



May 2022



The benefits of investing in People

Where should companies invest to improve the employee experience?



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Introduction: investing in the employee experience makes sense

A good employee experience has value

The employee experience is the sum of all perceptions an employee has about the interactions with the organisation he or she works. It is about the journey of an employee through an organisation,¹ from recruitment to exit. It includes everything from contacts with colleagues and clients and the compensation package to the physical work environment. If the employee experience is optimal, an organisation is ideally positioned to attract and retain the talent they need.

Empirical evidence shows that if the employee experience is managed well, talents feel more attracted, are healthier, and contribute more to the (financial) results of an organisation. Moreover, there are strong indicators that the subject of employee experience is rising on the agenda of investors in terms of a bad employee experience being a risk that destroys (stock) market value. Apart from that: it is in society's interest that employees can reach their retirement age in a good and healthy way and in balance with their private life. In other words: a good employee experience has value.

Hard evidence that investing in employee experience really works

There is now a reasonable consensus among modern organisations that it makes sense to invest in the employee experience. This report, however, provides hard evidence that investing in employee experience really works. We show that investing in employee experience has a positive influence on the financial performance of organisations. We also make clear that investments in different elements of the employee experience have different effects, which provides a basis for a well-considered mix of interventions.

From research we know that investments in the employee experience frequently fall short and that there is a need for help for making informed and effective decisions: according to one global report organisations spend on average more than 2,200 euro per employee per year on elements that contribute to the employee experience, such as flexible work policies, workplace redesigns and learning and development opportunities. However, only thirteen percent of employees indicate that they are fully satisfied with their experience.²

It makes economic sense to invest in people

What we do not know is what effort and thus costs organisations should make to get the drivers (which are decisive for the employee experience) at the right level. This is dependent on the individual organisations: they should take baseline measurements to determine the level of their drivers and then decide on specific interventions to raise their employee experience. The value of this research is that it enables us to substantiate a popular claim that it makes economic sense to invest in people.

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1) The endnotes of this report, including the references, are listed on [page 22](#).



The main conclusions of this report

In this report we found the answer to the question what the financial returns are of targeted investments in employee experience. This question is relevant because investments in employee experience will have a positive influence on the performance of organisations when invested in the right way. Moreover, research shows that companies often do invest in their employee experience, but not always in the way that is most effective.

What we found out:

- A good employee experience is beneficial for organisations. It leads to **lower absenteeism** and **turnover** and **higher productivity**. These outcomes are directly linked to its financial performance.
- We found eleven key elements (**the drivers**) that can drive employee experience in a positive direction. These are: autonomy, reward, development opportunities, leadership, training, CSR policies, work environment, schedule satisfaction, stress, well-being and diversity.
- Analysing these drivers makes clear that they have a **relative importance**: one has more influence than the other on the employee experience and thus on productivity, absenteeism and turnover.
- From this it logically follows that investments in these drivers do also lead to different results: we show **to what extent** improvements in the drivers lead to improvements in absenteeism, turnover and productivity and thus to improvements in the financial performance of organisations.
- Out of the eleven employee experience drivers we examined, **well-being, developmental opportunities** and **training** will lead to the best outcomes in terms of benefits. Expressed as a percentage of total turnover, investments in these three drivers can yield **4.9% percent**. Investing in all eleven drivers could yield **12.6 percent** of total revenue.
- Organisations will always first have to **analyse** very carefully how their employees experience (or perceive) the various elements in their work. Investing in factors where a company is lagging behind will yield a greater return than investing in areas where a company is already performing well.



A good employee experience brings benefits for organisations

Happy, engaged employees are more productive, healthier and stay longer...

Both employee and employer gain from a positive employee experience.⁴ The former can enjoy more work satisfaction and endure a higher level of well-being. The latter will see an increase in productivity, lower employee turnover and lower absenteeism, resulting in increased revenue and decreased personnel costs. In our analysis we focus on the company side of the benefits and the effects on these three outcomes. As we do not directly consider the benefits to the employees, we are probably underestimating the total benefits that improving the drivers will bring.

Productivity	Refers to how much an individual employee produces. Employee productivity depends on having the resources to perform tasks properly, employee qualifications and employee motivation. In this research when we refer to productivity we mean the average productivity of an employee.
Turnover	Employee turnover refers to employees leaving the company. Turnover might be involuntary, when the company prematurely ends the employment contract or decides not to renew it, or voluntary, when the employee takes the decision to leave the firm. In this research, we focus on voluntary turnover and how companies can reduce it. Voluntary turnover is usually undesired by companies, resulting in open vacancies that put additional pressure on other employees and increasing costs in terms of hiring and training.
Absenteeism	Absence at work might be planned, such as when the employee goes on holidays or parental leave, or unplanned, for example when the employee takes sick leave or simply does not show up to work without providing a reason. Throughout our analysis we focus on the second type, unplanned absenteeism. Unplanned absences add to workload, increase stress, disrupt the work of others, hurt morale and reduce the quality of work.



Both employee and employer gain from a positive employee experience.

... and this is directly connected with an organisation's financial performance.

The difference in team **productivity**⁵ between lowest performers (bottom quartile) and highest performers (top quartile) is fourteen percent.⁶ Part of this is due to intrinsic differences in the employees, but part derives from factors that managers can influence, such as the ones we call "drivers".

