

Consulting  
Performance, Reward & Talent

# 2013 Trends in Global Employee Engagement



**AON** Hewitt



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# Executive Summary

The global recession has certainly taken its toll on employees. Pay freezes, benefit cuts and layoffs are still at the forefront of many employees' thinking. Additionally, the continued high rates of unemployment, lack of hiring, and extended hiring cycles for open positions (an average of 23 business days today compared to a low of 15 in mid-2009<sup>1</sup>) create further stress and uncertainty for employees, making it more difficult to achieve or maintain healthy levels of engagement.

As markets around the world continue to display uneven growth patterns following the global recession, predictions for 2013 are marginally optimistic but varied by region. The International Monetary Fund (IMF) predicts stronger global growth in 2013, driven by growth (albeit slow growth) in China, India and Brazil, and greater confidence in U.S. growth following the recent election.<sup>2</sup> The Euro Zone predicts continued variability, with minimal expansion in Germany and France, while countries such as Italy and Spain continue to resolve their country-specific challenges from the global economic crisis.<sup>3</sup>

Against this backdrop, engaging the right employees in the right behaviors remains the critical ingredient of how companies manage the diverse economic conditions facing their organizations today. In our last report, we asked employers to consider an atypical question in solving the engagement equation—not “what should we do to engage employees?” but “what do employees need in order to be engaged?” In this incredible time of competing pressures—demand for profitable growth, financial market volatility, political uncertainty, global shifts in workforce demographics, sea changes in the countries driving economic expansion and a rapidly shifting regulatory environment—a finer point must be put on that core engagement question. Leaders must ask themselves not only “what do employees need in order to be engaged?” but also “what behaviors are we asking them to engage in?”

The ability of companies to find, understand, and manage talent hinges upon getting a powerful, differentiated and engaging employment contract right. The demands outlined above are putting pressure on this contract. Companies require steadfast motivation and productivity in this constrained environment. At the same time, dynamic employee trends are changing the nature of what employees demand in exchange for their discretionary effort. Striving to maintain a higher level of employee engagement not only contributes toward short-term survival during economic volatility, but also is a key factor for longer-term business performance and better positioning when market conditions become favorable. The companies that get engagement right can enjoy a surplus of competitive advantage in talent strategy and business results that is hard for others to replicate. If one believes that talent is one of the last sources of competitive advantage—and that motivated and productive employees are the make-or-break ingredient to successfully navigating the business pressures outlined above—employee engagement should be a top business imperative for all business leaders.

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1 “With Positions to Fill, Employers Wait for Perfection,” The New York Times, March 6, 2013; references data from “The Establishment-Level Behavior of Vacancies and Hiring”; Steven J Davis, R Jason Faberman and John C Haltiwanger, The Quarterly Journal of Economics; January 31, 2013

2 Modest Growth Pickup in 2013, Projects IMF, Global Economic Outlook, January 2013; <http://www.imf.org/external/pubs/ft/survey/so/2013/new012313a.htm>

3 Ibid.



## Key Findings

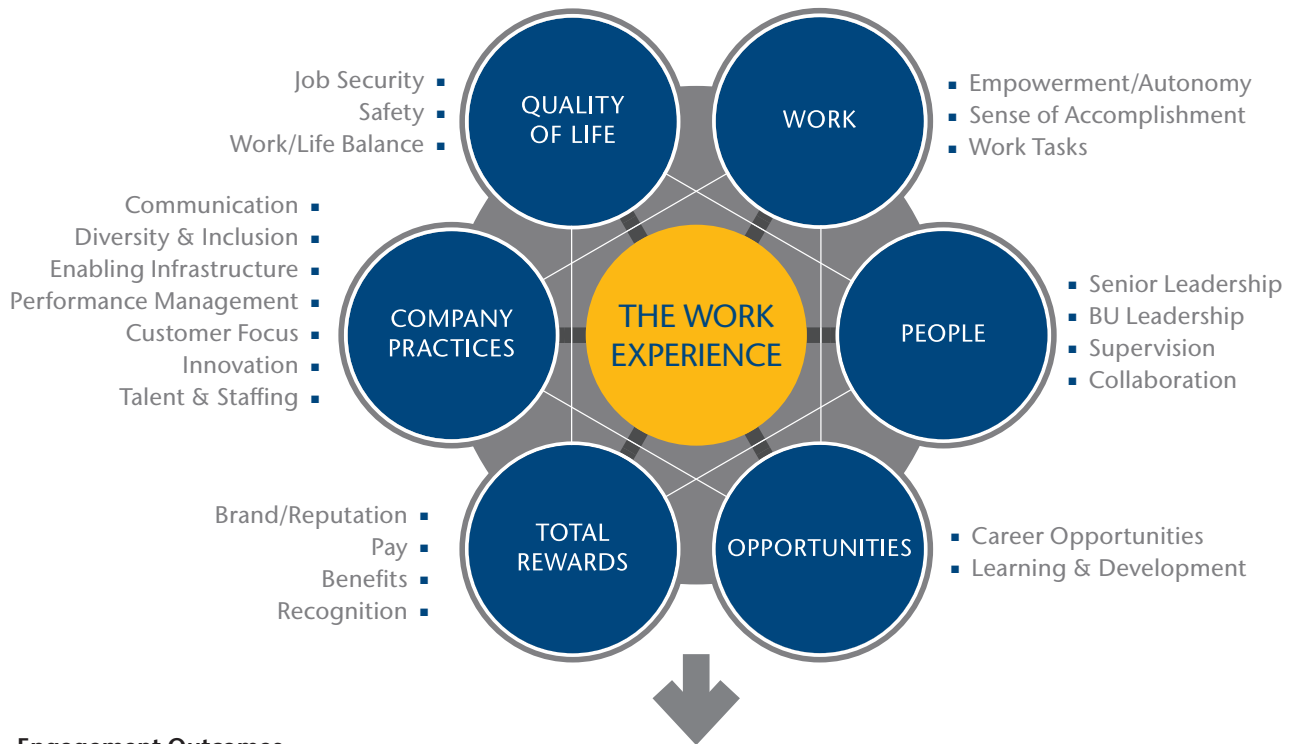
- **Engagement levels are on the rise globally but shifting across regions.** Although the economic impact of the recession continues to rebound in some areas and recess further in others, engagement levels rose slightly to 60% in 2012, up 2 percentage points from 58% in 2011. We see the largest engagement increase in Europe (improving 5 percentage points) and Latin America (improving 3 percentage points). North America's engagement decreased slightly by 1 percentage point—particularly in the U.S., where engagement dropped 3 percentage points—and Asia Pacific remained the same.
- **Worldwide, 4 out of 10 employees are still not engaged.** While 60% of employees globally are considered engaged, 40% of employees are passive or actively disengaged—a continuing theme from 2011. While engagement levels are relatively stable and many employees are advocates for their employers, 2013 will likely be a challenging year as other engagement indicators regarding employees' desire to stay with an organization and go above and beyond are less positive.
- **Employee engagement is a leading indicator of company growth—but lags economic forces.** The economic recession of 2009 put significant downward pressure on corporate spending on talent—and engagement took a significant hit in the following year. The global economy has shown signs of growth in the years since, however, and engagement has been on the rise as well. Analysis of employee engagement and company performance data concludes companies that managed higher employee engagement relative to their peers throughout the economic downturn are now seeing dramatic, positive impacts to their revenue growth.
- **The work experience is improving more than deteriorating.** Overall trends from 2011 to 2012 reveal more aspects of the work experience are improving, and to a greater extent than any decreasing areas. The highest area increased 7 percentage points, whereas the worst deterioration went down 3 percentage points. These changes to the general work experience varied by region around the globe.
- **Many employers across the globe raised the bar and made investments in the top engagement drivers.** In addition to seeing perceptions of the work experience increase in general, we specifically saw improvements in all but one of the top employee engagement drivers. These engagement driver increases indicate many employers focused resources in the areas that are most important and have the greatest opportunity for engagement improvement. The uptick we see in employee engagement is likely evidence of this focus.
- **Pay is one of the top drivers of engagement.** Usually described as a “hygiene” factor of little consequence to employee engagement, pay moved up in engagement driver ranking from #6 in 2011 to #3 in 2012. In addition, positive perception scores of pay improved 2 percentage points from 2011. This finding has many implications for total rewards strategies in an ever-changing economic and talent landscape.
- **Engagement drivers are not universal.** Operating in the multicultural, multigenerational and cross-geographical world represents new challenges for leaders trying to drive high levels of employee engagement. Organizations that invest in understanding and managing the key drivers of engagement across their multiple constituencies will drive performance in efficient, effective ways.

