

Costs of Employee Disengagement and Withdrawal

Research Report

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The Cost of Employee Withdrawal

Employee withdrawal behaviours are any behaviours that move the employee away from full engagement with his or her job. There are many different types of withdrawal behaviours, and many different consequences of these various behaviours. These behaviours and consequences come at a cost to the organization, both directly and indirectly. In the following report, the costs to the company of **low morale**, **absenteeism**, **lateness**, **withholding effort**, and **workplace conflict** among the company's employees are explored based on scientific organizational research conducted on the topics.

Calculating Direct Costs

Direct costs to the employing organization are expenses related to the withdrawal behaviours or attitudes of the employee. In most cases, these include estimated loss of revenue related to work that either isn't completed to quality or isn't completed at all¹, unmet commitments, missed opportunities, and/or having to train a new employee to replace one that has left the organization.

This report presents the cost of withdrawal for three broad employee classes, based on salary assumptions derived from data from service-related industries collected by Corporate Research Associates. Typical front-line employees are assumed to have an annual salary of \$33 475. For middle managers, calculations are based on an annual salary of \$69 579, and senior managers are assumed to make \$91 800 per year.

Calculating Indirect Costs

"No employee is an island". Indirect costs to the company are incurred when the withdrawal behaviours affect other parts of the business. For example, withdrawal behaviours may lead to a **loss of customers**, a **decline in workplace morale**, or the potential **progression to further and more detrimental withdrawal behaviours**.

Interactive Effect of Withdrawal Behaviours

In the same way that "no employee is an island", so too is no withdrawal behaviour an island. Some withdrawal behaviours lead to other withdrawal behaviours, and therefore the costs of any single withdrawal behaviour must consider the costs of those behaviours associated with it. The relationships between these behaviours have been studied and published by organizational researchers, and therefore these combined effects are included in the calculation of the costs of the behaviours throughout. It is therefore not appropriate to add up each of the costs of the

¹ Hunter, J.E. & Hunter, R.F. (1984). Validity and utility of alternative predictors of job performance. *Psychological Bulletin*, 96, 72-98.

various withdrawal behaviours outlined below to obtain a “total cost of withdrawal behaviours”, because the interactive effects of these behaviours have been accounted for.

In the following sections, several estimates of the costs of employee withdrawal behaviours are presented. All figures refer to before-tax costs in inflation-adjusted terms, and are limited to the financial impact over a single year. Therefore, the figures represent the lower boundary of the potential costs.

Low Employee Morale

Employees with low morale are identified as being mentally disengaged from their jobs, which is a problem familiar to many managers. Low morale is comprised of negative attitudes towards the job and/or the company, and can include job dissatisfaction, low levels of commitment, and lack of interest in the job. Such attitudes can lead to **stress, burnout, and intent to quit**².

The Cost of Low Employee Morale

Low morale generally does not incur *direct* costs to the company (that is, the very fact that an employee’s morale is low does itself not come with a cost). Rather, it is the progression from low morale to undesirable *behaviours* that costs the company down the road. Researchers have found that those employees who psychologically disengage from their jobs – those with low morale – develop a tendency to display decreased job performance, and may purposefully or non-purposefully perform at less than optimal levels³. The relationship between low morale and decreased performance is used in determining the cost of low morale to the company. The calculations are based on the scientifically derived strength of the relationship and the average impact of decreased job performance to employees’ output-to-pay ratio*.

*Output-to-pay ratio refers to the dollar amount of output per employee, based on salary. For example, an employee who earns \$30,000 per year, and whose output production is \$60,000 per year, has an output-to-pay ratio of 2. Thus, a higher output-to-pay ratio is desirable.

² Goodwin, R.E., Groth, M., & Frenkel, S. J. (2011). *Journal of Vocational Behavior*, in press.; Mathieu, J.E., & Zajac, D.M. (1990). A review and meta-analysis of the antecedents, correlates, and consequences of organizational commitment. *Psychological Bulletin*, 108, 171-194.