The cost of **turnover** is estimated at around thirty percent of an employee's annual salary. If we combine this number with the fact that, in the US, more than a quarter of employees voluntarily left their companies in 2019 the magnitude of turnover costs for companies becomes clearer: more than seven percent of total workforce salary.⁷

We estimate that a single day of **unplanned absence** of an employee can cost a company more than four hundred euro. The direct costs of paid time off due to sick leave are estimated to be more than six percent of total annual payroll.⁸ A large part of this comes from unplanned absences, which could be reduced with efficient company practices.



Drivers influencing employee experience

Drivers that impact productivity, turnover and absenteeism

There is by now a host of academic literature that indicate that employers have several tools, related to terms of employment and working conditions that they can use to bring about a better employee experience. These tools affect different aspects that are related to the employee experience. In this report, we refer to these tools as “interventions” and to the broader aspects as “drivers”.

Various drivers can influence employees’ experience. Based on extensive research, we have identified the drivers that have the most impact on productivity, turnover and absenteeism and so on the company’s financial performance.⁹

These drivers have been measured based on employees’ self-reported perception of them. This distinction is important, as companies can invest in the drivers themselves, or in shaping employees’ perceptions of them. Take for instance the driver of compensation and benefits. Companies can invest in improving the driver itself (such as by increasing compensation and benefits) or by investing in processes that improve employees’ perception.





Employers have several tools, related to terms of employment and working conditions that they can use to bring about a better employee experience.

The Drivers and their definition

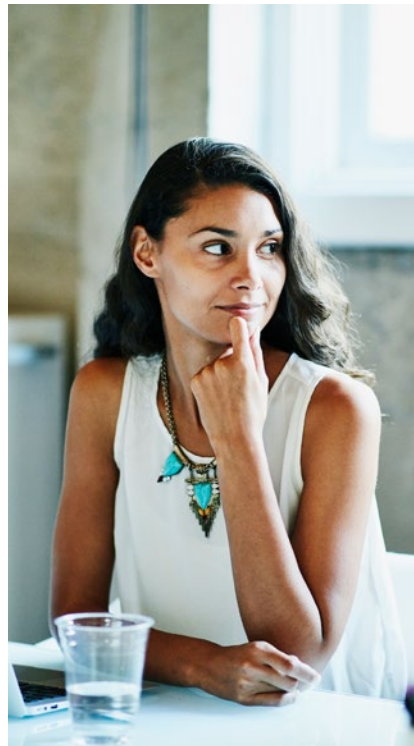
Autonomy	Degree to which employees feel they have independence, flexibility, discretion, and control in when and how to perform their jobs.
Compensation and Benefits	Includes fixed remuneration, variable financial bonuses and other benefits offered by the employer.
Development opportunities	Opportunities for career advancement, in terms of learning new skills and promotion opportunities.
Diversity Practices	Policies and practices that respond to the growing demand and wish for equal rights and opportunities of a more diverse workforce in terms of gender, ethnicity, sexual orientation, religion, background and disabilities.
Leadership	Quality of exchange relationships between managers and direct reports. High-quality relationships should reflect trust, respect and loyalty. Leaders of high-quality exchange relationships facilitate accomplishment of work goals and stimulate personal development, finding the balance between support and employee independence.
Training	The intentional acquisition and development of technical and personal skills required to perform work effectively. Improvements in training may take the form of better training or more training.
External Corporate Social Responsibility	The behaviour of corporations to protect or promote social welfare beyond the direct interests of corporations and their stakeholders. External CSR refers to social responsibility actions targeted at the local community, natural environment and clients. Internal CSR refers to the actions that corporations take to satisfy the expectations of employees, improve organisational fairness and promote the growth and development of employees. To minimise the overlap with other drivers, in the present study we focus on external CSR.
Work environment	Work environment is related to the climate of a particular organisation. In a good work environment, employees have access to the facilities to do the work tasks, comfortable workplace, safety, and – when needed – quiet surroundings. Psychological climate and organisational culture are also elements found to describe work environments. Includes having a good relationship with colleagues, creating a supportive environment.
Flexibility and schedule Satisfaction	Considers the ability to influence working schedule, to change working schedule and overall satisfaction with schedule. Higher ability to decide not only on hours of work, but also on the place where to work from is also part of this driver.
Workplace Stress	For this analysis, we consider job hindrance stress or stress from workplace that is perceived to be damaging to individual work performance.
Well-being	A feeling of happiness felt by people based on a sense of security and satisfaction.

A framework to measure the relative importance of the drivers

Determining the relative importance of the drivers

We have now seen the importance of employee experience while also showing the drivers that greatly influence the employee experience. The next step is to determine the relative importance of these drivers. After all, the purpose of this research is to find an answer to the question of which drivers employers should invest in to increase their employee experience.

The intermediary role of employee engagement



What is employee engagement?

Employee engagement is defined as the extent to which employees are motivated to contribute. This could be expressed through their dedication or interest in the job, through the vigour and energy they bring to the job, and even through how well they can focus on the job.

Apart from the expected benefits of higher motivation and energy, engaged employees are also better positioned to act autonomously, a crucial behaviour at a time when increasing complexity is making it harder for employers to specify every detail about what is expected in a job. In addition, engaged employees also have better performance in tasks that are outside of their role and are likely to be more creative.

Naturally, all this translates into better results for companies. But this is not the full story as the benefits are not only for the companies. Engaged employees also report higher well-being, health and life satisfaction.



The outcomes that companies can achieve depend greatly on how the drivers influence them.

We use an analysis framework that intends to measure the drivers of employee experience and indicate the impact each one of them can have on the outcomes (productivity, absenteeism and turnover).

