

Trends in Global Employee Engagement



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Executive Summary

As the economy is starting to show signs of a recovery, employers may believe they will be able to revert back to tried-and-true practices to recruit, retain, and reward talent in 2011. However, Aon Hewitt experts warn that aspects of the current economic cycle are fundamentally different from previous cycles and that most companies will never truly get back to business as “usual.” In 2011, employers will be challenged to attract and retain critical talent to grow their businesses, while at the same time they will continue to face enormous pressure to hold down costs. Adding to the challenge, employee engagement is already at an all-time low.

Our global employee engagement research from 2008 to 2010 represents 6.7 million employees working in over 2,900 organizations. The overall global average employee engagement score dropped to 56% in 2010 from 60% the previous year. In fact, 2010 engagement levels represented the largest decline in employee engagement research that Aon Hewitt has seen in the last 15 years. However, the last quarter of 2010 shows evidence that engagement scores are recovering. This suggests the declining engagement levels seen across the first three quarters of 2010 are changing. This paper presents overall global employee engagement trends, what aspects of a company’s processes or policies help motivate employees, what has changed in employee engagement in the past three years, and how organizations are adjusting to the changing needs of the 21st century workforce.

As another year begins, organizations will continue to be challenged. The economy is showing signs of recovery, which will create more opportunities for both employers and employees. Fortunately, by examining employee engagement data, we can provide employers a road map and have them focus their efforts on the top drivers that motivate employees. Employers can set themselves up for continued success by focusing on the key engagement drivers that make a positive impact on their workforces and thus keep their employees engaged. The companies that have a highly engaged workforce have risen to the challenge of maintaining and improving engagement levels. They proactively respond to the environment, competition, and changing workforce needs. They evolve, but stay true to the values that made them successful, and are well positioned for continued success in the future.

Overall Findings

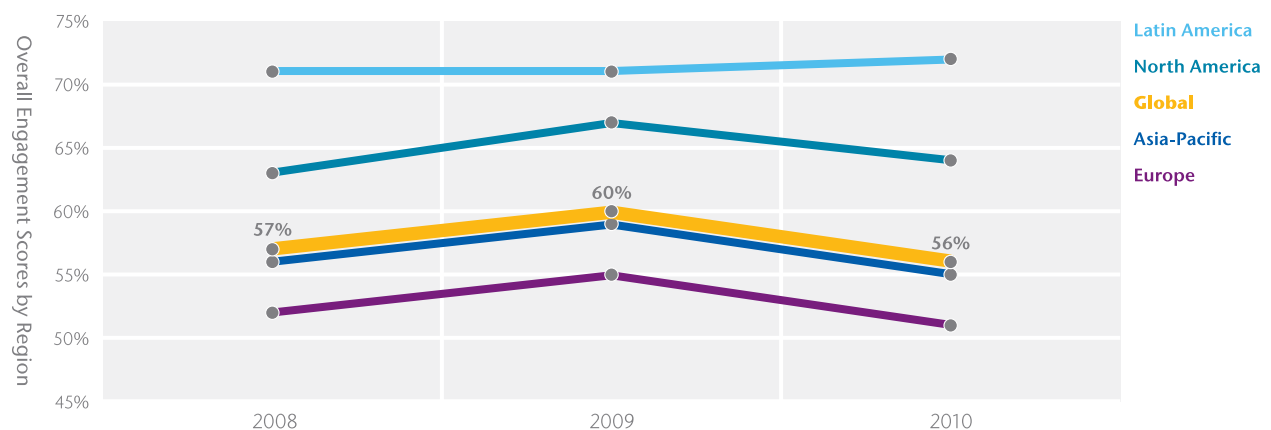
- Aon Hewitt’s global engagement research from 2008 to 2010 includes 6.7 million employees and represents more than 2,900 organizations
- The overall global average employee engagement score is 56% in 2010, down from 60% in 2009
- The 4 percentage-point change is due to regional score changes in Asia-Pacific, Europe, and North America
- Top 3 engagement drivers are career opportunities, brand alignment, and recognition

Trends in Global Employee Engagement

Over the past decade, and particularly in the past three years, employers and employees have faced human capital challenges and an uncertain economy. The economic downturn that started in 2008 has had a significant impact on companies and the resulting decisions made by management. These decisions have impacted employee engagement levels and perceptions globally, leading to changes in leading drivers of employee engagement. In uncertain times, organizations need to focus on harnessing the discretionary effort that engaged employees deliver. This makes the difference in how companies are affected during the economic downturn, how quickly they emerge from it, and how strong they are in the future after the downturn passes.