³ Podsakoff, P.M., & Williams, L. (1986). The relationship between job performance and job satisfaction. In E.A. Locke (Ed.), *Generalizing from laboratory to field setting* (pp. 207-253). Lexington, MA: Lexington.

Cost of Low Employee Morale



For the three employee types, these costs per year per employee are estimated as follows:

Employee Type	Cost of Low Morale (per employee per year)
Front-line employee	\$860
Middle manager	\$1,870
Senior manager	\$2,440

Low morale has a cascading effect, such that those employees with low morale may also exhibit other behaviours that have a negative influence on themselves and their co-workers. These can include **lateness**, **absenteeism**, and purposely **withholding effort on the job**. Low morale can also lead to **conflict in the workplace**. These other effects of low morale are discussed in the remainder of this report, and the extent to which low morale may lead to these other behaviours differs from employee to employee.

Lateness

Employees are considered “late” when they arrive for work after their scheduled starting time, or if they leave before the end of the scheduled work day⁴. Researchers have found that chronic employee lateness is related to **disengagement from the job**, **absenteeism**, and **decreased job performance**⁵.

The following costs are based on a hypothetical rate of absence of 10% over the course of a year.

Direct Costs of Lateness

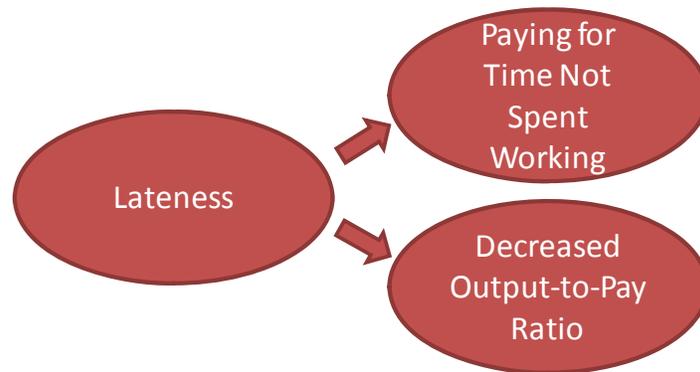
To estimate the direct costs of employee lateness to the company, three factors are considered: the amount of time the employee is being paid for that he or she is not actually at work or performing work-related activities, the employee’s average output-to-pay ratio, and the employee’s rate of lateness.

⁴ Shafritz, J.M. (1980). *Dictionary of personnel management and labor relations*. Oak Park, IL: Moore.

⁵ Koslowsky, M., Sagie, A., Krausz, M., & Dolman Singer, A. (1997). Correlates of employee lateness: Some theoretical considerations. *Journal of Applied Psychology*, 82, 79-88.

The direct cost of lateness is estimated by taking into account the amount of time an employee is being paid for work not being done, as well as the employee’s decreased output-to-pay ratio, and his or her rate of lateness.

Direct Costs of Lateness



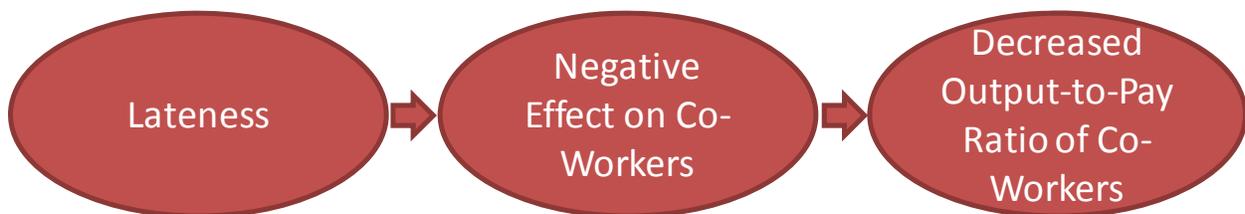
For the three employee types, the direct costs of lateness per employee per year are estimated as:

Employee Type	Direct Cost of Lateness (per employee per year)
Front-line employee	\$670
Middle manager	\$1,395
Senior manager	\$1,840

Indirect Costs of Lateness

Employees who are late may decrease the productivity of their co-workers, either by causing them to wait or by decreasing their morale and organizational confidence. This has a negative effect on productivity, work motivation, and the morale of colleagues and subordinates. Therefore, these factors are calculated as indirect costs of an employee’s lateness.

