

WHITE PAPER

\$37 Billion: Counting the Cost of Employee Misunderstanding

Sponsored by: Cognisco

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June 2008

EXECUTIVE SUMMARY

IDC research shows that U.K. and U.S. enterprises are losing an estimated \$37 billion from their EBITDA as a result of employee misunderstanding. This white paper describes how this is happening and what they can do to stop this serious profit erosion.

Large enterprises are each potentially losing tens of millions of dollars to what is termed "employee misunderstanding", meaning actions or errors of omission by employees who have misunderstood or misinterpreted (or were misinformed about) company policies, business processes, job function or a combination of the three.

Employee misunderstanding is a very different proposition to a deliberate disregard for the rules or a plain mistake, whereby an employee simply does something that they didn't mean to (like forgetting to back up computer storage or putting a decimal point in the wrong place).

The financial cost of employee misunderstanding is immense. Our survey of 400 U.K. and U.S. corporations estimates that the cost of employee misunderstanding in a 100,000-employee company averages \$62.4 million (£31 million) per year. In total, U.K. and U.S. enterprises are losing an estimated \$37 billion (£18.7 billion) each year. Of the industries we researched, banks suffer the greatest losses and transportation the least. Loss of business due to unplanned downtime was the largest area of loss attributed to employee misunderstanding.

However, the cost of intangibles such as reputation, customer trust and the like could have even greater consequences. As recent losses of computer media in the U.K. have shown, the potential for a misunderstanding to have major consequences lies not just with senior management — it can reside with the lowest-level (or even temporary) employees.

Such misunderstandings are not always headline-grabbing material, but their consequences very definitely can be. In California, for example, a company carrying out a process involving a dye penetrate, and with a permit to dump waste into a sewer, released the material into a drain in the street; an employee had misunderstood "sewer" for "storm drain."

More typical examples of misunderstanding include employees believing that their sign-off limits were higher than actually allowed, not knowing when to involve the legal department, and being unaware of a key responsibility.

Legislation gives the issue another dimension. The recent introduction of a corporate manslaughter law in the U.K. makes company directors responsible for the actions of employees, and failure to comply with Sarbanes-Oxley can have serious consequences for management. Yet nearly all the businesses we interviewed admitted that they had been exposed to personnel/public injuries, and to a loss of sales in the prior 12 months as a result of employee misunderstanding.

Although this is clearly a matter that can have a major impact throughout the whole enterprise, businesses that we spoke to (on both sides of the Atlantic) are mostly unprepared. IDC defines an employee assessment program as a program that measures an employee's level of knowledge, understanding and confidence in the areas important to their organization's overall operational performance. However, by this definition, nearly three-quarters said that they did not have an employee assessment program and that their HR systems did not enable a single view of their employees (i.e., allow a single point of access for all employee information). Although employee assessment programs were felt to address the right issues positively, only 6% of respondents had an automated employee assessment program in place. Enterprises in the U.K. and U.S. showed few points of divergence on this point.

There was no polarization between "higher risk" industries (such as those in highly regulated industries) and a control group used. The cost of employee misunderstanding is an issue for enterprises in **all** industries and provides a clear rationale for investment. This research also showed that the cost of misunderstanding may not manifest itself "neatly" on a per employee basis.

In terms of addressing the challenges highlighted, technology appears to be the only economically viable solution. If enterprises do not act now they are harboring challenges for the future and operating in a suboptimal way. All CEOs should take the opportunity to review employee misunderstanding in the context of effectiveness, efficiency and organizational resilience.

In this IDC White Paper, commissioned by Cognisco, we detail our research methodology and findings, present our analysis and conclusions, and finally provide enterprises with our recommendations for addressing this potentially explosive issue.