This chart shows the overall trends in engagement scores, globally and for each region. In 2010, the global engagement score was 56%, down four percentage points from 60% in 2009. The reason for this decline is primarily due to changes in the regional scores of Asia-Pacific, Europe, and North America. The regional engagement scores in Asia-Pacific, Europe, and North America mirror the global decline. However, the employee engagement scores in Latin America have stayed consistent over this time period. At the industry level, the financial sector is the main sector across all regions that attributed to this fall from 2009 to 2010.

Global Engagement Trends

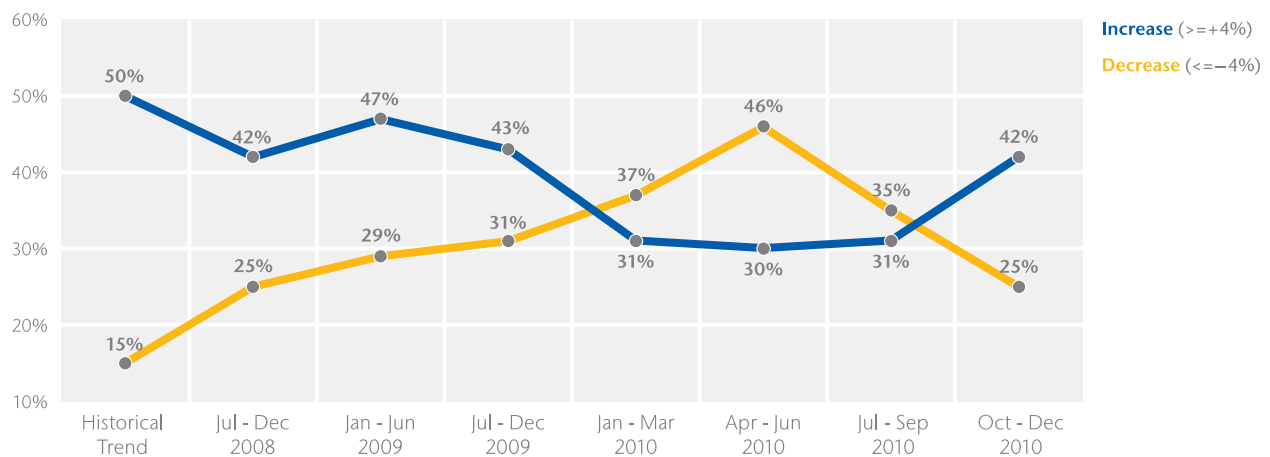


Employee Engagement Shift in Repeat Clients

Aon Hewitt has analyzed engagement data for organizations who have conducted a survey in 2010 and compared that data to its historical findings. Global employee engagement levels were improving from 2008 to 2009, but organizations struggled to maintain this trend into 2010. In fact, 2010 engagement levels represented the largest decline in employee engagement research that Aon Hewitt has seen in the last 15 years. However, there is evidence that a recovery has started. As the chart shows, in the last quarter of 2010 there was a positive increase in employee engagement scores from the negative trends across the first three quarters of 2010.

Clearly, in the past few years, the connection between employees and organizations has been strained. Employees are showing fatigue in response to the lengthy period of stress, uncertainty, and confusion. Organizations are also exhausted and struggling to find ways to improve or stabilize their future. The change can be attributed to the economic climate; however, there are organizations that continue to improve engagement and create success during these challenging times.