Indirect Costs of Lateness

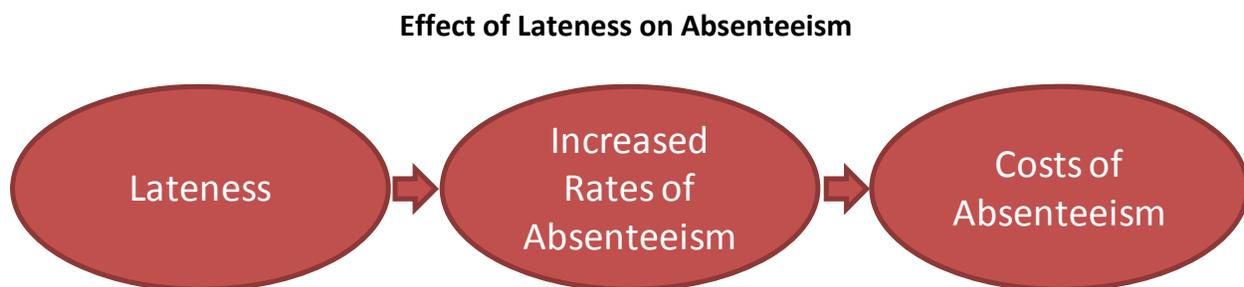


The indirect costs for the three employee types per employee per year are calculated as follows, and represent costs additional to the direct costs shown above:

Employee Type	Indirect Cost of Lateness (per employee per year)
Front-line employee	\$70
Middle manager	\$210
Senior manager	\$275

Effect of Lateness on Absence Rates

Organizational researchers have shown that lateness often leads to an increased propensity to be absent from work⁶. The relationship between lateness and absenteeism is strong enough that high rates of lateness must also be assumed to effect absence rates.



Along with the costs of absenteeism, which are discussed in detail in the next section, the additional costs of lateness per employee per year due to its relationship with absenteeism are as follows:

Employee Type	Cost of Lateness → Absence Relationship
Front-line employee	\$4,450
Middle manager	\$9,750
Senior manager	\$12,185

⁶ Koslowsky, M., Sagie, A., Krausz, M., & Dolman Singer, A. (1997). Correlates of employee lateness: Some theoretical considerations. *Journal of Applied Psychology*, 82, 79-88.

Total Costs of Lateness

Considering the direct and indirect costs of lateness to the organization, as well as the relationship between lateness and absenteeism, the total cost of lateness per year, based on an employee who is late 10% of the time, is as follows:

Employee Type	Total Cost of Lateness (per employee per year)
Front-line employee	\$5,185
Middle manager	\$11,345
Senior manager	\$14,300

Absenteeism

Employees are considered absent when they do not arrive at work for the entire work day⁷. Frequent and increasing rates of absence are often indicators that an employee is likely to leave the organization soon⁸. Absenteeism is generally considered a more severe type of withdrawal behaviour than lateness.

The following figures are based on a 12.6% absence rate, which is typical of many health and service providers.

Direct Costs of Absenteeism

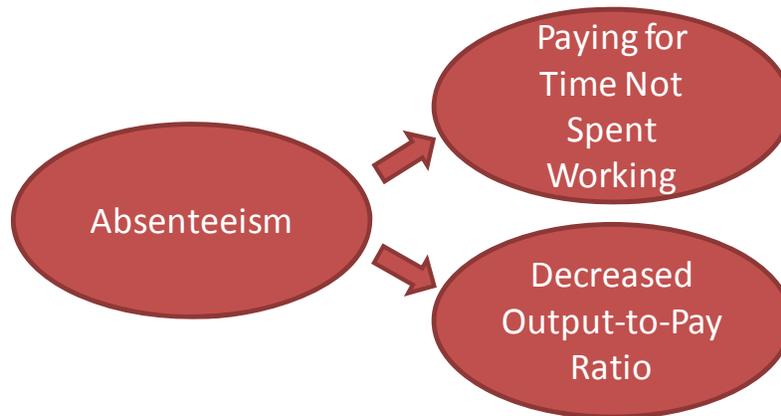
Direct costs of absence are estimated by considering the employee's annual salary (assuming absences are paid) and output-to-pay ratio⁹, multiplied by the amount of time missed within the year.

