

The Financial Impact of a Positive Employee Experience



Executive summary

Employee experience is not just about feeling good at work. Our published studies have shown links between employee experience and retention, discretionary effort, and work performance.^{i,ii} This paper takes those linkages one step further and analyzes the relationship between employee experience and an organization’s financial outcomes.

Key findings

- Organizations that score in the top 25 percent on employee experience report **nearly three times the return on assets** compared to organizations in the bottom quartile.
- Organizations that score in the top 25 percent on employee experience report **double the return on sales** compared to organizations in the bottom quartile.

This study also reveals there is room for organizations to improve their practices, drive a more positive employee experience, and, ultimately, maximize their business performance.

Background to employee experience

The concept of employee experience is gaining mainstream popularity. In the past five years, Google searches for the term “employee experience” have increased 130 percent. However, validated measures of employee experience have been in short supply.

In light of this, industrial-organizational psychologists and experts in HR consulting from both the IBM Smarter Workforce Institute and the Workhuman Analytics & Research Institute undertook a large-scale research project to understand and measure what makes an optimal working experience for employees. This research resulted in the creation of the Employee Experience Index (EXI) that measures employees’ personal experiences at work in terms of belonging, purpose, achievement, happiness, and vigor. The IBM and Workhuman research found that employee experience is positively associated with employee work performance, discretionary effort, and turnover intention.

The Employee Experience Index has five dimensions:

Belonging – feeling part of a team, group, or organization

Purpose – understanding why one’s work matters

Achievement – a sense of accomplishment in the work that is done

Happiness – the pleasant feeling arising in and around work

Vigor – the presence of energy, enthusiasm, and excitement at work

Linking employee experience to organizational business outcomes

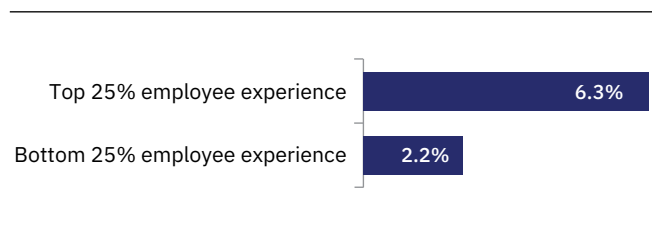
Following the discovery of positive associations with work performance, discretionary effort, and retention, the IBM and Workhuman team went on to look at how employee experience might be connected to organizational business outcomes.

This paper focuses on the relationship between employee experience and two of the most commonly used measures of profitability: return on assets (ROA) and return on sales (ROS).¹

- ROA, a ratio of net income to assets, is used to evaluate how profitable a company is relative to its total assets. The higher the ROA number, the better, because the company is earning more money on less investment.
- ROS is also known as operating profit margin. It is a financial ratio of operating income to sales. ROS calculates how efficiently a company is generating profits from its revenue. Organizations with high ROS show higher levels of efficiency.

The analyses reveal that organizations that score in the top 25 percent for employee experience see returns on their assets that are triple those that score in the bottom 25 percent (see Figure 1).

Figure 1: Employee experience and ROA



Source: IBM and Workhuman 2016 WorkTrends Survey (n=113 organizations)

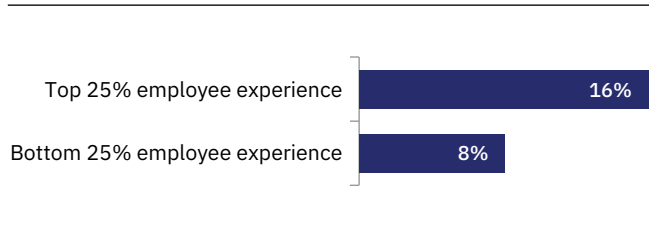
Note: two-tailed Pearson correlation, $r=0.23$, $p < .05$, $n=113$ organizations.