This research report provides insight into global employee engagement trends over the last few years. Employees are a critical component to every organization, and their engagement serves as a barometer of organizational health. By examining employee engagement, employers can create an engagement strategy to address employee motivation, behavior, productivity and subsequent business results. This report concludes with suggested actions leaders and managers can take to improve engagement levels and become better positioned for future success.

# Aon Hewitt's Engagement Model

Aon Hewitt defines engagement as the psychological and behavioral outcomes that lead to better employee performance. The Aon Hewitt model examines both the individual's engagement outcomes and the potential engagement drivers that are part of the organizational work experience. This employee engagement model has been tested, evolved and validated by over 15 years of research on millions of employees across a variety of companies and industries, and throughout Asia Pacific, Europe, Latin America and North America. The model is further supported by years of research in the area of organizational psychology.

## Engagement Drivers



## Engagement Outcomes



We define engagement through three attributes that include the extent to which employees:

**Say**—speak positively about the organization to co-workers, potential employees and customers

**Stay**—have an intense sense of belonging and desire to be a part of the organization

**Strive**—are motivated and exert effort toward success in their job and for the company

We believe employees need all three of these elements to be fully engaged. For example, it is difficult to say employees are fully engaged if they strive to go above and beyond but do not really wish to stay with the organization—or worse, if employees want to stay with an organization but make no effort to go above and beyond. The behaviors engaged employees demonstrate lead to positive outcomes in key business drivers like customer satisfaction, operational efficiency and revenue growth. A recent meta-analysis of 58 independent studies found compelling and overwhelming evidence that employee attitudes and behaviors have strong correlations with customer satisfaction and indirect relationships with financial performance.<sup>4</sup>

Aon Hewitt’s Engagement Model also covers “Engagement Drivers.” These are the areas over which management has a great deal of control—the action areas. Our extensive research formed the six major categories of the work experience that include the work people do, the people they work with, opportunities, total rewards, company practices and general quality of life.

The Aon Hewitt Engagement Model is the basis of the analysis in this report. Our analysis describes the baseline levels of employee engagement and the employment experience, what has changed and what drivers engage 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.

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4 Y. Hong, H Liao, J, Hu, K, Jiang, “Missing Link in the Service Profit Chain:A Meta-Analytic Review of the Antecedents, Consequences and Moderators of Service Climate,” *Journal of Applied Psychology*, 98/2, 237-267 (2013)

# Trends in Global Employee Engagement

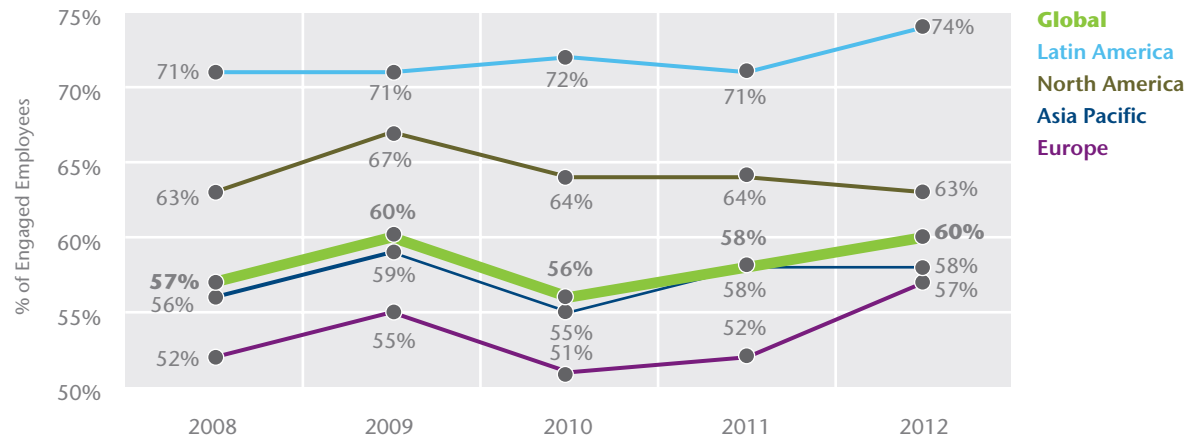
The economic recession that began in 2008 still looms over businesses across the globe. The complex landscape of human capital challenges mixed with financial constraints forced organizations to make tough decisions on where to invest their people, time and resources. These management decisions have impacted employee engagement levels and perceptions globally.

Engagement levels are on the rise globally but vary across regions

The chart that follows shows overall trends in engagement scores, globally and by region. In 2012, the global engagement score was 60%, up 2 percentage points from 58% in 2011. While on the surface this looks like a modest improvement across the board, a look below the surface reveals that engagement levels fluctuate—sometimes substantially—around the world. Based on a five-year longitudinal analysis, we see these engagement levels range globally from 72% and above for companies in the top quartile to 46% and below for companies in the bottom quartile (see the Appendix on page 26 for the “Global Engagement Meter”).

Engagement level by region varies. Continued improvements in engagement scores in Europe were the strongest among all four regions (up 5 percentage points, from 52% to 57%), followed by Latin America (up 3 percentage points, from 71% to 74%), contributing to the overall upward movement of global engagement. North America declined 1% (with the U.S. declining 3% between 2011 and 2012) and Asia Pacific experienced no change.

**Global Trends in Employee Engagement Scores**





## Elements of Employee Engagement

We measure employee engagement through a consistent set of survey items assessing the extent to which employees speak positively about the organization (Say), have a desire to be a part of the organization (Stay) and exert extra effort that contributes to organizational success (Strive). In general, global scores across all three areas have improved slightly from 2011 to 2012 and have been restored to 2009 levels when it comes to speaking positively about the organization, intending to remain with an organization and demonstrating discretionary effort.

Over the last year, many organizations experienced modest improvement in all three components of engagement (Say, Stay and Strive), which aligns with the overall upward trend of engagement. The largest increases appear in the way employees speak about their organizations and the likelihood employees will exert extra effort to contribute to their organization's success. This suggests that organizations, and particularly leaders, have invested more time and resources in people to help them realize the impact of their performance on the organization's success. (See the Appendix for more Say, Stay and Strive detail across regions.) While engagement levels have increased slightly from 2011 to 2012, these critical aspects of engagement are still falling short—overall, only 60% of employees are engaged and less than 60% want to stay or go above and beyond.