⁷ Shafritz, J.M. (1980). *Dictionary of personnel management and labor relations*. Oak Park, IL: Moore.

⁸ Hanisch, K.A., & Hulin, C.L. (1990). Job attitudes and organizational withdrawal: An examination of retirement and other voluntary withdrawal behaviors. *Journal of Vocational Behavior*, 37, 60-78.

⁹ Hunter, J.E. & Hunter, R.F. (1984). Validity and utility of alternative predictors of job performance. *Psychological Bulletin*, 96, 72-98.

Direct Costs of Absenteeism



For the three employee groups, these costs per employee per year are estimated as follows:

Employee Type	Direct Cost of Absenteeism (per employee per year)
Front-line employee	\$8,435
Middle manager	\$17,535
Senior manager	\$23,135

Indirect Costs of Absenteeism

Managers, supervisors, trainers, or even highly interdependent work-team members may cause decreased effectiveness among their subordinates or colleagues as a result their absence, and it has been shown that it can even indirectly encourage others to be absent. Accordingly, the calculation of indirect costs of absenteeism reflects the effects on co-workers that can be attributed to the focal employee’s absence.

Indirect Costs of Absenteeism

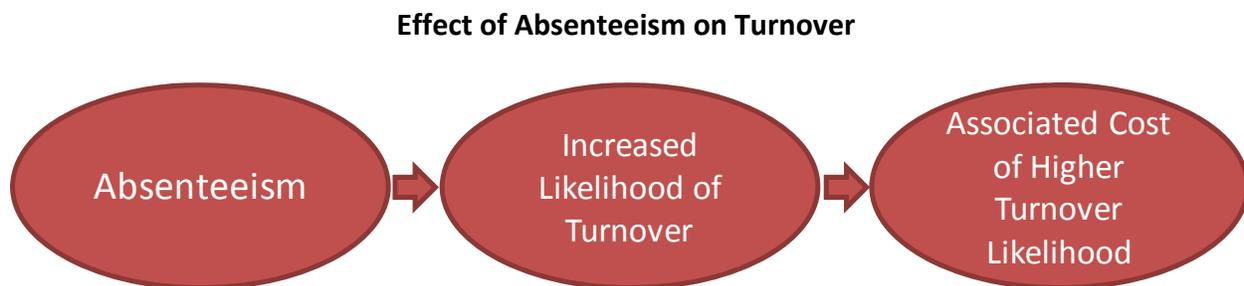


The indirect costs of absenteeism for the three employee types per employee per year are estimated as follows:

Employee Type	Indirect Cost of Absenteeism (per employee per year)
Front-line employee	\$845
Middle manager	\$2,650
Senior manager	\$1,600

Effect of Absenteeism on Turnover

As previously mentioned, organizational researchers have identified that withdrawal behaviours get progressively more severe, eventually leading to turnover¹⁰. The relationship between absenteeism and turnover has been studied specifically, allowing for a calculation of the cost of absenteeism based on the associated increased likelihood of the employee leaving the organization.



The costs of absenteeism per year as it related to increased likelihood of turnover for the three employee types is estimated as follows:

Employee Type	Absenteeism → Turnover Cost
Front-line employee	\$1,570
Middle manager	\$3,608
Senior manager	\$4,968

¹⁰ Koslowsky, M., Sagie, A., Krausz, M., & Dolman Singer, A. (1997). Correlates of employee lateness: Some theoretical considerations. *Journal of Applied Psychology*, 82, 79-88.