Percent of Organizations With an Increase or Decrease in Engagement



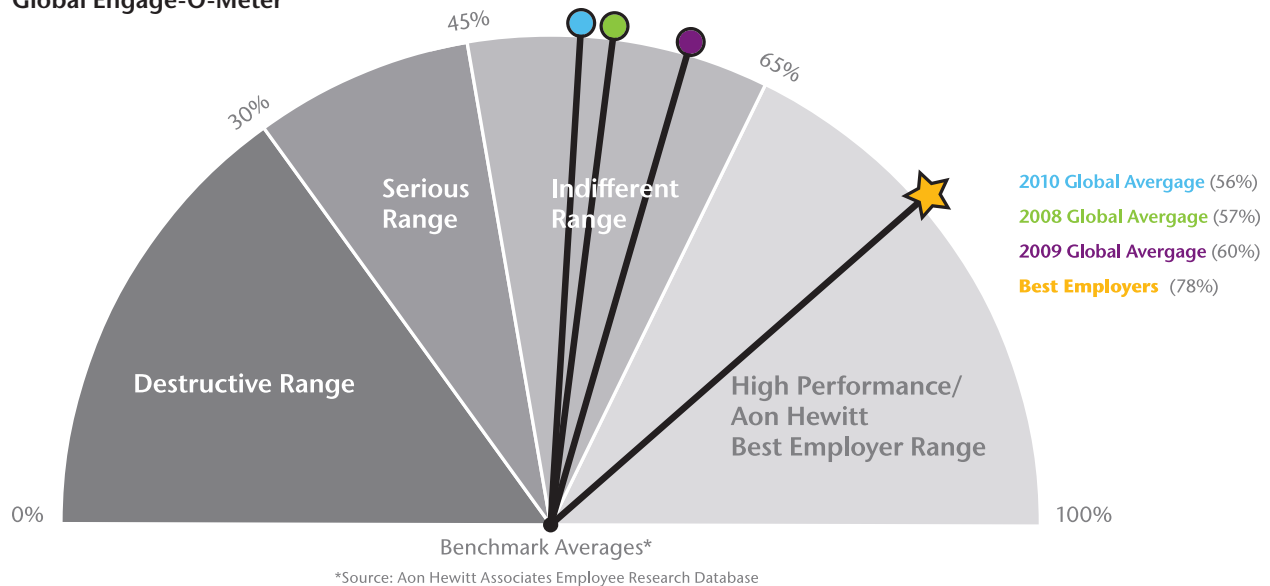
Correlation Between Employee Engagement and Total Shareholder Returns

The organizations that improve engagement during challenging times focus on a number of factors that differentiate them in the marketplace. These factors include focusing on long-term strategies, demanding measurable actions, involving all stakeholders, understanding key employee segments, and broadening the range of assessment tools and analytics. Employee expectations and company responsiveness to internal and external environmental changes (e.g., market sentiment) have a lot to do with showing improvements, even when the market overall is showing a decline.

Aon Hewitt's research continues to show a strong correlation between employee engagement and financial performance, even in turbulent financial times. Organizations with high levels of engagement (65% or greater) continue to outperform the total stock market index and posted total shareholder returns 22% higher than average in 2010. On the other hand, companies with low engagement (45% or less) had a total shareholder return that was 28% lower than the average.

In addition, Aon Hewitt's global Best Employer research reveals how organizations differentiate and achieve a competitive advantage through their people. The benefits of being a Best Employer are well documented, from improved retention to increased productivity. Best Employers are distinguished by high levels of employee engagement, which results in lower turnover, larger talent pools, and better financial performance.