Often, employee engagement acts as a mediator between the drivers and the outcomes. For example, an improvement in autonomy increases employee engagement, which positively affects productivity, absenteeism and turnover.

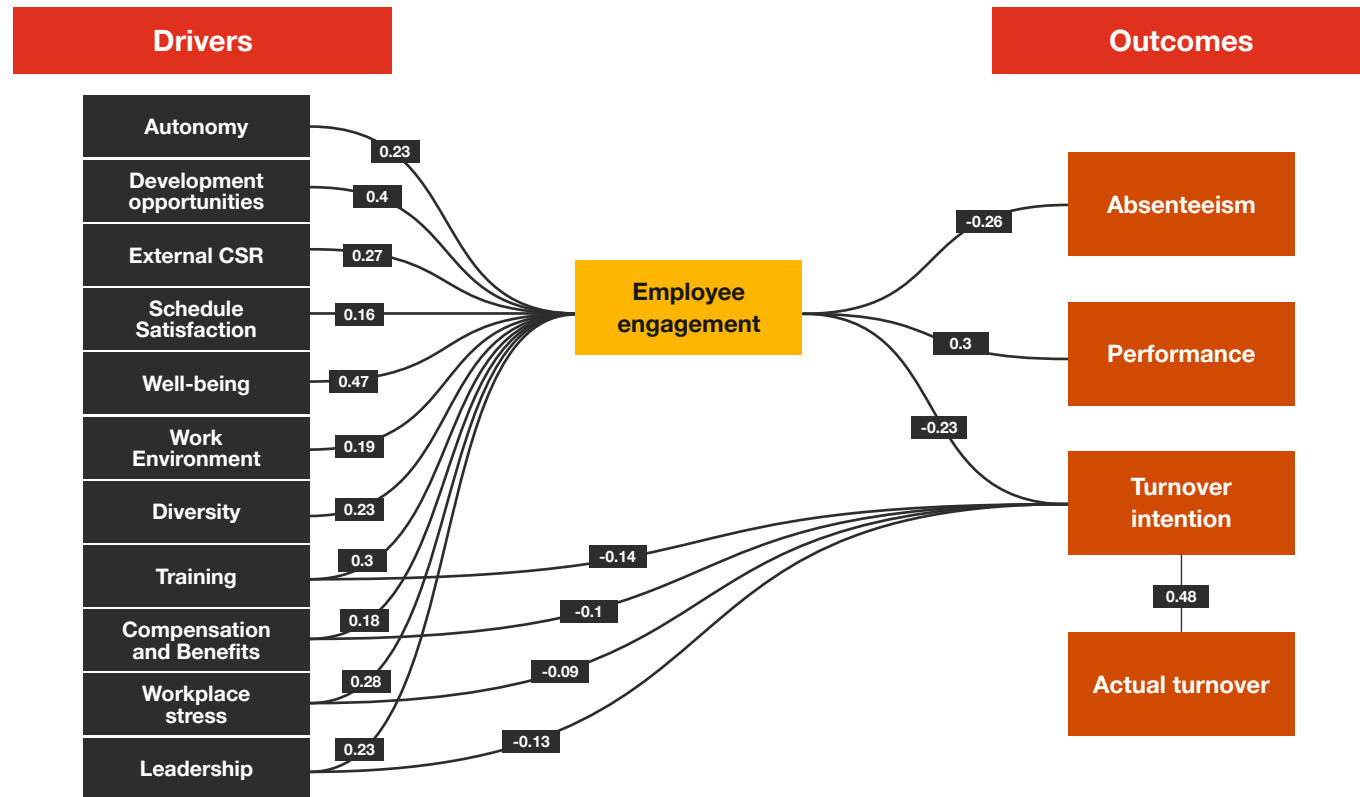
Mediation might be full, when the effect of the driver on the outcome happens only through employee engagement, as it is the case for autonomy, or partial, when there is still a direct relationship between driver and outcome, as it happens for training. This reasoning for each driver provides the foundation of our theoretical framework.

Quantifying the relationship between the drivers, employee engagement and outcomes

The outcomes that companies can achieve depend greatly on how the drivers influence them. In order to analyse this, we studied the relationship between all the drivers, their combined impact on employee engagement, and in turn, its impact on various outcomes.

The relationships are quantified by means of coefficients, which measure the change in an outcome due to a change in the driver. When looking at what could change the driver we are looking at stages of improvement. For example, some companies don't have any infrastructure supporting training programs and would benefit, as the coefficients suggest, from offering them. This would be improving the driver by one level, and having an effect of 30 percent on improving one level of employee engagement. This, in turn, would increase the productivity by 30 percent with a total indirect effect of 9 percent (0.3×0.3) of training on productivity.

Direct and indirect relationship between drivers and outcomes ^{10,11}



However, this is just unit impact. What does it mean to improve productivity 14.1 percent from average to high (by improving well-being)? And does this mean that investing in some drivers is more effective than investing in others?

In the following chapter, we look at this question and the considerations that can help companies choose between different ways to intervene in the drivers.



The benefits of improving employee experience

In the previous chapter we have quantified the relationship between the drivers and the outcomes (absenteeism, turnover and productivity), which has given us insights in the impact that can be made by improving each driver.