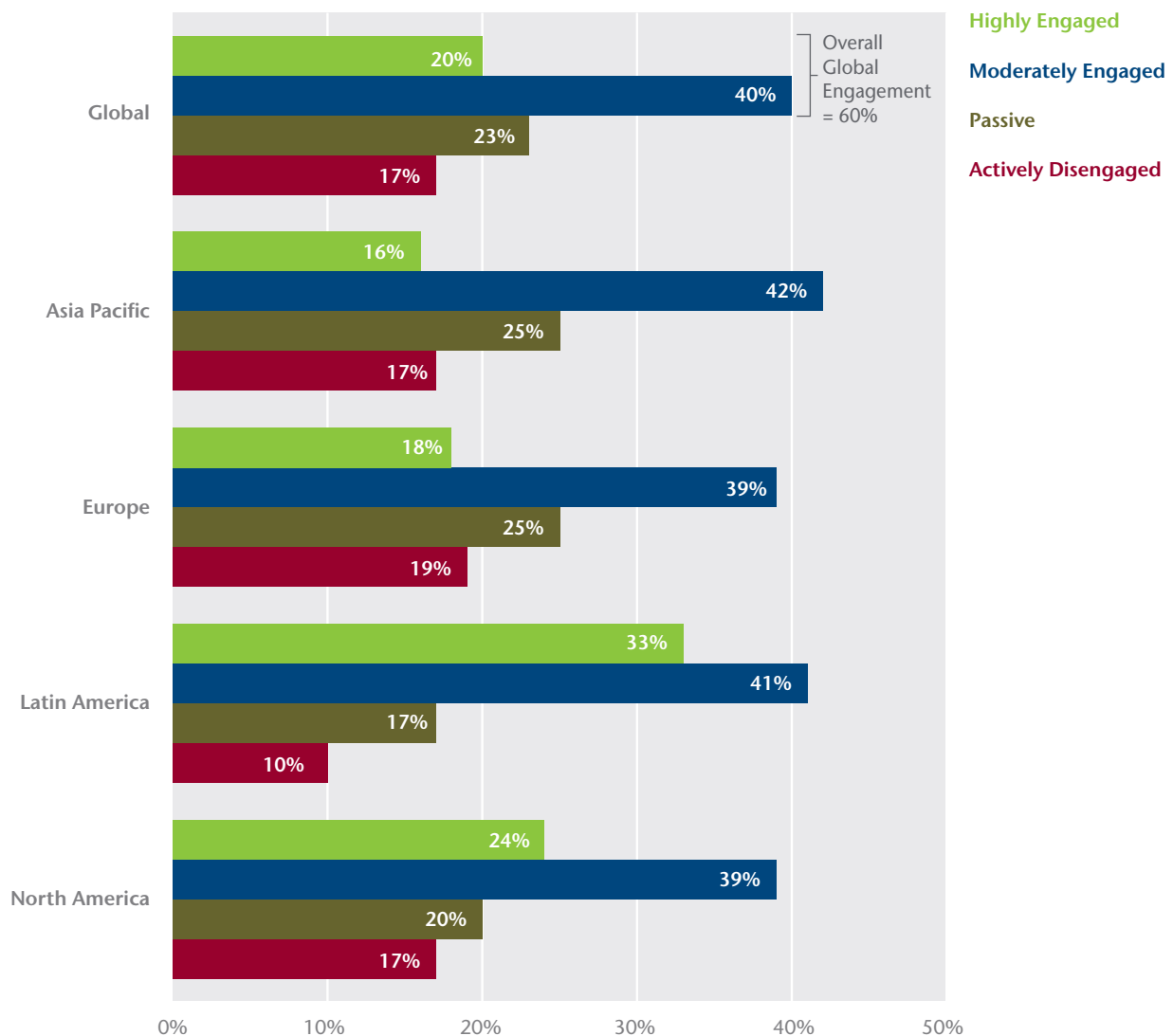
The 2012 Engagement Distribution graph on the following page displays employees across engagement profiles and reveals some interesting nuances globally and across regions. We know 60% of global employees are engaged. But are all those employees engaged equally? When we look at employees with the highest engagement scores (i.e., the highly engaged), we find that only 20% of employees fall into this category. These employees strongly agree to most or all the items in our engagement index and have strong say, stay and strive aspects to their engagement—they are also the group that drives substantially higher outcomes in terms of efficiency, quality, innovation and customer service.<sup>5</sup> The remaining group of engaged employees is moderately engaged (40%). These employees agree with most of the items in our engagement index but not in a strong way. Our research suggests there is a significant performance difference between the moderately engaged and the highly engaged. Most managers have intuitively seen this play out in real life across members of their teams.

Four out of ten employees are not engaged. These employees can be separated into two segments. First are the passive employees who show ambivalence in their response to engagement items and either slightly agree or slightly disagree with most or all the items in the engagement index. This group of passive employees makes up 23% of the average workforce and essentially does no harm, but also does not add tremendous value. There is big opportunity as well as risk associated with these passive employees. They are nearly engaged, but they are also nearly disengaged. They could become engaged with the right management and work conditions—or they could disengage when the wrong conditions are present. Second, a certain portion of employees are actively disengaged—they are negative about the company, do not particularly want to remain with the organization and do not go above and beyond in their jobs. These employees actively destroy value and, alarmingly, make up 17% of the workforce. There is significant opportunity cost associated with not addressing the passive and actively disengaged members of the workforce.

Four out of ten employees are not engaged, and two out of ten are actively disengaged

5 Aon Hewitt (2010). The Engagement 2.0 Study

## 2012 Engagement Distribution

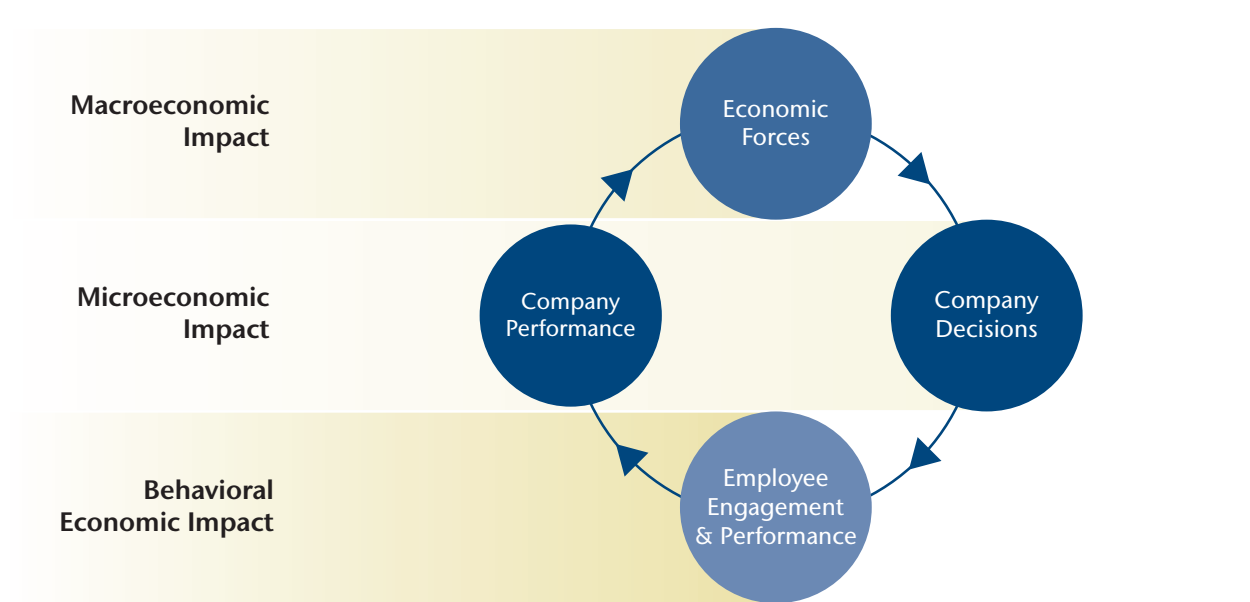


Regionally, we see that North America has one of the highest rates of highly engaged employees (even though this region does not have the highest overall engagement level). North America also has a high rate of actively disengaged employees—exceeded only by actively disengaged levels of European employees, and by only two points. Latin America has the highest level of highly engaged employees as well as the lowest rate of actively disengaged employees. Asia Pacific has the highest rate of moderately engaged employees and is on par with the global average of actively disengaged—and also has the lowest levels of highly engaged. It seems that regardless of overall engagement levels—high or low—employers are at risk of a certain number of passive employees and somewhere between 10% and 20% of employees being actively disengaged. We know there are cultural differences in how employees respond to survey questions (e.g., Latin American employees tend to have higher survey scores across the board and Asian employees tend to not answer in the extreme), so it's important to take this into account when examining these data.