Global Engage-O-Meter



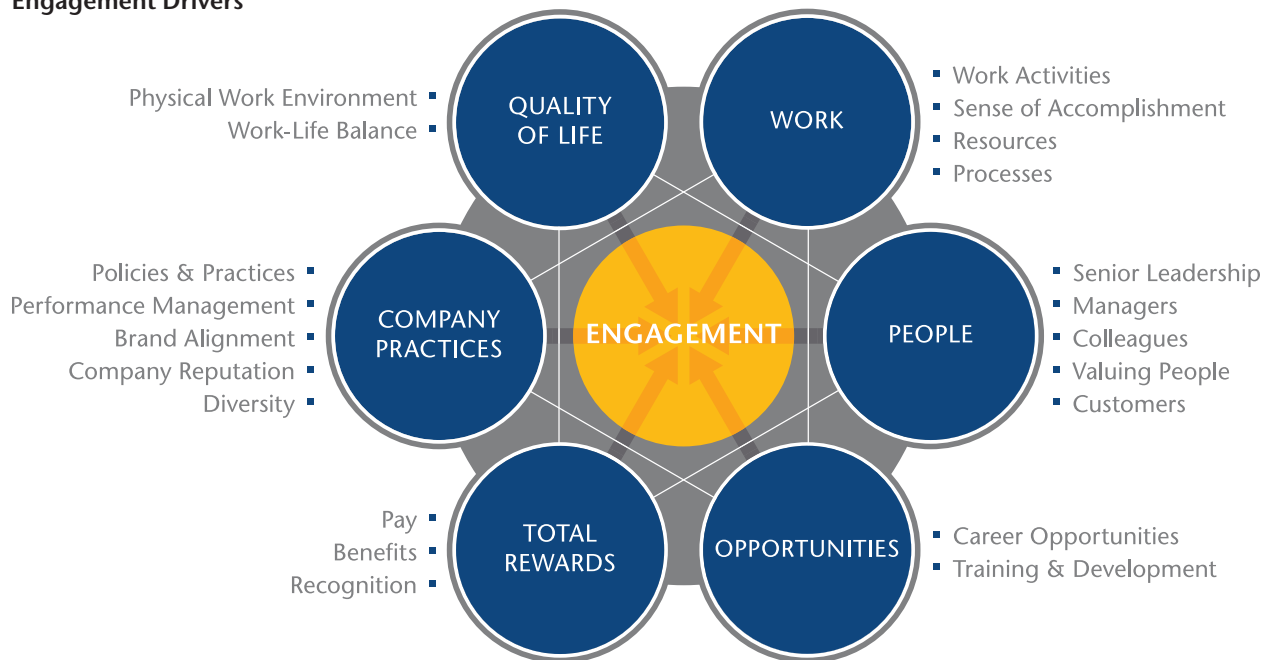
Aon Hewitt's Engagement Model

Aon Hewitt's employee engagement research represents a variety of companies, industries, and geographic regions throughout countries in Asia-Pacific, Europe, Latin America, and North America. Understanding how engaged your people are is of little value without knowing what actions will be most effective in increasing their engagement. This is a critical part of Aon Hewitt's Engagement Model. Our research has shown that there are typically 21 areas, shown in the following diagram, known as "Engagement Drivers," that can potentially drive people's engagement.

The Engagement Model goes beyond measuring people's satisfaction with each of these drivers. The model prioritizes the areas for improvement based on their potential impact on engagement and, therefore, business performance. Another key premise of the Engagement Model is that the Engagement Drivers are interrelated; they do not operate in isolation.