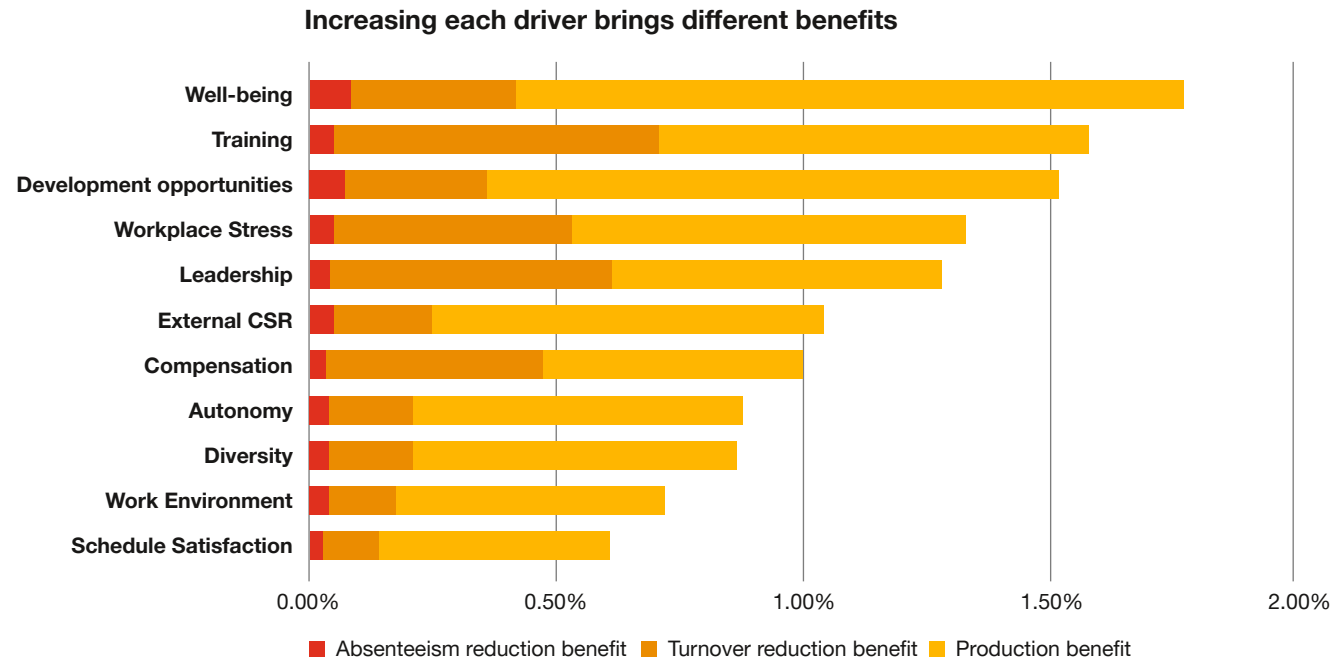
In practice, the benefits that a company can achieve by investing in their employee experience depend heavily on the industry, size of the company, their cost structure, and several other variables. However, for simplicity, we have constructed our model using industry averages, and using a linear relationship with company size. This means that the benefits we estimate for a company with a thousand employees, will just decrease ten-fold if we did the same analysis for a company with a hundred employees.

The below chart illustrates the benefit that can be achieved by improving the drivers by one unit, by a company of a thousand employees. Results are reported as percentage of estimated total company revenue.¹² To illustrate, let's take compensation. Improving compensation from average to high would bring financial benefits of one percent of total revenue. A bit more than half of it would come from an increased productivity – represented by the yellow part of the bar.

Investing in employees pays off :

- Investing in well-being yields the highest benefits
- Investing in all eleven drivers could yield 12.6 percent of total revenue.
- If we assume that the average spending of 2,200 EUR per employee (the number we mentioned in our introduction as the average companies spend on their employees) in employee experience is spent well, and will improve the three most important drivers (well-being, developmental opportunities and training) to the next level, this will lead to benefits that sum up to 5,145 EUR per employee. This means that every euro spent on an employee will lead to a benefit of 2.34 EUR for the 'average company' we use in our calculations.

Drivers and their relative benefits on absenteeism, turnover and productivity



- Among all drivers, improving **schedule satisfaction** from average to high has the smallest benefit. It is however important to note that our analysis is based on studies from before the COVID-19 pandemic and it is quite possible that the dynamic for this driver has changed since then. People have gained flexibility in terms of working place and hours and taking this back can create employee dissatisfaction.
- On the opposite side is **well-being**. The benefit of improving well-being from average to high is more than twelve percent larger than a similar improvement for any other driver. This is the case probably because well-being is a broad concept, which is affected and correlated to many different aspects and to other drivers. An improvement in schedule satisfaction or compensation, for example, would possibly spillover to well-being.



Training, workplace stress, leadership and compensation have a direct effect on turnover.

- Training, workplace stress, leadership and compensation are the drivers which not only have an impact on outcomes through engagement, but also have a direct effect on turnover. This explains why, in the chart on the previous page, the orange part of the bar (turnover reduction benefits) is proportionally larger when compared to other drivers. There is no straightforward explanation as to why these drivers have a direct relationship with turnover, but we can hypothesise:
 - An improvement in **compensation** directly affects turnover possibly because it provides a clear incentive for employees to stay at the company that goes beyond their increased level of engagement: if they leave, it will be harder for them to find a salary as good somewhere else. It is possible to imagine that even employees with low levels of engagement might be reluctant to leave if their salaries or benefits are high, the so-called “golden handcuffs”.
 - The reasoning for **training** could be similar. If employees’ perception of training opportunities is improved, there will be an increase in employee engagement, which will affect the outcomes. The direct effect of training on turnover arises because employees will use the training opportunities offered to develop their knowledge and skills, refraining from leaving the company. The increase in engagement would only partially capture this.
 - The direct effect of **leadership** on turnover might come from the commitment to the manager that better leadership creates. An improvement in perceived leadership support would result in higher engagement and, indirectly, better outcomes but also directly in lower turnover rates because employees would develop a feel of commitment directly to their manager, not wanting to break the relationship by leaving the company. The same reasoning would not result in a direct relationship between leadership and productivity because it is an outcome of different nature. While higher productivity requires an everyday effort from employees, the decision of leaving the company is a single action. This could explain why the relationship between leadership and productivity happens only through employee engagement.
 - Finally, the direct relationship between **workplace stress** and turnover might happen because it is the only driver that is more associated with the physical/psychological costs of work than with aspects that reduce these costs. This would mean that workplace stress is strongly related not only to engagement, but is also related to turnover.