# Macroeconomic Indicators, Company Performance and Individual Employee Engagement

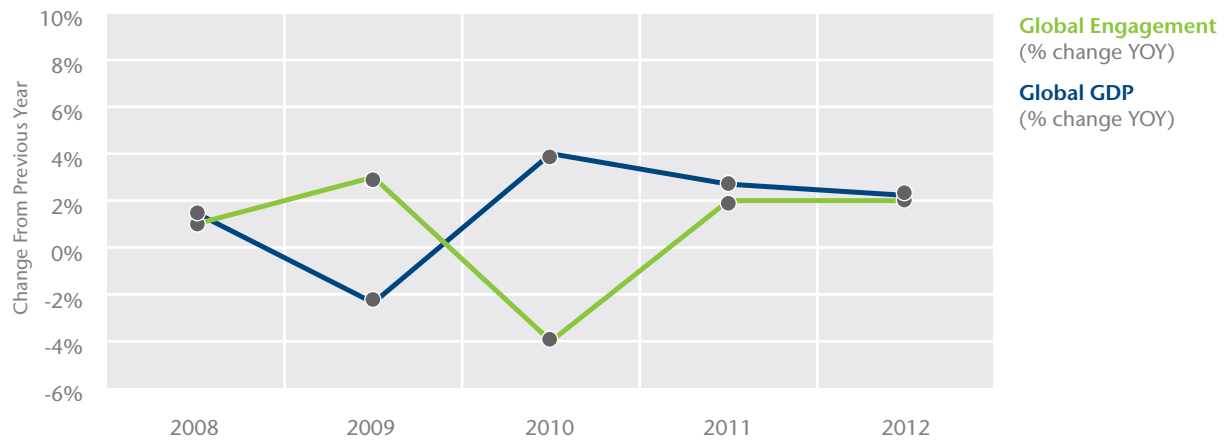
We view the employer as an intermediary between larger economic forces and the performance of the individuals driving such results. Market forces, employee engagement and company performance are all part of a system with a lagged chain of events that spans macro, micro and behavioral economic dynamics. As the model that follows illustrates, macroeconomic forces impact the microeconomic decisions companies make that can influence individuals' engagement levels, which then affects organizational performance, which in turn aggregately impacts macroeconomic indicators. The cyclical pattern shows how engagement can play a critical role—not only in the performance of the organization, but on the economic conditions overall. Most important, leaders and managers should know the link in this model over which they have the most control is where their decisions can impact employees' engagement in company performance.

## The Cycle of Macro, Micro and Behavioral Economic Performance



Our 2012 *Engagement Trends* research uncovered a lagged relationship between the gross domestic product (GDP) and employee engagement; specifically, as GDP growth turned negative in 2009, engagement decreased a year later in 2010. This lagged effect also occurred in the reverse—as GDP growth came back in 2010, engagement likewise turned positive in 2011. This analysis sheds some insight into the first three elements on the previous model: Economic Forces, Company Decisions and Employee Engagement & Performance. It is not likely there is a direct causal relationship between GDP and employee engagement. The more likely scenario is that in *reaction* to large macroeconomic changes, companies make decisions (e.g., M&A, restructuring, people investments) that have a significant impact on the engagement levels of individuals within these organizations. Our most recent analysis shows that this directional lagged relationship between GDP and employee engagement continues.

## Global Engagement Trends Compared to Global Economic Indicators



Source: Bloomberg (accessed February 27, 2012) and Economic Intelligence Unit (accessed February 14, 2013)

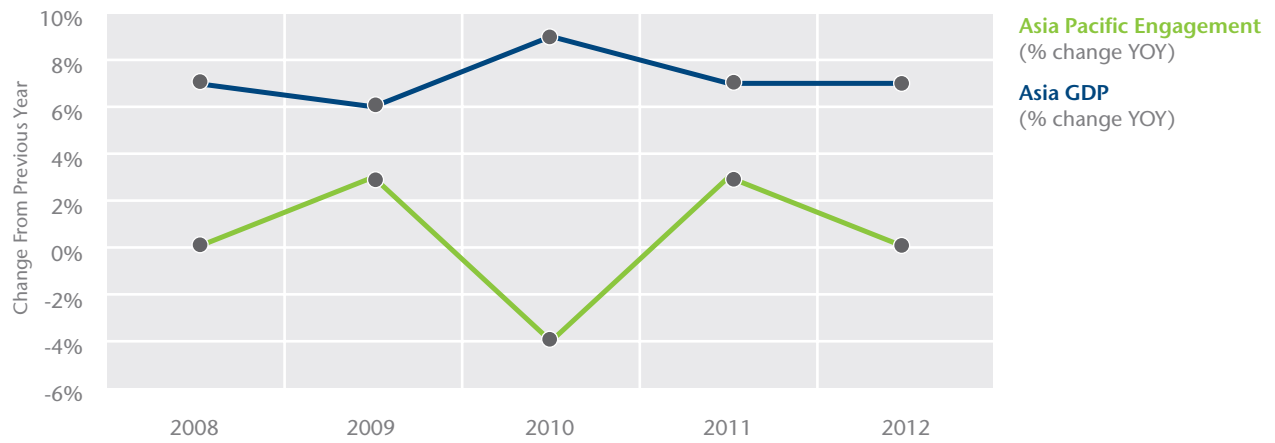
Note: “YOY” refers to Year over Year

Although global GDP growth slowed slightly from 2010 to 2011, it was still positive at 2.7%. We then saw employee engagement increase 2% a year later in 2012. It appears as if either the engagement increase in 2012 is a continued lag effect from the positive reversal in GDP from 2009 to 2010, or that the positive growth in GDP from 2010 to 2011 (regardless of a slight slowing in growth) may be continuing to positively affect employee engagement. In either case, we see a general pattern where negative economic growth is followed by a decrease in engagement scores and positive economic growth is followed by increases in engagement.

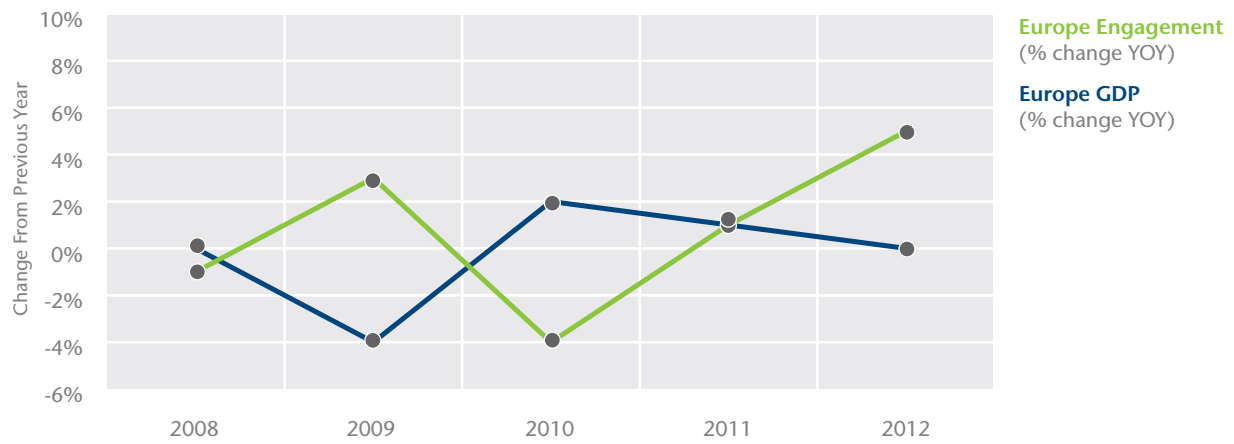
Employee engagement is a leading indicator of company growth—but lags economic forces

Following the hypothesis that GDP helps forecast company decisions and subsequent employee engagement levels a year later (and that sharp decreases in GDP in particular have a significant negative ripple effect), we see a few patterns in various regions around the globe with implications for employee engagement in 2013. The slowing economic growth in emerging markets of Asia Pacific and Latin America in 2012 may signal relative decreases in corporate talent investments to come in 2013—engagement growth may slow or even decline. The road for Europe and North America will likely still be volatile. Europe has seen a very positive increase in employee engagement, but GDP across this region became slightly negative again in 2012, which may forecast downward engagement pressure in 2013. North America by contrast is experiencing slow but stabilizing economic growth, but declining engagement. As the next section will show, this decline in engagement could have negative longer-term consequences on business performance for companies trying to drive growth, just as the economic pressures are easing somewhat.