We collected data from multiple different sources. First, we collected employee data via our 2016 WorkTrends™ survey of more than 23,000 workers in 45 countries and territories, a cross-section of industries, thousands of different organizations, and all major job families. Based on answers to one of the survey questions, ‘the full formal name of the organization for which you work,’ we identified about 600 respondents from 113 different organizations. Second, we collected 2016 organizational financial performance data for the same 113 organizations from Yahoo Finance, Google Finance, MSN Money, and the companies’ annual reports. Finally, in 2017 we conducted an international survey of 247 HR practitioners with UNLEASH (formerly HRTech World). The employee experience data from this survey are shown in figures 3 and 4.

¹ In addition to ROA and ROS, we collected other financial outcomes including: total 1-year and 3-year shareholder return, Tobin’s q, Alman’s Z, and diluted earnings per share. The correlation results show that ROS and ROA are significantly correlated with employee experience and the others are not. More research with larger samples is needed to explore their relationships. In addition, to confirm our previous findings on employee engagement, we also looked into the relationship between employee engagement and financial outcomes. Consistently, ROS and ROA are significantly correlated with employee engagement. Total 1-year shareholder return is also significantly correlated with employee engagement, although it is not significantly correlated with employee experience.

The analyses also show that organizations that score in the top 25 percent on employee experience report double the ROS compared to organizations in the bottom quartile. Figure 2 presents the ROS for organizations that have either high or low EXI scores.

Figure 2: Employee experience and ROS



Source: IBM and Workhuman 2016 WorkTrends Survey (n=113 organizations)

Note: two-tailed Pearson correlation, $r=0.29$, $p < .01$, $n=113$ organizations.

Figures 1 and 2 show the relationship between employee experience and two important measures of organizational outcomes; ROS and ROA. They show that organizations with high EXI scores substantially outperform low EXI score organizations. While these results are correlational, and conclusions about causality cannot be asserted, they demonstrate that organizations whose employees have a positive experience in terms of belonging, purpose, achievement, happiness, and vigor also enjoy significantly higher levels of success as measured by ROS and ROA.

To further quantify the impact of employee experience on these business metrics, we conducted additional analyses. The results reveal that increasing the EXI score by a margin of 0.25 (on a five-point Likert agreement rating scale²) corresponds to 0.86 percentage-point improvement in ROA and a 1.81 percentage-point improvement in ROS (see Table 1).

Table 1: Impact on ROA and ROS of a .25 increase for EXI

Metric	Impact of a 0.25 increase for EXI
Return on Assets	0.86 percentage-point increase
Return on Sales	1.81 percentage-point increase

Source: IBM and Workhuman 2016 WorkTrends Survey (n=113 organizations)

Here is an example to explain what these numbers could mean in practice: Imagine if Company ABC’s sales revenue was \$600 million and its ROS was 15 percent in 2017. At the same time, Company ABC had an average EXI score of 3.50, measured on a five-point Likert agreement scale via an employee survey. According to our analyses, if Company ABC could increase its EXI score by 0.25 (from 3.50 to 3.75), its ROS could increase from 15 percent to 16.81 percent. Assuming the same sales in 2018, the associated increase in operating income would be \$11 million.

2 The five-point Likert agreement scale consists of the following anchors: strongly disagree (1), disagree (2), neither agree nor disagree (3), agree (4) strongly agree (5).

How to drive a positive employee experience

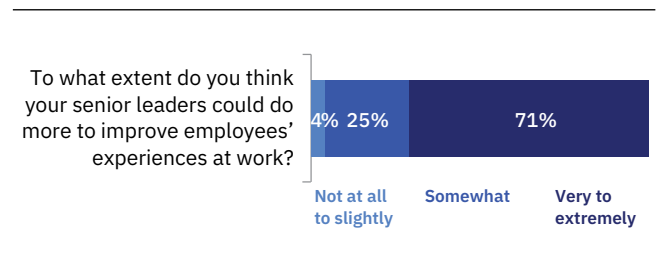
These analyses highlight the important role employee experience can play in enhancing firm performance, reflected in the achievement of greater returns on both assets and sales revenue. Many variables ultimately contribute to these metrics, but cultivating a positive employee experience is likely to be a contributory factor and has also been shown to be associated with individual worker performance, discretionary behavior, and lower attrition.