Making the most effective investments

The results shown in the chart above certainly provide valuable insights, but it does not present the full picture. To be able to calculate the return of investing on the drivers, it is crucial to know what types of interventions can be implemented to improve them. This allows us to estimate the costs of different interventions and compare them to the benefits brought in reduced turnover, reduced absenteeism and higher productivity.

Interventions to improve the drivers

There are various possible approaches to improve each driver. The right interventions should be decided based on inputs from employees and management. An intervention that works for Company A might have different results in Company B. In the table to the right we suggest some interventions for each driver, but there are certainly other alternatives.

Picking the right intervention is crucial

Picking the right intervention is crucial to achieving any of the benefits we talked about in the previous section. The adequacy of each type of intervention depends heavily on the context of implementation, from the initial level of the drivers to industry specific characteristics.

We will illustrate this with an example in the box below. As said before, we constructed our model using industry averages. From this average we created Company A which deviates in a couple of areas from the average. We use an example of a fictitious company because we can not generalise the impact of interventions, but the example allows us to see a practical example of how our research can be applied.

Possible interventions	
Autonomy	<ul style="list-style-type: none"> • Improve autonomous culture by leadership training • Team training
Compensation and Benefits	<ul style="list-style-type: none"> • Fixed Wage increase • Bonus increase • Improvement in benefits
Development Opportunities	<ul style="list-style-type: none"> • Development of a career progression plan • Employee rotation programme • Meritocratic culture
Diversity	<ul style="list-style-type: none"> • Diversity and inclusion training • Introduce diversity as a key factor in recruitment
Leadership	<ul style="list-style-type: none"> • External leadership training • Internal leader mentorship
Training	<ul style="list-style-type: none"> • Increase in the number of training hours • Investment in the quality of training
External Corporate Social Responsibility	<ul style="list-style-type: none"> • Implementing a CSR strategy or initiative • Improve disclosure of CSR strategy or initiatives
Work Environment	<ul style="list-style-type: none"> • Promote team integration • Invest in improving workspace
Flexibility and Schedule Satisfaction	<ul style="list-style-type: none"> • Increase timetable autonomy/flexibility • Increase location of work flexibility
Workplace Stress	<ul style="list-style-type: none"> • Eliminate or reduce the sources of stress • Increase awareness and stress management skills • Rehabilitation of workers that are suffering from severe stress
Well-being	<ul style="list-style-type: none"> • Providing a personal budget for well-being spending • Implementing a company culture that emphasises the importance of employee well-being

Influencing drivers at Company A

Company profile

Company A employs 1000 people. Total revenue of company A is approximately €97.5 million. Average employee wage at Company A is €50,000.00. Employees are divided into employees with no supervisory responsibility (eighty percent of total staff) and four different management levels (twenty percent of total staff):¹³

	Number of employees	Hourly average productivity
No supervisory role	800	€48
Team leader	86	€69
Middle management	92	€78
High management	20	€123
Executive board	2	€213
Total	1000	€54

Context of implementation

After conducting an internal research, the company found that their productivity is seven percent lower than industry average. This represents a lost revenue of more than €7.3 million per year. Employees miss on average ten days of work per year due to unplanned leaves, such as sick days, three days more than average. This difference represents a cost of more than €1.3 million per year.

Lastly, the internal research shows that the company's average voluntary turnover rate in recent years is five percent higher than industry average. This difference in turnover is fifty employees per year, which represents a turnover cost of €750.000 for Company A.

Following these considerations, the HR department suggests that all these three outcomes are connected to employee engagement. Further research into this shows that the level of employee engagement in Company A is particularly low. The next question is how can it be improved? To answer this question, the HR department conducts a large survey among all employees about their satisfaction regarding a number of factors ("drivers"), from autonomy to the firm's commitment to CSR. Based on these results, the company identifies two areas of improvement: well-being and training opportunities.

Well-being

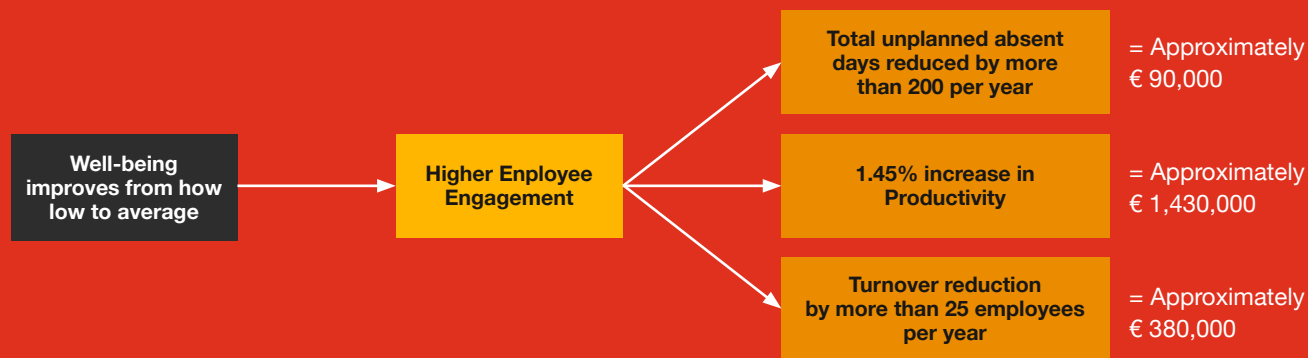
Keeping in mind the low scores of well-being shown by the survey, Company A considers interventions that could boost the well-being of the staff. Improved well-being would lead to better outcomes in the form of lower absenteeism, lower turnover and higher productivity.

