Values that are Not Embedded Cost Business Billions

By Doug Eatwell
COO, Consilient Inc., June 2014

Staff Replacement Is One of the Biggest Costs Often Overlooked by Employers

A report released by the Hay Group in 2013 predicts that voluntary employee turnover is set to rise sharply as the world's economies return to growth. In North America, the report forecasts average turnover of 23% for the five years from 2013 to 2018[1].

Given that this is more than two-and-a-half times the 2011 voluntary separation figure of 9% reported by SHRM[2], the term 'sharp rise' would seem to be an understatement.

So what do these figures mean for employers? To answer this, let's try to figure out how much it would cost to lose nearly a quarter of the workforce in a single year. Estimates of the cost to replace an employee vary widely depending on sector, skills, seniority and experience but it is generally accepted to lie somewhere between 20% and 150% of annual salary. A good, conservative figure would be 50%.

With a combined US/Canadian (employed) workforce of around 160 million and average salary of $46,000 per annum, employee turnover of 23% would translate into a direct cost to North American organizations of close to $850 billion per year.

Additionally, Gallup estimates that the United States incurs an annual penalty of between $450 billion and $500 billion arising from the suboptimal productivity of a largely disengaged workforce[3].

These are big numbers. Even if the expected rate of churn is overestimated by a factor of two, the price tag associated with employee disengagement – bearing in mind that voluntary separation is the end game for disengaged staff – comes close to a trillion dollars per year. It's no wonder that employee engagement consulting is a multi-billion dollar industry[4].

The Values Effect: A Newly Identified Driver of Employee Engagement

Organizations typically measure engagement through annual employee surveys designed to identify weaknesses in leadership, management, culture and business processes. Engagement itself can be defined in a variety of different ways, depending on the specific theory or model being followed. In fact, since the 1990s, engagement consultants have compiled seemingly endless lists of key drivers of employee engagement, including attributes such as role clarity, confidence in leadership, recognition and reward, empowerment, respect, training and development opportunities, to name only a few.

Notably absent from these lists, however, is the effect of the organization's *values* on the employee – more specifically, the degree to which the organization lives up to its core values appears to be significant.

Core values are often defined as the guiding principles and beliefs that shape all decisions within an organization, but they inevitably also shape employees' *expectations* about the way their organization ought to behave. Dissonance – and disengagement – occurs when employees are led to believe that a certain outcome can be reasonably expected, and then a different outcome actually takes place. For example, an organization that espouses *Quality* as one of its core values might reasonably be expected to support a staff member's decision to delay delivery of a sub-standard product so that the deficiency can be rectified rather than send the product out and disappoint the customer. If that staff member is then penalized for taking such a decision or if the decision is subsequently reversed by a manager, serious dissonance is likely to occur.

A North American study conducted in 2014 by Consilient Inc. shows that the degree to which an organization embraces and applies its core values, has a strong and direct bearing on employee commitment, engagement and ultimately, retention.

Their 'Values Effect Model', which employs a framework of 56 universal organizational values, provides the first quantifiable link between core value implementation and bottom-line metrics. Based on this model, it is estimated that the *'Values Effect'* could account for as much as one third of voluntary staff turnover. Moreover, the model suggests that even a modest gain in the aggregated 'values score' of North American employers could reduce staff turnover and save these organizations around $45 billion per year collectively.

Although more difficult to quantify, the attendant gains in productivity arising from a more engaged workforce are likely to be of a similar order of magnitude.

Just the Tip of the Iceberg?

Clearly, reduction of employee replacement costs is just one benefit accruing to organizations that live by their core values. Falling within the broader concept of employee engagement, staff retention fits neatly into one of the five main reasons given by Lynn Sharp Paine for the rising interest in values[5]: namely improved *organizational functioning*. This refers to improvements in efficiency and productivity brought about by instilling a positive set of values into the organization and, as this article demonstrates, the financial advantages of such improvements can be substantial.

At least two of the other reasons for pursuing a values-based strategy cited by Ms. Sharp Paine, namely *risk management* and *market positioning*, promise bottom-line rewards of similar magnitude, but those are subjects for a different discussion.

Doug Eatwell
Chief Operating Officer
Consilient Inc.
www.consilientinc.com
+1-416-500-1615
doug.eatwell@consilientinc.com

Consilient Inc. works with partner consultants to help senior executives solve complex business problems. The company develops models, creates algorithms and establishes knowledge bases that allow hidden or underlying relationships between measurable variables to be identified and addressed.

References:

[1] The Hay Group (2013): ***Preparing for Take-off***

[2] SHRM Customized Benchmarking Database (Dec 2012): ***Executive Brief: Tracking Trends in Employee Turnover***

[3] Gallup Inc. (2013): ***State of the American Workplace***

[4] Bruce Bolger, President, Enterprise Engagement Alliance (Jan 2013***), New Market Report Hugely Underestimates the Size of the Engagement Field***

[5] Lynn Sharp Paine: ***Value Shift***, McGraw-Hill, (2003)