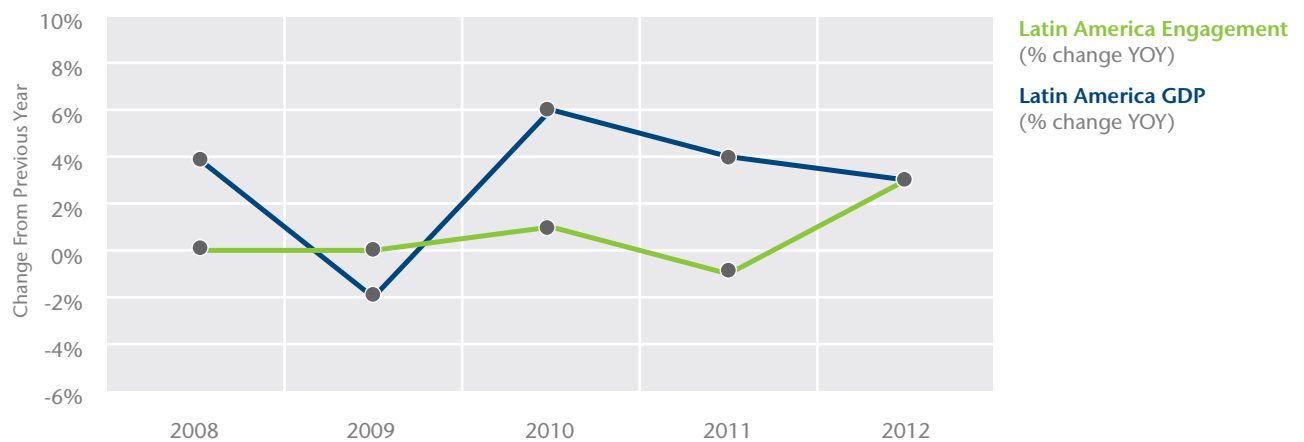
### Asia Pacific Engagement Trends Compared to Asia Pacific Economic Indicators



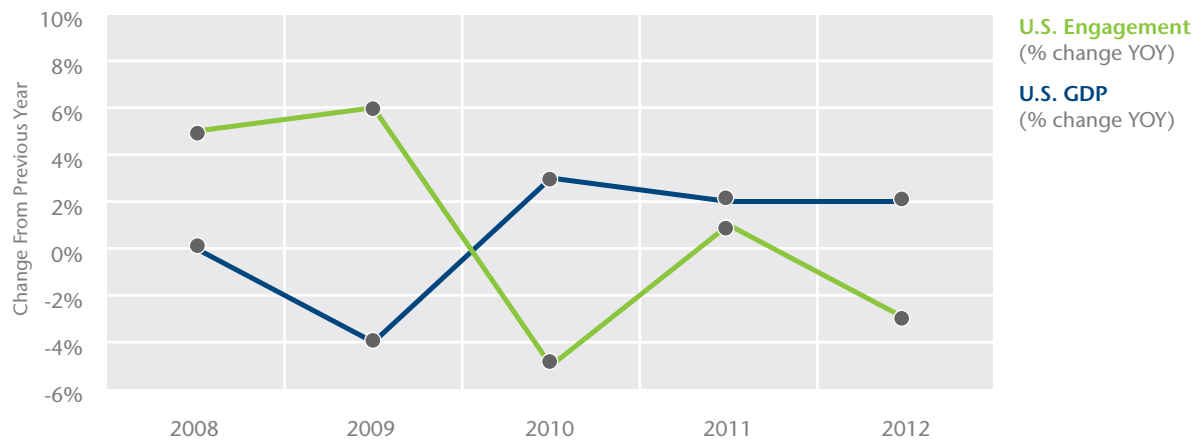
### Europe Engagement Trends Compared to Europe Economic Indicators



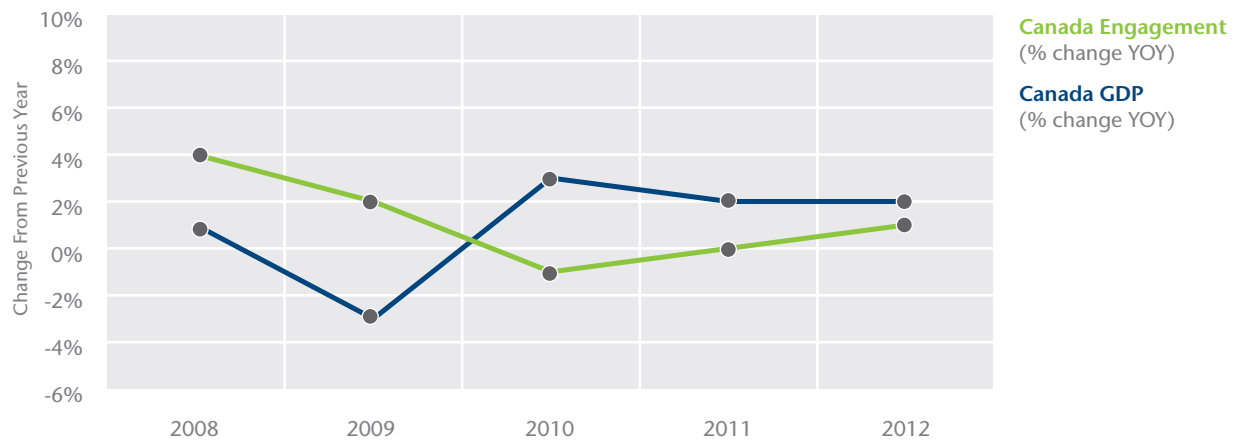
### Latin America Engagement Trends Compared to Latin America Economic Indicators



## United States Engagement Trends Compared to United States Economic Indicators



## Canada Engagement Trends Compared to Canada Economic Indicators





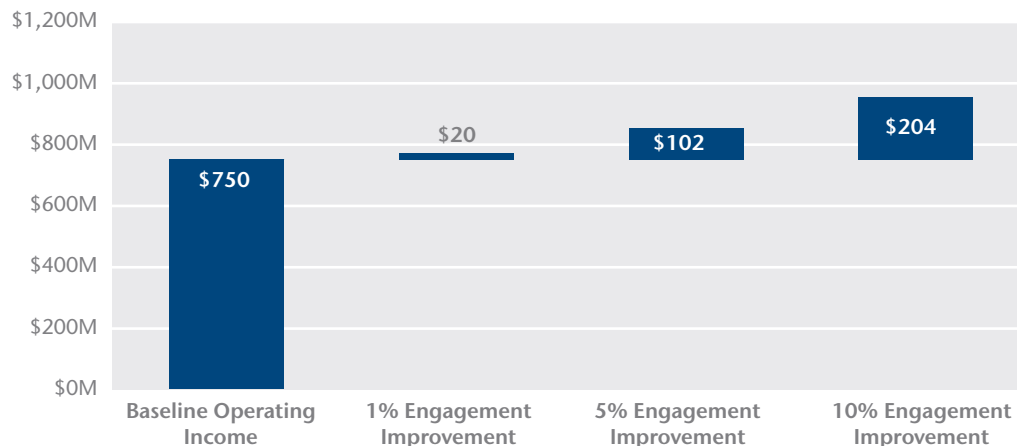
## If Companies and Employee Engagement are at the Mercy of the Economy, What's the Answer?