If the cost of the intervention is smaller than the benefits, it would be easy to justify implementing the intervention to Company A board. But is this the case? To answer this question, the HR department needs to find the answers four questions:

1. What are the benefits of improving well-being?
2. What is the cost of an intervention that intends to improve well-being?
3. What is the impact of the intervention on well-being? And, after answering the first three:
4. What is the return on investment?

Potential benefits of improving well-being¹⁴

Company A concludes that improving well-being from low to average levels might bring very large financial benefits, as described in the figure below. Higher well-being leads to higher employee engagement. More engaged employees have less absent days, lower turnover and are more productive. Total benefit could exceed €1,900,000, almost two percent of total revenue. The largest part, more than three quarters, would come from an increase in productivity.



The next question is how well-being can be improved and what the cost of such intervention would be.

Potential costs of the interventions

Company A should estimate the cost of an intervention before implementation. It could, for example, provide a well-being budget of €1,000 to every employee, at a total cost of €1,000,000, a little more than one percent of total revenue.

The numbers described above are still not complete for Company A to reach a final investment decision. It can quite accurately estimate the cost of the intervention and the benefit of improving well-being but there is still a key link missing: What is the impact of the intervention on well-being?

Impact of the intervention

Estimating the impact of this (or any intervention) on well-being (or any driver) is complicated. The effectiveness of an intervention depends on its design but also on the context in which it is implemented. What works for one company, might not work for another. Each company should make a careful analysis of its context to decide if the intervention is expected to have a positive return on investment. Considering this difficulty, below we continue our example exploring hypothetical situations.

Return on Investment

Going back to our example, if we assume the well-being budget is enough to improve well-being from low to average, there is a return of around €0.90 for every euro spent. If company A expects to be in this situation, clearly it should make the investment.

But if we assume this intervention improves well-being by just half the way from low to average, the cost of the intervention (€1 million) is higher than the benefit (around €950,000). This does not mean that Company A should completely reconsider implementing a well-being budget. It is still possible that a smaller well-being budget has a positive return on investment. The reasoning is that just having a well-being budget is probably not enough to make satisfaction with well-being reach high levels in a company. In other words, there would be a limit in how much increase can be reached with an intervention.

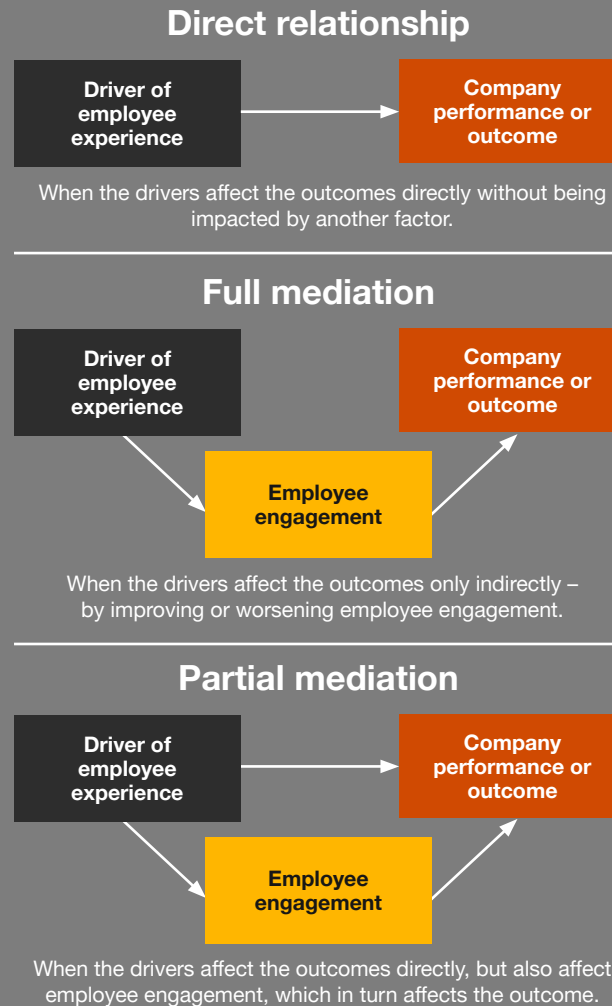
For Company A, it might be the case that while a well-being budget of €1,000 moves well-being half the way from low to average, a smaller well-being budget of €500 might have eighty percent of that effect, which would result in a positive return on investment (more than €0.5 for every euro spent). In this sense, companies should think at the margin when investing in the interventions. In this specific example, if company A has a positive return in increasing the well-being budget by one additional euro, it has a clear incentive to do so.

