
Calculating the Cost of Not Engaged and Actively Disengaged Employees

SHORT DESCRIPTION

Gallup estimates the economic value of lost productivity from “not engaged” and “actively disengaged” employees using a statistical model of how engagement affects productivity and how much economic value better-engaged employees would generate.

DETAILED DESCRIPTION

Gallup estimates the annual cost of “not engaged” and “actively disengaged” employees in a three-step process. First, Gallup applies a proprietary formula to the Q¹² survey results to calculate the percentage of engaged, not engaged and actively disengaged employees. Assigning employees into these three categories is based on historical data from Gallup’s global employee database — guided by the relationship between a composite of the Q¹² engagement elements and performance outcomes. Gallup and industry experts in academia have published numerous technical reports, including many iterations of meta-analysis, substantiating the relationship between employee engagement and a variety of performance outcomes (Judge et al., 2001; Harter et al., 2002; Harrison et al., 2006; Whitman et al., 2010; Harter et al., 2010; Edmons, 2012; Mackay et al., 2017; Harter et al., 2020a-2020b). These published meta-analytic estimates are combined to estimate the true score correlation of employee engagement and productivity.

Next, widely used published statistical guides (standard utility analysis methods) are applied to the annual average salary (Hunter & Schmidt, 1983; Casio, 1996). This yields a per person cost, spread across all workers, which, multiplied by the total number of workers who are 18 years old or older, produces the first estimate.

Standard utility analysis estimates include three general inputs:

- 1) the predictive relationship between employee engagement and productivity
- 2) the standard deviation of the economic value of productivity
- 3) the standard score increase in the independent variable (in this case the standard score increase in employee engagement if not engaged and actively disengaged workers were to become engaged)

The second estimate is based on a different economic measure — the country's gross domestic product. The GDP figure is divided by the total number of workers to yield an estimated per person worth of goods or services per worker. Again, applying standard utility analysis methods, Gallup researchers calculate the percent increase in output per worker attributable to not engaged or actively disengaged workers becoming engaged (Hunter & Schmidt, 1996). The percent increase in output is a function of the relationship between engagement and productivity and the assumed increase in standard score units in engagement. This increase in output per worker, applied against the average per person GDP output figure, results in a per person gain which, multiplied by the number of workers, results in the second estimate.

The two methods of estimating the economic value of lost productivity have resulted in similar figures in the past two decades. These cost estimates do not completely account for all other worker outcomes that are related to the engagement of workers, including safety, turnover, theft and healthcare costs.

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