Employee engagement is similar to a boat's propeller—it is very much under the surface and its impact is moderated by the force of the current moving with or against the vessel. Leaders and managers need to understand how to harness and direct the positive force of employee engagement to navigate with positive economic momentum and through negative economic currents. Managing and improving employee engagement is the key to achieving revenue growth and profitability goals as we move further away from the economic crisis of 2008–2009.

We recently examined the relationship between employee engagement and financial performance using data from 94 companies from our Employee Research Database. We uncovered a strong positive correlation between 2010 engagement relative to regional benchmarks and sales growth one year later in 2011 ( $r=.41$ ,  $p<.01$ ). The lagged relationship intuitively makes sense considering that an engaged employee yields better efficiency, quality, innovation and customer service. This valuable engagement output will likely increase the numbers of satisfied customers, resulting in new and recurring business. But this effect is not immediate—it takes time for engagement to translate into tangible operational and customer outcomes that eventually translate into measurable financial results.

We applied the statistical relationship we found in a sensitivity analysis to show what a 1%, 5% or 10% engagement increase might be worth in financial terms for organizations. Our analysis indicates that each incremental percentage of employees who become engaged would predict an incremental 0.6% growth in sales (therefore, a 5 percentage point improvement in engagement predicts a 3% increase in sales growth). As a practical illustration of the power of this relationship, for a \$5 billion company with a gross margin of 55% and 15% operating margin, if this “engagement to sales growth” relationship holds true, a 1% increase in employee engagement would be worth \$20 million in incremental operating income. Likewise, a 5% engagement increase would yield an incremental \$102 million and a 10% engagement improvement would produce an incremental \$204 million, straight to the bottom line. Understanding this relationship allows leaders to recognize and realize the incredible financial opportunity behind their investments in talent.

### Sensitivity of Lagged Operating Income to Changes in Employee Engagement for a \$5B Organization with 15% Operating Margin (numbers in \$millions)



Source: Aon Hewitt Engagement database

Note: Sensitivity assumes a \$5B organization with gross margin of 55% and operating margin of 15%. Sensitivity based on regression beta weight from engagement and sales growth data for 94 companies. Relationship statistically significant ( $p<.01$ ).

In our analysis, we also found there were positive lagged correlations between employee engagement in 2008 and 2009 and sales growth one and two years later (statistically significant correlations ranged from 0.16 to 0.25). This means organizations that managed higher levels of engagement against negative macroeconomic currents in the height of the financial crisis had significantly higher revenue growth in the years that followed. Further, we see a strong correlation between engagement levels and total shareholder return (TSR). Our analysis shows that companies with engagement levels in the top quartile, with 72% or higher engagement, attain 50% higher TSR than the average organization. Likewise, companies in the bottom quartile of engagement levels (46% or lower) have 50% lower TSR than the average organization (see the Appendix for the “Global Engagement Meter”). As we saw earlier, average engagement is on the rise by 2 percentage points. The 12% point difference between average engagement level (60% for 2012) and the top quartile cutoff means some companies are pulling away from the pack in their engagement strategies. The bar is being raised by some organizations, despite the economic pressures that surround us all. What lessons can be learned from these analyses?

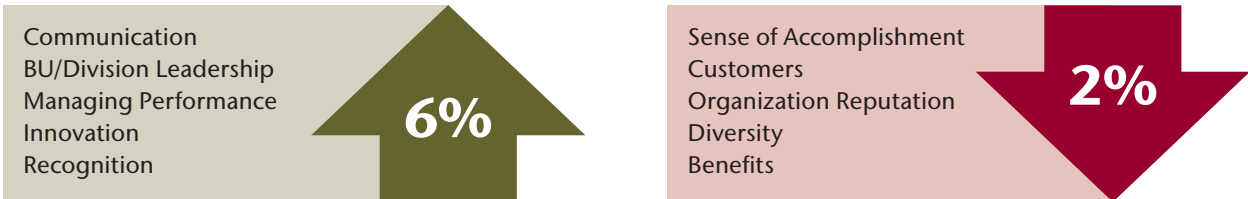
Economic disruptions come and go—and the estimated lag-time duration of the effects may vary. The way organizations react to economic cycles often predicts how well they succeed or survive. During turbulent times and uncertain forecasts, many organizations react with decreased investment in their talent. It may be tempting to think engagement is just a function of the economy, but there are many things within the control of management that can improve and sustain engagement in times of economic health as well as crisis—and engagement is repeatedly seen as a leading indicator of business performance. Smart leaders realize that times of economic crisis actually present some of the best opportunities to invest in employee engagement in order to stabilize the organization through the tough times and be ready to capitalize on eventual growth opportunities. During recovery periods, engagement becomes even more crucial as organizations ask fewer people to do more. The first step to engaging employees is to understand the precursors to engagement.

The sections that follow highlight changes in the overall work experience, key drivers of engagement within that work experience and how each of the drivers varies by demographic and geographic groups.

# Changes in the Work Experience

Understanding and managing employee engagement requires managers to dig deeper into how employees feel about the work experience. Over the past year, some elements of employees' perception of the work experience improved, while others deteriorated. Examining the global averages, we see that more areas improved in 2012 than deteriorated. In addition, the top five increases went up in positive perception by an average of 6%, while the top areas of decrease went down in positive perception by an average of 2%. The areas that are improving the most seem to pertain to organizational programs and practices—communication, performance management, innovation and recognition. The areas that are deteriorating seem to be closely related to job fit and culture—one's sense of accomplishment in the work, customer interactions and organizational reputation.

## Largest Changes in the Global Work Experience 2011–2012



As the heat map that follows illustrates, the work experience is changing in different ways across global regions. Work experience indicators in Europe seem to be improving the most. Europe also experienced the greatest increase in employee engagement relative to other regions. The work experience in Asia Pacific, Latin America and North America seems more dynamic, with large increases in some areas accompanied by large decreases in others. Asia Pacific appears to have the greatest degree of decline relative to other regions across work experience indicators.

The general work experience is improving more than it is deteriorating

## Relative Change in Work Experience Perception Scores (2011–2012)

Work Experience Indicator	Baseline 2012 Engagement %	60%	58%	57%	74%	63%
		Global	Asia Pacific	Europe	Latin America	North America
Communication		7%	4%	10%	6%	7%
BU/Division Leadership		6%	8%	7%	12%	-4%
Managing Performance		5%	4%	4%	7%	7%
Innovation		5%	-2%	7%	4%	13%
Recognition		5%	0%	9%	8%	0%
Brand Alignment		4%	0%	10%	3%	1%
Physical Work Environment		4%	3%	7%	-1%	-1%
Resources		3%	-3%	6%	7%	1%
Safety		3%	1%	6%	5%	-1%
Valuing People/People Focus		3%	1%	7%	-3%	-2%
People/HR Practices		3%	-1%	6%	-5%	-1%
Career Opportunities		3%	-1%	8%	3%	1%
Learning and Development		3%	-1%	6%	4%	-1%
Pay		2%	-1%	4%	2%	3%
Work Processes		2%	-2%	5%	2%	-1%
Senior Leadership		2%	-2%	7%	1%	0%
Work Tasks		2%	2%	3%	-1%	0%
Manager		1%	0%	3%	3%	-1%
Work/Life Balance		0%	-3%	3%	3%	0%
Co-workers		0%	-1%	0%	-1%	-1%
Autonomy/Choice		-1%	-7%	-1%	1%	3%
Benefits		-1%	-4%	1%	-1%	-2%
Diversity		-1%	-3%	2%	-3%	-9%
Organization Reputation		-2%	-4%	1%	-7%	-1%
Customers		-3%	-7%	-1%	-1%	-7%
Sense of Accomplishment		-3%	-5%	-3%	-4%	-2%
Customer Focus			2%	2%	2%	
Work Location			10%	-9%		
Influence			-2%			

Heat Map Key ■ Getting Worse 2011-2012  
■ Improving 2011-2012

## Key Drivers of Employee Engagement

As our Engagement Model suggests, all these areas of the work experience impact employee engagement. However, some areas impact engagement more than others. These “key engagement drivers” are identified through statistical analysis that prioritizes them based on both strength of statistical relationship with engagement and the opportunity for improvement in the driver area itself. The table that follows displays the results of a meta-analysis from 2,560 organizations in our database representing more than 3.8 million employees across the globe. Rankings indicate the aspects of the work experience that most frequently emerged as highly important and having the greatest opportunity to improve engagement—the key drivers.