Appendix 1: Methodology

Our framework is based on the job demand-resources (JD-R) model.¹⁵ This model has one big advantage: It is flexible, allowing for the incorporation of a wide range of drivers depending on business characteristics. For the current analysis we use a fictitious ‘average’ industry, but research using this framework could be applied in different contexts and for specific sectors.

As we focus on factors that are within firm control, we have adapted the model to our goal. In-line with the original JD-R model, we have considered Employee Engagement as a possible mediator between the drivers and outcomes. We did not include Burnout as a possible mediator, as is done in the original JD-R model, because we are focusing mainly on resources, so there is no need to add extra complexity to our framework.

The illustration below summarises the various relationships used in our approach.



Why do we focus on these drivers?

Many different factors within firm control affect the outcomes. We have included autonomy, compensation and benefits, development opportunities, leadership, training, external corporate social responsibility, work environment, schedule satisfaction, workplace stress and well-being. These are drivers usually considered in the academic literature and are relevant to most companies. We also have included diversity, workplace stress and well-being because PwC expertise indicates that employees put high value on them and companies can take initiatives to influence them.

Drivers are measured based on employees’ perceptions of them and are, therefore, subjective measures. The same applies for employee engagement which, in the majority of our references, is constructed using the Utrecht Work Engagement Scale (UWES).¹⁶ The use of a consistent measurement is important because it allows us to compare the results of different studies more easily.

Why do we choose these outcomes?

We have focused on productivity, absenteeism and turnover as outcomes because there is evidence that the three have significant impact on companies' financial performance. Turnover and performance are often analysed in the JD-R literature. It is also important that all outcomes considered can be quantified and monetized. Performance is measured through a questionnaire on perceived performance. Turnover intention refers to the desire of employees to leave the company. It is positively associated with actual turnover, a dichotomous variable, since an employee leaves the company or stays¹⁷. Absenteeism is measured in days absent from work.

Where do the coefficients come from?

Since we did not collect data directly, we extracted the coefficients measuring the relationship between drivers and outcomes from previous academic works. We use different sources because the literature usually focuses on only one of the drivers at a time.

As we found variability in the coefficients reported in different studies, choices needed to be made. This was expected since the sample of each paper typically focuses on employees of specific industries, who have different characteristics – from age to average tenure. It is no surprise that what drives a young employee in software development differs from what drives an employee close to retirement in the metalurgic sector. Even so, for most drivers the coefficients are consistent, varying less than 15%. Variation is larger when the definition and boundaries of the driver are different between academic research, as it is the case for workplace environment and stress. To select the references adopted to generate our estimations, we considered four factors:

1. The conceptual definition of the driver, avoiding overlapping concepts as much as possible.
2. The methodology adopted to measure employee engagement, giving preference to the use of the Utrecht Work Engagement scale.
3. The academic relevance of the publication
4. The consistency of the coefficients with other studies.



Table A1 - Drivers coefficients to Employee Engagement and references

Drivers and Engagement		
Driver	Std β	Source
Autonomy	0.23	Halbesleben (2010)
Compensation	0.18	Hu and Schalfeli (2010)
Development opportunities	0.4	James et al (2010)
Leadership	0.23	Agarwal et al (2012)
Training	0.3	Guan and Frenkel (2019)
External CSR	0.274	Jia et al (2019)
Work environment	0.19	Hanaysha (2016)
Schedule satisfaction	0.16	James et al (2010)
Workplace Stress	0.276	Karatepe et al (2018)
Well-being	0.467	Rasool et al (2021)
Diversity practices	0.228	Jeronimo et al (2020)

Table A2 - Employee Engagement coefficients to Outcomes and references

Engagement to outcomes			
Outcome		Std. Deviation (of the outcome)	
Performance	0.3		Halbesleben in Bakker and Leiter (2010)
Turnover intentions	-0.23		Agarwal et al (2012)
Turnover intentions x Actual turnover	0.48		Hendrix (1998) ¹⁸
Actual turnover	-0.1104	0.49	Agarwal et al (2012) and Hendrix (1998)
Absence	-0.26	1.72	Soane et al (2013) ¹⁹

The table below indicates the impact of improving the drivers on the outcomes via employee engagement.

Table A3 - Drivers coefficients to Outcomes via Employee Engagement

Drivers and Outcome via Engagement				
Driver/Outcome	Productivity increase when driver improves from low to average	Turnover intention	Actual Turnover	Absence
Autonomy	0.069	-0.053	-0.025	-0.060
Compensation	0.054	-0.041	-0.020	-0.047
Development opportunities	0.120	-0.092	-0.044	-0.104
Leadership	0.069	-0.053	-0.025	-0.060
Training	0.090	-0.069	-0.033	-0.078
Corporate social responsibility	0.082	-0.063	-0.030	-0.071
Work environment	0.057	-0.044	-0.021	-0.049
Schedule satisfaction	0.048	-0.037	-0.018	-0.042
Workplace Stress	0.083	-0.063	-0.030	-0.072
Well-being	0.140	-0.107	-0.052	-0.121
Diversity practices	0.068	-0.052	-0.025	-0.059

More details about the model

As the literature typically analyzes one or a few drivers at a time, we cannot discard the possibility that improving one driver will have spillover effects on other drivers. Our estimates do not take this into account. In fact, it is quite possible that spillover effects exist. This would mean that we are underestimating the financial benefits of investing in the drivers. For example, an intervention that succeeds in improving schedule satisfaction will probably also end up improving well-being, an indirect impact that we are not taking into account. We cannot overcome this problem yet, but the JD-R literature is still studying the interaction between drivers.