Total Cost of Absenteeism

Considering the direct and indirect costs of absenteeism, along with the relationship between absenteeism and turnover, the total cost per year per employee with an average rate of absenteeism is estimated as follows:

Employee Type	Total Cost of Absenteeism (per employee per year)
Front-line employee	\$10,850
Middle manager	\$23,775
Senior manager	\$29,720

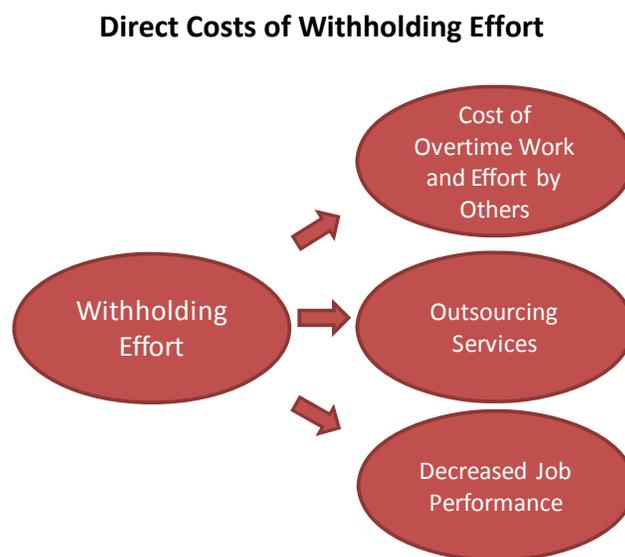
Withholding Effort

Employees withhold effort when they perform at a level that is below their capabilities, incurring direct costs to the company related to loss of productivity, and indirect costs related to the reduction of efficiency among colleagues or subordinates.

The following figures are based on an estimated 5% of time during which effort has been withheld.

Direct Costs of Withholding Effort

Direct costs are calculated using an employee’s yearly wage, output-to-pay ratio, and an estimation of “wasted time” that includes the cost of overtime work, outsourcing services, and decreased job performance.



The direct costs of employees withholding effort for the three employee types are estimated as follows:

Employee Type	Direct Cost of Withholding Effort (per employee per year)
Front-line employee	\$3,350
Middle manager	\$6,960
Senior manager	\$9,180

Indirect Costs of Withholding Effort

Employees who purposefully withhold effort tend to have a negative effect on the morale and behaviours of their colleagues, who tend to experience decreased motivation and begin to withhold effort themselves¹¹.

The impact of one employee’s withholding of effort on other his or her co-workers’ productivity is estimated as the average effect of one employee’s behaviour on others’ behaviours, and the costs to productivity of this decreased effort.

Cost of Effect of Withholding Effort on Co-workers



The incremental annual cost of decreased effort as an estimation of the effect on co-workers is as follows:

Employee Type	Indirect Cost of Withholding Effort (per employee per year)
Front-line employee	\$335
Middle manager	\$1,045
Senior manager	\$1,380

¹¹ Kidwell, R.E., & Bennett, N. (1993). Employee propensity to withhold effort. A conceptual model to intersect three avenues of research. *Academy of Management Review*, 18, 429-456.

Effect of Withholding Effort on Lateness

Organizational researchers have also found that employees who withhold effort are likely to develop an increased tendency to be late for work over time¹². Knowing the costs of lateness to the company, and the relationship between withholding effort and increased rates of lateness, the indirect effect of withholding effort based on lateness can be estimated.

Effect of Withholding Effort on Lateness



The incremental cost per year of increased lateness due to withholding effort for the three employee types is estimated as follows:

Employee Type	Cost of Propensity to Increase Lateness (per employee per year)
Front-line employee	\$1,100
Middle manager	\$2,400
Senior manager	\$3,000

Total Cost of Withholding Effort

Considering the direct and indirect costs of withholding effort, along with the relationship between withholding effort and lateness, the total cost per year of employees withholding effort is estimated as follows:

Employee Type	Total Cost of Withholding Effort (per employee per year)
Front-line employee	\$4,770
Middle manager	\$10,385
Senior manager	\$13,560

