what you have never had, you must **Do** what you have never done.
- ◆ If you do what everyone else is doing, you will get what everyone else is getting.
- ◆ Most get *mediocrity*, at best.
- ◆ To **Achieve** what you have never had, you must **Do** what you have never done.
- ◆ To **Do** what you have never done, you must **Be** what you have never been.

Know what you need to Be first.

Then you will know what to Do to Achieve your Goals!

Leadership Lessons From the Medicine Wheel

A Proven Process of Success

This is one of the reasons why **Resource Development Systems** has been successful in helping our clients achieve their goals while increasing their payroll efficiency and effectiveness. We do not approach management development as many other organizations do. We take a different approach that develops the manager's leadership skills over a longer timeframe, using application exercises that are conducted with their employees to align and engage them in their work so that it has an impact on increasing the organization's performance.

In essence, we help organizations increase their performance essentially at no cost to them. The investment that our clients make with **RDS** is recovered, and more, by the time we finish our work with them. Over the course of the next three years our clients see a significant return on their investment, often as high as 2000 to 3000 percent. While many of our clients begin work with us having a **Payroll Efficiency Factor**[™] in the 63% to 66% range, by the time they are finished working with us they will have dramatically increased their employee engagement levels, resulting in raising their **Payroll Efficiency Factor**[™] anywhere between 7% to 13%.

Our clients typically invest 1% to 1.5% of their payroll per year to work with **RDS** over the one to two years it takes to progress through our programs. In return, they gain between 2000% and 3000% Return on Investment over the next three years in recovered payroll efficiency. Remember that each gain in their **Payroll Efficiency Factor**[™] is one percent of payroll that is not wasted and is put to work. It is also one percent of payroll that is now able to be effectively utilized in achieving the organization's goals. While we can quantify the impact on payroll efficiency, it is much harder to quantify the impact that increased payroll effectiveness can have on the performance of the organization. Any increase in

payroll effectiveness, however, can only increase the ROI of the investment with **RDS** even higher.

So what does this mean for your organization? How much impact can increasing your employee engagement levels in your organization have on its performance? Simply answer a few questions and you should have an answer. What are your organization's current employee engagement levels? Are you about where the average organization is with mediocre employee engagement levels? How do you know? How much is your organization's payroll? What is your organization's **Payroll Efficiency Factor™**? How much of your payroll is being wasted and not being put to work to achieve your organization's goals?

Now answer these questions – What would it mean to your organization to gain 7% to 13% more work in your organization for the same amount of money you are already investing in your payroll? How could this impact the ability of your organization to achieve its goals? Can you really achieve your goals easily without having highly engaged and committed employees? Will you have engaged customers if you don't have engaged employees? Can you afford not to invest a small amount to gain such a large return?

Summary

It is clear that having average, mediocre levels of employee engagement has a negative impact on the investment of the organization's resources, including the financial investment in the payroll of the organization. As indicated from other sources and their research, we have demonstrated that the average, mediocre organization does, indeed, lose one-third of its payroll due to lost engagement in its workforce simply because it is satisfied with being **good enough**.

But it doesn't have to be this way for any organization. All any organization has to do is make an investment to improve Leadership in the organization, with a focus on engaging employees. As employee engagement increases, it will also increase their **Payroll Efficiency Factor™**, providing a significant return on the organization's investment as more work will be done.

There are also other benefits that are not included in the above returns from increasing payroll efficiency. Those organizations that have higher levels of employee engagement and aren't satisfied with being **good enough** also:

- Have Committed Employees who are Personally Responsible and who are interested in taking care of their customers, resulting in higher levels of Customer Engagement.

- Have less turn-over, attendance problems and performance problems.

- Are more innovative and creative, and can react to change in the market-place quicker and with a higher success rate.

- Are highly disciplined places to work, but are also great places to work for employees, managers and executives.

People actually want to be at work and want to do a great job!

High Performance Organizations:

Have a clearly defined Purpose, other than to just “make money,” that inspires employees

Have a core set of Values that they actually live by, and aren’t just wall decorations and nice talk.

Focus on building a culture of excellence, Trust, and Personal Responsibility.

Spend an extraordinary amount of time insuring that they hire the “right” people.

Put faith in their people and actually believe in their ability to perform their jobs.

Have managers who focus on creating an environment where the organization’s culture can flourish and where employees are engaged; not on micro-managing people that leads to unengaged and actively disengaged employees.

If you are ready to stop being *good enough*, then contact **RDS!** We have the benchmarks and systems that have been proven to help organizations move from being just *good enough* to becoming a high performance organization.



The Seven Elements of High Performance™

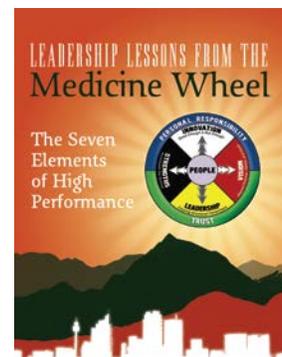
- ◆ Put **People** at the **Center** of everything you do; employees, customers, and community
- ◆ Build **Trust** as a **Foundation**
- ◆ Allow **Personal Responsibility** through **Individual Decision Making**
- ◆ Share a **Vision** of an **Aligned Purpose, Values, and Goals**
- ◆ **Create Emotional Connections** through **Leadership**
- ◆ Focus on **Strengths** and **Accentuate the Positive**
- ◆ Encourage **Innovation**, because **Good Enough is Not Enough**

For more on the Seven Elements of High Performance™ check out our book

Leadership Lessons from the Medicine Wheel: The Seven Elements of High Performance

ISBN 978-1-59932-111-0

Available on Amazon.com and BarnesAndNobel.com



Gary Lear

About Gary Lear, President and CEO

Dynamic thought leader in the areas of organizational performance, strategy and leadership, Gary Lear combines the teachings from his American Indian heritage with the most modern business research to help organizations achieve results by more effectively *managing the human side of business*SM. His approach is to help leaders learn how to create the high performance cultures and make the connections that unlock the hidden potential of the people they employ. With over 20 years of experience working with culture change and leadership development, Gary has worked with thousands of managers in all kinds of industries. Challenging, yet practical, Gary takes a different approach to help his clients get the results they want because he understands that the best organizations don't just do things differently; they do different things.

About Resource Development Systems LLC

Founded in 1997, **Resource Development Systems** LLC is an organizational performance consulting firm dedicated to helping its clients increase performance by being more successful at *Managing the Human Side of Business*SM.

At **RDS** we excel in developing the new critical competencies organizations need to prevail in the global business environment - skills like trust building, collaboration, and innovation. These skills can never be outsourced, replaced, or made obsolete, and they are absolutely key to competing successfully in the world today.

Our development programs are always designed to align people's skills and behavior with organizational strategies to create high performing organizations. That means you have the ability to shape your workforce in alignment with your organization's Vision and its strategies, because our solutions give you a complete system for creating the results you want.

We know change begins with insight, takes shape through action, is intensified by focus, and is fueled by ongoing success.

The Seven Elements of High Performance™ and Payroll Efficiency Factor™ are the property of Resource Development Systems LLC. All rights reserved.

If you would like to learn more about how you can apply the Seven Elements of High Performance™ in your organization and help it create a high-performance workplace where people want to come to work and excel; where the organization not only achieves its goals, but also achieves significance; then please give us a call. We will be happy to talk with you about your needs.

Contact Resource Development Systems LLC for more information.

934 Falling Creek Dr.
Macon, GA
31220

(478) 254-3155
(888) 909-6194
info@rds-net.com

www.ResourceDevelopmentSystems.com