Coefficients reported are standardised. This means that, for example, an increase²⁰ in one standard deviation in Autonomy explains an increase of 0.23 standard deviations in Employee Engagement. We use standardised coefficients to be able to connect the different stages of our model as different references use different measures and scales. The use of standardised coefficients also allows us to compare the relative importance of each driver to some extent.

For simplification, we have adopted a linear model. This implies that the relationship between the driver and the outcome is the same independently of the starting point. In other words, the effect of investing in Autonomy, or any other driver, is the same if it was initially low or high.

How do we estimate the costs of absenteeism and turnover?

Turnover cost is estimated to be 30% of annual annual salary. This takes into account four factors: cost of termination, cost of replacement, vacancy cost (productivity lost in the days the vacancy is open) and learning curve productivity lost.²¹ Indirect costs of turnover, such as a loss of team morale when someone leaves the company, are not taken into account in our calculations, which means we use a conservative estimate of the costs.

The calculation is based on the European data from the Total Financial Impact of Employee Absences report.²² Paid sick days were 2.6 percent of total working days per employee. The cost of wages and salaries paid to employees on sick leave is the same 2.6 percent of the total payroll. 21.13 percent of the total direct costs (wage and salary) of absent days came from sick days. We assume that the proportion coming from sick days is the same for overtime costs and replacement worker costs. This would mean that overtime costs arising from sick leaves are 1.33 percent of total payroll and replacement worker costs are 2.28 percent of total payroll. In total, direct costs of sick leaves are on average 6.21 percent of total payroll.

How do we monetize benefits?

The next stage was monetizing the impact of improving the drivers on the outcomes. We destandardized absenteeism and actual turnover, so that the first is measured in days of absence and the second in probability of leaving the company. The average cost of an absent day is estimated at 750 Euro²³ and the cost of an employee leaving the company is estimated to be 14.000 Euro.²⁴ Combining these with the change in outcomes, we estimated the financial benefit of improving each driver for the first two outcomes. To estimate the benefit of an improvement in productivity, first we calculated that, in our hypothetical company, the difference in productivity between an average performer and a high performer is 10.250 Euro.²⁵ With this result, we could estimate the financial benefit brought by an improvement in the driver coming for higher productivity. We multiply the benefits for each employee by the number of employees of our fictitious company to calculate the total benefit to the firm.

How do we estimate the costs of improving the drivers?

To calculate the costs of improving the drivers, we use existing interventions and past studies as references. There are multiple ways to influence each driver and variations in possible interventions. For example, a leadership course might take more or less time and cost more or less per hour according to the provider. A company that plans to implement an intervention focusing on a specific driver should assess what are the alternatives and make its own cost-benefit analysis to make a decision. This is not a trivial task. An intervention that works very well for company A might have a much smaller effect, or even no effect at all, on company B. These effects are context specific. In this research, we consider a fictitious company and position it in a context that we believe the intervention would have the mentioned results, but these are assumptions as we cannot measure them in reality.



Endnotes

- 1 For more information about the Employee Experience: "[The Employee Experience: Helping people get excited to do their best at work](#)"
- 2 [Why Employee Experience Initiatives Fall Short](#)
- 3 Through this text we consider productivity to be the output per employee
- 4 [The employee experience: Helping people get excited to do their best at work](#)
- 5 Average employee productivity in a single team in a company
- 6 [Gallup \(2020\)](#)
- 7 [Work institute \(2020\)](#)
- 8 [SHRM \(2014\)](#)
- 9 More details are available in the Appendix 1: Methodology
- 10 For details on how each driver and outcomes are measured, refer to the methodology in the appendix
- 11 Autonomy: Halbesleben, J. R. (2010). A meta-analysis of work engagement: Relationships with burnout, demands, resources, and consequences. *Work engagement: A handbook of essential theory and research*, 8(1), 102-117.
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- 12 We estimate company revenue assuming employees have a productivity exactly equal to average productivity of Dutch employees, working on average 8h per day during 225 days per year.
- 13 The number of employees per management level is based on Smith, J. (2000). *Supervisory Duties and the National Compensation Survey. Compensation and Working Conditions*. Spring, 9-20.
- 14 Company A is a fictitious average company. For a company in a different context, the benefits might differ significantly. That is why an initial assessment of the company and its particularities is important.
- 15 In the Job Demand-Resources Model job demands (associated with physiological and/or psychological costs) and job resources (aspects that help in achieving work goals, reduce job demands or stimulate personal growth) affect job strain and motivation, which affect job outcomes. For more details on the job demand-resources model, check Bakker, A. B., & Demerouti, E. (2007). The job demands-resources model: State of the art. *Journal of managerial psychology*.
- 16 Schaufeli, W. B., Bakker, A. B., & Salanova, M. (2006). The measurement of work engagement with a short questionnaire: A cross-national study. *Educational and psychological measurement*, 66(4), 701-716.
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- 20 The only exception is Workplace Stress, where the coefficient expresses the effect of a decrease.
- 21 [Work institute \(2020\)](#)
- 22 [SHRM \(2014\)](#)
- 23 Estimated based on [Society for Human Resource Management. \(2014\). Total financial impact of employee absences in the US.](#)
- 24 The [Work Institute Retention Report](#) estimates that the cost of an employee leaving the company is about 30% of her annual salary. According to the OECD Better life Index, Dutch employees earn on average around 47.000 Euro.
- 25 Assuming employee productivity is normally distributed and using information from [Gallup \(2020\)](#) that there is a 14% difference in productivity between bottom and top quartile, we can calculate what is the monetary value of one standard deviation in productivity.

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