¹² Larson, E.W., & Fukami, C.V. (1985). Employee absenteeism: The role of ease of movement. *Academy of Management Journal*, 28, 464-471.; Mitra, A., Jenkins, G.D., & Gupta, N. (1992). A meta-analytic review of the relationship between absence and turnover. *Journal of Applied Psychology*, 77, 879-889.; Rosse, J.G. (1988). Relations among lateness, absence, and turnover: Is there a progression of withdrawal? *Human Relations*, 41, 517-531.; Rosse, J.G., & Miller, H.E. (1984). An adaptive cycle interpretation of absence and withdrawal. In P.S. Goodman & R.S. Atkin (Eds.), *Absenteeism: New approaches to understanding, measuring, and managing employee absence* (pp. 194-228). San Francisco: Jossey-Bass.

Conflict

Conflict can take many forms, from all-out ‘screaming matches’ between employees, to insidious behaviours that cause team members to lose time, energy, effort, and focus. Common sources of conflict include taking credit for other’s efforts, not listening to or belittling others, making demeaning or derogatory remarks, and general rudeness and incivility.

The Costs of Conflict

Employees who are witness to or the subject of conflict in the workplace often experience a reduction of morale. Because of their negative experiences with conflict, employees begin to withhold effort, have increased rates of absenteeism, and waste more time at work in “protest” to their organization¹³. As such, consequences of conflict are mostly hidden or indirect.

The relationship between conflict and its impact on the lost time, productivity, and effort of other individuals in the workplace is used to determine the cost of conflict to the company at the senior executive, middle management, and front line level.



The costs of ongoing conflict per employee per year are estimated as follows:

Source of Conflict	Cost of Ongoing Conflict (per employee per year)
Front-line employee	\$16,665
Middle management	\$27,320
Senior management	\$41,615

¹³ Kelloway, E.K, Francis, L., Prosser, M., Cameron, J.E. (2010). Counterproductive work behavior as protest. *Human Resource Management Review*, 20, 18-25.

Summary

This report has summarized the research on a variety of employee withdrawal behaviours, and has used data from organizational research to estimate the annual costs of those behaviours to the organization. The costs associated with the behaviours assume that the behaviours go “unchecked”; that is, that the undesired behaviours are allowed to persist over the course of an entire year. The extension of these examples is that if these withdrawal behaviours can be reduced in the organization, that organization is likely to enjoy financial rewards.

The figures provided in this report are meant to be used as a baseline that the reader may use to put human resources issues into a financial context. The value of considering these issues in this way is that it allows for an objective assessment of human resources requirements, and may provide a basis upon which return on investment analyses can be conducted. Although the estimates are not likely to be “exact” for any one organization, they serve to illuminate areas in the organization where real costs to the organization may have been previously unknown.

Technical notes

In instances where “strength of relationship” between behaviours, or between behaviours and outcomes, were used in the calculation of the costs of those behaviours, “strength” was determined by the overall average relationship coefficient between the variables of interest, as obtained by repeated scientific research studies conducted and published by organizational researchers. Coefficients used were typically Pearson’s bivariate correlation coefficients or standardized regression beta weights. In some instances, other measures of reported effect size were used to estimate costs.

In many cases, the strength of the relationship between behaviours, or between behaviours and outcomes, have been shown to change based on the employee’s position in the organizational hierarchy (e.g., front-line, middle manager, senior manager). In such instances, the most appropriate coefficient was used in the examples provided. In instances where the relationships had not been examined at this level, judgments were made regarding whether to estimate the costs of the behaviour based on the same relationship coefficient across the three employee types, or whether to adjust it slightly across the employee types.

Judgements about relative relationship strength between employee types were made based on related research regarding the relative impact of behaviours from different levels in the organization. For example, although the relationships between workplace conflict and other behaviours or outcomes have not been examined by employee type in published research to date, relative relationship coefficients were computed based on the likely visibility of the conflict between groups, the extent to which conflict from various levels in the organization are likely to have an impact on others’ day-to-day jobs, and power dynamics. Adjusting the coefficients based on these and other parameters allowed for a more accurate cost estimate of a particular behaviour.