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Jeffrey Deckman

EE = EBITDA

THE BUSINESS FORMULA THAT WILL CHANGE THE WAY YOU DO BUSINESS

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The business formula that will change the way you do business.

Jeffrey S. Deckman

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EE = EBITDA is an obscure but interesting formula that, once I came to understand it, has uncovered an exciting new source of increased profits that any business can realize.

The “blow up” of this formula is:

Employee Engagement = Earnings Before Interest Taxes Depreciation Amortization

Before going any further I want to say that Employee Engagement (EE) is certainly not the only factor that impacts EBITDA but it does have a significant impact on your bottom line. It just also happens to be one of the easiest ways to increase profitability you will ever come across.

Why?

Because, of all the ways to increase profits such as increasing prices; decreasing costs and generating more sales increasing your levels of EE is almost completely within your control. This is because EE is largely determined by the leadership culture of your organization. And you get to control that.

In fact, a recent Melcrum Employment Engagement Survey of over 1600 HR professionals found that “The actions of senior leaders and direct managers are the most important drivers of employee engagement by a factor of between 400% and 700**%.**

So not only is this “silent profit driver” largely in your control but the financial impact of increasing the levels of EE in your organization is undeniably real.

In fact, I doubt you could find a single CEO of a Fortune 500 company who even questions whether increasing EE increases EBITDA.

The Numbers behind the Science:

In an effort to be as informative as possible as quickly as possible let me get right to the math.

A recent study done by the Gallup Group in October of 2011 involving thousands of participants revealed that, on average, 71% of people are “disengaged” from their work. Within this group 55% are considered “not engaged”. These people do their jobs but not much more. The other 16% are considered “actively disengaged”. These are people who are actually working against the best interests of the organization.

This leaves only 29% of the workforce who are considered “highly engaged”. These are the ones who put in extra time; think about their jobs during off hours and are energized. They are the ones who generate the most per capita profit.

This means that 7 out of 10 people in organizations are not engaged in their work. Imagine the lost productivity and profits that represents! And in today’s economy this can spell death to an organization.

The High Cost of Low Employee Engagement

Lets look at how the level of EE in your organization affects your profitability.

The following EE vs Productivity numbers are generally accepted throughout the industry, give or take a few percentage points:

- “Highly engaged” workers are 90% productive
- “Not engaged” workers are 60% productive
- “Actively disengaged” workers are 40% productive.

When you combine the EE and the productivity numbers the impact on profits becomes clear:

- 29% are highly engaged and are 90% productive.

  *.29 * .90 * 100 = 26.1% productivity level*

- 55% are not engaged and are 60% productive.

  *.55 * .60 * 100 = 33% productivity level*

- 16% are actively disengaged and are 40% productive

  *.16 * 40 *100 = 6.4% productivity level*

This means that your overall productivity levels are:

26.1% + 33% + 6.4% = 65.5%

To make this real lets assume a company spends $2 million on employee compensation. Under this scenario their ROI on that investment is:

2,000,000.00 * 65.5% = 1,310,000.00.

The represents a $690,000 “payment vs. performance” gap.

The Big Difference of a Small Adjustment

Now lets look at the impact to your bottom line that will occur if you simply increase the highly engaged numbers by only 5% and decrease the actively disengaged numbers by the same amount. And if your company is like most, and if you decide to make EE a priority in your organization, moving your EE numbers 5% in this fashion is not unrealistic at all.

WARNING: These numbers are almost un-believable!

- 34% are now highly engaged @ 90% productivity.

  *.34 * .90 * 100 = 30.6% productivity level*

- 55% are still not engaged and still 60% productive.

  *.55 * .60 * 100 = 33% productivity level*

- 11% are now actively disengaged and 40% productive

*.11 * 40 *100 = 4.4% productivity level*

New productivity levels = 30.6% + 33% + 4.4% = 68%

New Profitability Calculations: 2,000,000.00 * 68% = *1,360,000.00*

In comparison to the previous figures this is an increase of $50,000.00 to your bottom line….annually!

In Closing

If you are like I was when I first started looking at these figures, your initial thinking may be that they can't be right. But I can tell you that study after study from organizations ranging from the Harvard Business School to the McKinsey Group prove them out.

So while we have all been trained to increase profits by cutting costs; capturing more clients and negotiating for higher prices few of us have been taught how to activate one of the most significant profit drivers available to us: increased Employee Engagement.

And at a time when profits are very tight, competition is tough and the market is demanding it should be very comforting to realize that with just a few internal adjustments you can uncover a source of profits that will not only increase your bottom line but will also increase company morale.

During economic times such as these understanding the EE=EBITDA formula can be a real life saver.

Jeffrey Deckman is the founder of Capability Accelerators, a consulting firm that specializes in helping clients convert human capital into financial capital. If you have questions or comments he can be reached at JDeckman@CapabilityAccelerators.com