Many employers across the globe raised the bar and made investments in the top engagement drivers

### Key Drivers of Employee Engagement (Rank)

	2011 Global	2012 Global	Perception Change 2011 to 2012	Asia Pacific	Europe	Latin America	North America
<b>Career Opportunities</b>	1	1	↑ 3%	1	1	3	1
<b>Organization Reputation</b>	3	2	↓ -2%	4	2	5	3
<b>Pay</b>		3	↑ 2%	2	3	4	
<b>Recognition</b>	2	4	↑ 5%	3		1	5
<b>Communication</b>	4	5	↑ 7%				4
<b>Managing Performance</b>	5		↑ 5%				2
<b>Innovation</b>			↑ 5%		5	2	
<b>Work Processes</b>			↑ 2%		4		
<b>Brand Alignment</b>			↑ 4%	5			

All of the top five engagement drivers for 2012 improved except for organization reputation. This finding accounts for the 2% overall improvement in global employee engagement. Career opportunities remains at the top engagement driver ranking position—followed by organization reputation, pay, recognition and communication. A striking finding in these analyses is the relative placement of pay in the key driver rankings (#3), as well as the relative improvement in positive perception scores (+2%). In traditional engagement research, pay is often thought of as a “hygiene” factor—meaning organizations have to get pay right, but incremental investments do not have significant impact.

Pay is one of the top drivers of engagement

Pay's new #3 ranking as an engagement driver has significant implications. First, it could mean the pay freezes and bonus impacts of the last few years have started to meet the "hygiene threshold," and pay is factoring into employee engagement more and more. It could also mean the employment contract is changing as has been predicted, and employees with less long-term loyalty value pay more and more. Finally, two of the three regions where pay showed up as a top driver, Asia Pacific and Latin America, are growing regions where the job market is competitive and pay remains a critical aspect of the value proposition to attract, retain and engage talent.

There is still much work to do with the average positive perception score in key drivers at just under 50% (meaning these are the most important engagement drivers and on average, only about half of employees think their organization is delivering on these areas). If organizations can sustain the relative improvement in key drivers of engagement, might we expect further engagement improvement in 2013? The summary table that follows combines the various economic and engagement dynamics by region to provide some answers to this question.

### Summary of Regional Economic, Work Experience and Engagement Dynamics

	Growing Markets		Mature Markets	
	Asia Pacific	Latin America	Europe	North America
<b>2012 Economic Conditions</b>	Slowing Growth	Slowing Growth	Negative Growth	Moderately Increasing Growth
<b>GDP Growth</b>	6.6%	2.7%	-0.2%	2.2%
<b>Change in Engagement</b>	0%	3%	5%	-1%
<b>Average Change in Work Environment</b>	0%	2%	4%	0%
<b>Average Change in Top Engagement Drivers</b>	-1%	2%	5%	3%

The first thing to note is that no region has a completely clean bill of health when it comes to economic, business and talent issues. Asia Pacific's relative strength is high economic growth. However, growth is slowing, which may forecast decreases in talent investments. Also, Asia Pacific's top engagement drivers either stayed flat or deteriorated in perception. Engagement in Asia Pacific remained flat from 2011 to 2012 as well. If engagement is a leading indicator of growth, could the slowed growth in Asia Pacific be forecasting lower people investments and engagement levels for that region? Will the flat employee experience shown in the data exacerbate the slowing economic growth?



As the economic contraction reemerges in Europe, we also see some interesting leading indicators of growth in the employee engagement data. Many of this region's social programs, referred to as "automatic stabilizers," have diminished. Workers within Europe cling to the employment opportunities as their region works to avoid further divergence.<sup>6</sup> Financial markets remain volatile, economic conditions have deteriorated, unemployment has steadily increased and inequality threatens social cohesion and living standards.<sup>7</sup> Europe's engagement driver areas are noteworthy, however, marked by improvement in all the region's top five drivers. There was an average increase of 5% in these key drivers and a 5% uptick in employee engagement. Can the European work experience and engagement growth stave off the downward economic pressures and help companies find growth?

North America's economy has shown some signs of life, but employers and the workforce do not appear ready. Engagement is declining and the general work experience remains unchanged. In the U.S., the debt crisis and sequestration loom over employers and employees with no real understanding of what it will mean. This uncertainty, in combination with engagement levels declining 3 percentage points, does not bode well for hopes of turnaround unless the 3% average improvement in key engagement drivers starts to take hold—lifting engagement levels to drive the innovation and productivity required to support further company and economic growth.

Latin America shows the most promise relative to other regions. The growth of recent years has slowed to moderate levels, but improvements in employee engagement, the work experience and key drivers of engagement seem to forecast that the business and work climate will remain relatively positive.

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6 European Commission, "Employment and Social Developments: Growing divergence and higher risks of long-term exclusion," Aug 2013

7 Eurostat Unemployment Rate, 2012

# Understanding Engagement by Segments

There are many elements influencing employee engagement that span beyond the economic and geographic conditions surrounding the individual employee. Understanding the differences that exist by segments such as job level, job function and generation allows organizations to identify critical gaps where they may need to invest their resources differently or target them to a specific group of people.

## Job Level

The data show some interesting trends by job level. On a global basis, executives and senior managers are the most engaged (nearly 70%), followed by middle managers, team leaders and supervisors. This is not particularly surprising, since this group is likely the most involved with planning and executing efforts designed to enhance engagement. As we learned in the previous section, the element of engagement that is likely to have the greatest impact on a positive experience is career opportunities. Executives and senior managers are also likely to be the group with access to the greatest career opportunities, pay and advantages of a strong organizational reputation. Senior leadership is also a segment more likely to be engaged (Say, Stay and Strive), since it is generally expected that senior leaders positively promote the organization, have an intense desire to be part of the organization and exert extra effort to contribute to the organization's success.

By contrast, the results for professional employees are a bit surprising—they actually have the lowest level of engagement globally, lower than front-line employees, with only around 55% being engaged. On a regional basis, the area hit hardest by this is Europe. The driver chart that follows displays the areas that are most important to improving engagement for these various organizational levels.

## Engagement Drivers by Level (Rank)

	2012 Global			
	Executive and Senior Management	Middle Management and Team Leader/ Supervisor	Professional Employee	Team Member/ Front-Line Employee
Career Opportunities	2	1	3	1
Recognition	3			4
Brand Alignment			5	
People/HR Practices		4		
Organization Reputation	1	3		3
Senior Leadership	4			
Benefits			1	
Pay	5			5
Communication		2	2	2
Work Processes		5		
Resources			4	

## Function/Job Type

There are also some differences in engagement by functional area. Sales and marketing has the highest engagement level of all of all functions globally (58%). The lowest levels of engagement globally are in information technology, where only half of the employees in this function are engaged. The chart that follows displays the drivers that are most important to improving engagement for these various functions.