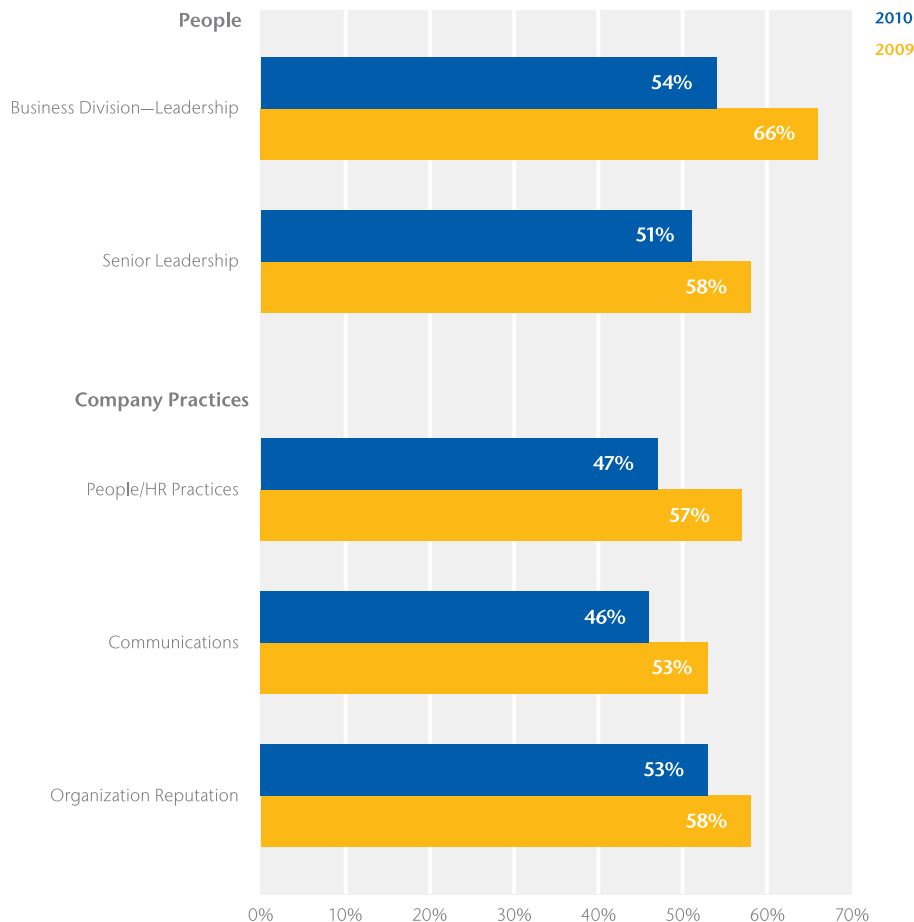
Our analysis describes the employment experience, what has changed, and what engages the current workforce. By identifying these drivers, employers can understand how to meet the needs of their employees and focus on the specific areas of improvement that have the largest impact on engagement and business results.

Engagement Drivers



Changes in Employee Perception Scores

Regarding increases in perception levels from 2009 to 2010, it is notable that the percentage of the population with positive perception levels did not change in the past year. The perception drivers have decreased only during 2009 to 2010. The decreased perception levels from 2009 to 2010 are shown in the chart below.



The perception drivers that have decreased globally during 2009 to 2010 are in the people and company practice categories. Under the people driver, business unit/division leadership is defined as employees' perceptions of the leaders of their business units/divisions. The definition varies by organization, but typically excludes the CEO and his/her direct reports. Perception levels of the highest level of management in the organization (CEO/Managing Director and his/her direct reports), also decreased to 51% in 2010, down from 58% in 2009.

Under the company practices driver, people/HR practices dropped to 47% in 2010, representing a decline of 10 percentage points from 2009. People/HR practices are employees' perceptions of the extent to which company formal policies and informal practices create a positive work environment. Communications also decreased in 2010 and dropped to 46% from 53% in 2009. Communication reflects the extent to which communication is effective across the organization, which often includes the perception that employees have information they need to do their jobs well. Finally, organization reputation has declined from 2010 to 2009, dropping to 53% from 58%, respectively. The organization reputation is measured by employees' perceptions that the organization is regarded as a good place to work by those outside the organization. Clearly, the human capital challenges employers and employees faced during the past three years have impacted these

drops in perception drivers. This has been a consistent trend regardless of geography, wherein all drivers that experienced a significant decrease did so across all regions. Further, this also explains the overall drop in engagement scores at the global level for the 2009 to 2010 time period.

What Engagement Drivers Motivate Employees?

The engagement survey measures the level of employee engagement and the employment experience across different aspects of the work environment. To identify key drivers, we utilize an analysis to understand what really makes a difference to employees. This information, referred to as “impact analysis,” identifies and prioritizes factors that drive engagement. This model identifies the primary or key drivers of engagement and the magnitude of expected improvement if action is taken. It also identifies the potential decline in engagement if key drivers are not maintained. For employers, improving the engagement level of specific drivers can improve overall employee engagement. For three consecutive years, globally, as well as across all regions, career opportunities has consistently ranked among the top three drivers positively impacting overall engagement levels.

