

Employee Engagement Boosts Earnings

(Excerpt from Gallup Management Journal, June 2007)



In a recent study by Gallup Management Organization, (June 2007), results showed that in addition to growing faster than below-average-engagement organizations, earnings per share for top-quartile organizations outpaced earnings per share for their competitors **by 18% during the study period.**

Gallup's meta-analyses present strong evidence that highly engaged workgroups *within* companies outperform groups with lower employee engagement levels, and the recent findings reinforce these conclusions at the workgroup level.

The meta-analysis study shows that top-quartile business units have **12% higher customer advocacy, 18% higher productivity, and 12% higher profitability** than bottom-quartile business units. **Conversely, bottom-quartile business units experience 31% to 51% more employee turnover, 51% more inventory shrinkage, and 62% more accidents** than those in the top quartile of workplace engagement.

"These aggregated patterns show that engaged employees are more likely to stay with their organizations, are less likely to steal or experience accidents on the job, and are more likely to please customers and be highly productive," says Harter, who coauthored a book on employee engagement, *12: The Elements of Great Managing*. *"It all adds up to higher profitability, which over time, influences earnings per share."*

This research into earnings per share provides powerful proof that employee engagement correlates to crucial business outcomes. Not all shareholders or prospective investors are able to study the culture of the companies they are investing in. That's why this company-level information is a valuable communication tool for company leaders to provide to shareholders and other business leaders.

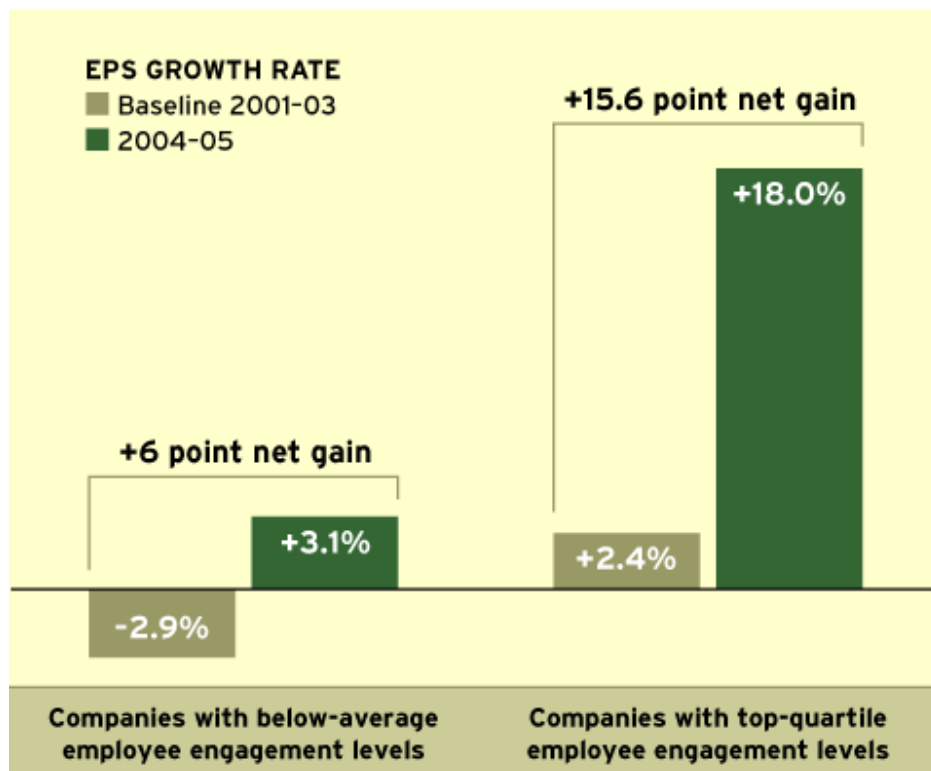
As Rick Elias, President, Transitions Optical, whose company Gallup described as ‘**growing at 90 miles an hour, but in third gear,**’ is quoted as saying,

*‘We weren't losing our employees out the door, we were losing them **in** the door. They were staying with the company, but they were "checked out" and just going through the paces. We didn't have them mentally engaged.*

More importantly, the ratio of engaged to actively disengaged employees also increased from 1.16:1 to 3.60:1 during this same time frame. The U.S. average is 1.87:1, so we're doing well. Meanwhile, our compound annual growth rate (CAGR) for sales increased 14% between 2000 and 2006, earnings before interest and tax (EBIT) increased 23%.’

ENGAGEMENT AND EARNINGS PER SHARE

Gallup recently researched the impact of employee engagement on the most important measure of a company's stockholder value: earnings per share (EPS). Gallup compared engagement at the company level with EPS for publicly traded companies in its engagement database. From this comparison, Gallup found EPS grew 2.6 times more among publicly traded companies with top-quartile employee engagement levels than among publicly traded businesses with below-average engagement



Note: Percentages based on median values in each group
Source: Gallup

Graphic by Tommy McCall

Source: Gallup Management Organisation, June 2007