A growing body of research now points to the benefits of a human workplace for creating positive employee experiences. According to research from IBM and Workhuman,ⁱⁱⁱ a human workplace is primarily characterized by opportunities for:

- Meaningful work
- Empowerment and voice
- Feedback, recognition, and growth
- Coworker relationships
- Organizational trust
- Work-life balance

Senior leadership and managers play crucial roles in creating many of those opportunities and ultimately ensuring a positive and supportive work environment. However, as shown in Figure 3, there is some room for improvement. A majority (71 percent) of HR practitioners think that senior leadership could be doing more to improve employees' experiences at work.

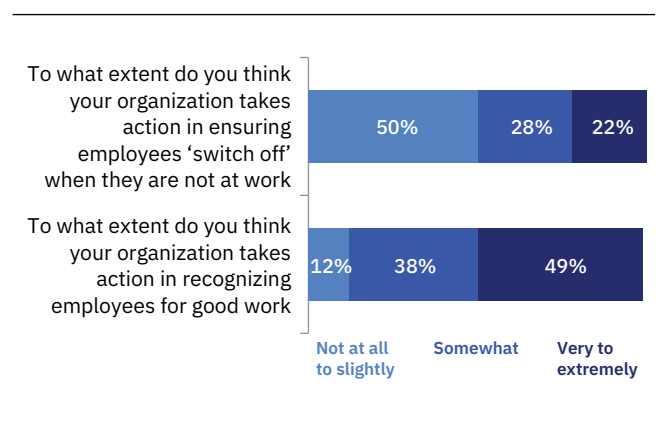
Figure 3: HR says leaders could do more to improve employees' experiences



Source: 2017 IBM and UNLEASH HR professional survey (n=247)

As highlighted above, two ways to improve employee experience are for workplaces to allow more opportunities for improved work-life balance and better recognition, feedback and growth. However, once again, according to HR practitioners, there is room for improvement. Less than a quarter (22 percent) say their organizations do enough to provide opportunities to recharge, and less than half (49 percent) say there is sufficient recognition of the good work that employees do (see Figure 4).

Figure 4: There is room to improve work-life balance and recognition



Source: 2017 IBM and UNLEASH HR professional survey (n=247)

When senior leadership ensures that employees feel appreciated and valued for their performance, work can become more meaningful, particularly where recognition is aligned to core values. When employees have the opportunity to recharge and work more flexibly, they can be empowered to work and connect in ways that best suit them.

As our previous research has indicated, these human workplace practices ultimately contribute to a positive employee experience and, as this research shows, to potentially enhanced financial performance.

Conclusions and recommendations

Our study extends research on outcomes related to the employee experience from the individual to the organizational level. In addition to correlations with individual performance, discretionary behavior and attrition, these analyses support the positive relationship between the employee experience and organizational financial outcomes.

Specifically, we found that organizations providing a positive employee experience outperform their cohorts three-fold for ROA and two-fold for ROS. These findings point to the importance of the employee experience in driving organizational efficiency and as an emerging source of sustained competitive advantage.

Several recommendations emerge from the current research, specifically:

- Leverage existing large-scale, global research on the EXI to understand the experience of employees within your organization across and within geographies and functions.
- Deploy innovative employee listening solutions to understand your organization's employee experience and the specific profile of human workplace drivers that are present in your organization, and which are areas of opportunity for improvement.
- Develop integrated talent strategies using HR technologies that are aligned to a human workplace and positive employee experience, beginning with senior leadership. Examples include AI-enabled recruiting and career development solutions that enable a fast, personalized and engaging experience.
- Leverage human and cognitive cloud applications that allow for a shared, yet personalized, experience within the workplace. Examples include social recognition, continuous performance development, and intelligent skills pathing.
- Track the employee experience against key performance indicators for your organization to demonstrate the value and return on human capital investments.

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To learn more about Workhuman, visit: workhuman.com or follow us on Twitter @Workhuman or LinkedIn: www.linkedin.com/company/workhuman

References

- i IBM and Workhuman. (2016) The Employee Experience Index.
- ii IBM and Workhuman. (2017) Employee experience around the globe.



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Produced in the United States of America
March 2019

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