The table below shows the 2010 engagement drivers (percentage of times a driver appears in Top 3 Opportunity Area) globally and for each region. The orange shaded cells show the top three scores for each region. In addition to career opportunities, rounding out the top five global engagement drivers for 2010 are brand alignment, recognition, people/HR practices, and organization reputation. Through the economic downturn and into the recovery, employees are even more concerned about what the company stands for and the consistency between the stated employer value proposition and the day-to-day reality of work. Brand alignment and recognition were also top global drivers in 2009, with pay and managing performance in 2009 being replaced with people/HR practices—and organizational reputation in 2010. Across the regions, the top two drivers—career opportunities and brand alignment—have remained consistent. Outside North America, we see people/HR practices and recognition as the top three drivers, and in North America managing performance and organization reputation fall in the top three. In order to have engaged employees, companies should focus their efforts on improving these areas.

Engagement Drivers	Global	Asia-Pacific	Europe	Latin America	North America
Career Opportunities	61%	62%	60%	60%	64%
Brand Alignment	44%	41%	48%	36%	42%
Recognition	40%	37%	40%	56%	34%
People/HR Practices	34%	30%	49%	—	—
Organization Reputation	34%	—	—	—	46%
Managing Performance	—	—	—	—	60%
Pay	—	31%	41%	33%	—
Valuing People/People Focus	—	—	—	27%	—

Regional Analysis

If we examine employee engagement scores by region, the results are fairly consistent with the overall global results. Even though the engagement scores by region vary, the top five Engagement Drivers are somewhat similar.

Asia-Pacific

If we examine the drivers for the Asia-Pacific region over the past three years, aside from career opportunities (identified by all regions as the top engagement driver), brand alignment, recognition, pay, and people/HR practices rounded out the top five. New to the top five in 2010 for this region is brand alignment.

Asia-Pacific Top Five Engagement Drivers	2010
Career Opportunities	1
Brand Alignment	2
Recognition	3
Pay	4
People/HR Practices	5

As the Asian economies begin to recover, employee expectations have grown. Career opportunities and salary increases within organizations are also growing. Failure to deliver on career opportunities is being perceived as failure of the leadership team. Managers are often perceived as not contributing to delivering on the processes of performance management and career opportunities, which is leading to attrition of talent. Another key challenge in Asia is the ability of managers to discriminate between high performers and average performers. To address these challenges, companies in Asia are focusing on creating differentiation for high performers as well as delivering a great work experience to all performers.

Europe

Similar to the global results, Europe's top Engagement Driver for the past three years has been career opportunities, followed by people/HR practices, brand alignment, pay, and recognition. Europe is the only region in 2008 and 2009 where work processes and innovation ranked among the top five engagement influencers. These drivers have been replaced with brand alignment and people/HR practices in 2010. Notably, people/HR practices was also identified as a key engagement driver in 2008, but not in 2009 for this region.

Europe Top Five Engagement Drivers	2010
Career Opportunities	1
People/HR Practices	2
Brand Alignment	3
Pay	4
Recognition	5

While organizations acknowledge the power of engagement, many struggle to make progress in this area. Our research shows that employee loyalty and engagement is waning, especially in Europe. At a time when organizations are looking to employees to help them reduce costs, identify areas for growth, streamline processes, and innovate faster than their competitors, employees in many organizations are showing fatigue in response to the lengthy period of stress, uncertainty, and confusion of the economic downturn.

In the light of the above-mentioned challenges that organizations are facing, it is not surprising that engagement is a key challenge area in which to effect change after such a tough period. The importance of motivating people for high performance and differentiating between employees is getting more and more important for employers. Many organizations are getting keener on spending their euros the right way, recognizing the right employees in the right position for the right performance.

Getting employees engaged is not easy either, as the labor market is not in a "sleep mode" any longer, and employees are more likely to look for new opportunities. Also, employee retention may be challenging, because many employees may feel somewhat disappointed and stuck at their current company due to the lack of development and career opportunities. These employees may decide to look for new challenges elsewhere. Cutting back on training budgets and other opportunities was the most obvious response to cost issues, and has had an impact on employee engagement.

In Europe, most large organizations (93%) conduct engagement surveys, but they still struggle with managing engagement and implementing the right actions. Of those organizations responding to the study, one-quarter have seen little or no change in employee engagement levels over the last two years, while another quarter have seen engagement levels decline. Thirty-six percent have seen a slight increase in engagement levels, and 16% of participating organizations have seen a significant increase in engagement levels.

Latin America

In Latin America, career opportunities, recognition, brand alignment, and pay have been among the top five engagement drivers for three consecutive years. Latin America did not escape the global economic crisis, but most countries in the region stood up to it with resilience—the region has recovered more rapidly than the majority of developed economies. Some countries, like Brazil, Chile, and Peru, are experiencing unprecedented growth. Although many employers took some measures to weather the economic storm, these measures were not as drastic as in other regions. This may explain why the average engagement levels in the region didn't experience the declines observed in other markets.

Latin America Top Five Engagement Drivers	2010
Career Opportunities	1
Recognition	2
Brand Alignment	3
Pay	4
People/HR Practices	5

Over the last three years, our research has shown that the top engagement drivers for Latin America are closely related to total rewards. Career opportunities, pay, and recognition are common action areas in most markets. Interestingly, recognition comes up as an important engagement improvement factor more frequently in Latin America than in any other region. Over the years, we have seen employees more openly expressing their desire to be recognized according to their contributions—through differentiated rewards, opportunities for growth, and feedback from their manager (both positive and constructive). This trend is challenging employers across the region to rethink the traditional people and rewards practices—from a focus on equality (treating everybody the same) to equity (treating and rewarding people fairly according to their contributions).

North America

Like other regions across the globe, North American employees are highly influenced by career opportunities when it comes to overall engagement. While the level of impact each driver has on overall engagement has shifted slightly over the years, the top five drivers themselves have remained exactly the same in North America for three consecutive years. Worth noting, North America is the only region across the globe where organization reputation and managing performance are reported to have a significant impact on employee engagement. Although organization reputation may have decreased slightly in 2010 due to the economic downturn and turmoil that some companies experienced, these two drivers—along with career opportunities—have ranked among the top three engagement influencers for the past three years.

North America Top Five Engagement Drivers	2010
Career Opportunities	1
Managing Performance	2
Organization Reputation	3
Brand Alignment	4
Recognition	5

In response to employee engagement survey findings, employers in North America are putting together strategies in an effort to bring about positive changes that do not have significant costs associated with them. Primarily, these activities center on changing processes that are behavior-oriented. Examples include improved posting of new job opportunities, increased communication between managers and employees, and assembling cross-functional teams that develop value propositions that can be used in the recruitment of high-potential employees. There is also an increased focus on employee segmentation of engagement results, including analyzing what differentiates engagement levels and drivers for top performers and critical groups of employees. This helps organizations define specific development and reward opportunities for critical groups of employees who will have the largest impact on innovation and growth.

Conclusion

As another year begins, organizations will continue to be challenged. The economy is showing signs of recovery, which will create more opportunities for both employers and employees. In addition, the dynamics of the workforce are changing—forcing organizations to make difficult choices. Do they focus on all employees, or try to retain their high performers? How do they meet the demands of a diverse and global workforce, and how do they replace retiring workers and motivate younger workers? Do they adapt new technologies and make broader use of social networks? Fortunately, by examining employee engagement data, we can answer these questions—and help employers focus on the top drivers that will motivate employees.

Best Employers not only provide a road map, but also have shown that these strategies work in both good times and difficult times. Employers can set themselves up for continued success by focusing on the key Engagement Drivers that make a positive impact on their workforce and thus keep their employees engaged. The companies that have a highly engaged workforce have risen to the challenge. They proactively respond to the environment, competition, and changing workforce needs. They evolve, but stay true to the values that made them successful and are well positioned for continued success.

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