### Engagement Drivers by Job Function (Rank)

	2012 Global			
	Sales, Marketing and Business Development	Engineering/ Production	Finance/ Administration	Other Support Functions (e.g. PR, Legal, Quality etc.)
Career Opportunities	1	1	1	1
Recognition		5	4	
Brand Alignment	5		3	3
People/HR Practices	3	4		
Organization Reputation	2	2	2	2
Senior Leadership				5
Communication			5	4
Work Processes	4	3		

## Generational Differences

There are some substantial differences in engagement by generation—a consistent trend globally and across most regions. The Baby Boomers (those born between 1946 and 1964) have the highest level of engagement with 65% engaged, followed by the Generation X cohort (those born between 1965 and 1978) at 58% engagement, followed by the Millennials (those born 1979 and later) at 55% engagement. To some extent there may be a pure age effect—people become more engaged in their work as they get older—but we believe there are also generational factors at work here, with Millennials in particular having different expectations of the workplace as a result of their backgrounds and experiences, and not being as engaged by what they find in their organizations. The chart that follows displays the drivers that are most important to improving engagement for these various generational segments from the global sample.

### Engagement Drivers by Generation (Rank)

	2012 Global		
	Millennials	Generation X	Baby Boomers
Career Opportunities	1	1	1
Organization Reputation	2	2	2
Recognition	3	4	4
Communication	4		3
Pay	5		
Innovation		3	5
Work Processess		5	

## Conclusion: Seize the Opportunity to Improve Employee Engagement and Business Results

As organizations continue to rebound from the recent economic conditions, companies recognize that their opportunities to grow may be inhibited by resource constraints and talent gaps. The critical concern at the forefront of many organizations today involves determining the few high-impact areas where action is needed. We have seen that the best are getting better and the bar has been raised when it comes to employee engagement. We conducted research on our Best Employers to identify the key driver areas where they excel—leadership, employee value proposition, total rewards and enabling infrastructure.<sup>8</sup> Combining the input from the global trends in this report along with our Best Employer research, this section highlights the priorities we see for improved engagement.

Employee engagement is a business imperative—it is the critical lynchpin between talent strategy and business results

- **Leadership**—This is a call to action. On average, 54% of global employees view their senior leadership favorably. We did not see leadership appear as a top engagement driver in 2012. To this, our response is, “why not?” The Best Employers excel at leadership, and we repeatedly hear that engagement efforts succeed or fail based on the level of CEO interest, understanding and involvement in engaging employees in organizational success. If leaders do not drive employee engagement efforts, who will? We hear repeatedly from employees that they want to see and hear from their leaders—to hear about the business, know its direction, to know they care, to be inspired. The challenge for HR professionals is to raise employee engagement initiatives to business imperative status, use data to convince leaders of the business criticality of engagement and partner with executives on solutions beyond conducting an annual survey.
- **Reputation**—What does your organization want to be famous for in the job market? Only 52% of employees on average can answer this question and answer it positively—and this is the #2 engagement driver. Without a clear and concise organizational response to this question, it is difficult to attract, retain and engage the talent needed for organizational success. Many organizations have strong reputations, both externally and internally. Amazon, Apple, Disney, Google and Johnson & Johnson are companies with strong, highly visible reputations.<sup>9</sup> Organizational reputation is a function of business performance, social responsibility, general impressions, etc. It is also very much about thoughts people in the job market have about your organization as a place to work. The next area, total rewards, is a key driver of this component of reputation.

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8 Aon Hewitt (2012). Making Engagement Happen: Best Practices from Best Employers

9 Harris Interactive (2013). The Harris Poll 2013 RQ® Summary Report. A Survey of the US General Public Using the Reputation Quotient®



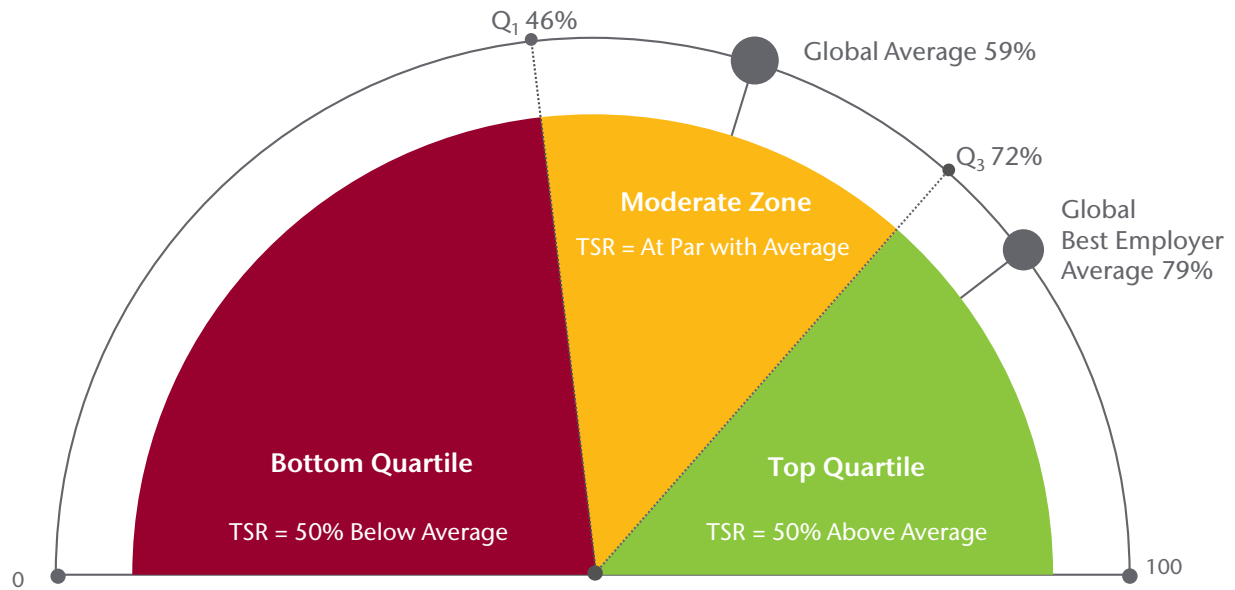
## ■ Total Rewards

- **Career Opportunities**—Consistently showing up as the #1 engagement driver, a majority of employees are consistently disappointed. Only 47% of employees think they have good advancement opportunities at their organization. Providing these opportunities equally across employees is very difficult, if not impossible, from a business and talent management perspective. The focus should be on the high potentials and the highly engaged (often one and the same). Ensuring that these individuals are well placed in stretch assignments that continually challenge them will keep these employees motivated and ensure that the organization has the best talent giving their best in the most impactful positions. More frequent manager-employee career coaching conversations are a prerequisite to excelling in this area.
  - **Pay**—Approximately four out of ten (44%) employees think they are paid fairly for their contributions. This driver has been on the rise in importance ranking over the last two years. Employees' perceptions of pay fairness have improved slightly, but the raw score is still very low. The findings around pay indicate that economic pressures, threats of inflation and historical pay constraints may have caused pay to hit the hygiene threshold often talked about. With the stressful experiences of the last few years, changing workforce demographics, hot talent wars in some emerging markets and traditional retirement security either gone or at risk, the concept of loyalty to a company may have disappeared. Employees could become very mercenary as job opportunities open up for higher pay.
  - **Recognition**—Recognition is certainly less costly than direct pay, and can also have a significant impact on engagement as part of total rewards. Recognition is both a leadership responsibility and a manager responsibility. Employees want recognition for their performance, but also recognition for how difficult things have been—even though only 48% think they get this recognition. Despite all the economic and business pressures, engagement is on the rise—more employees have said good things about their company, committed to staying and given extra effort. These employees deserve the recognition. It will pay off in turn with sustained or even higher engagement.
- **Communication**—What is the story you tell employees about your organization, the path you have been on, where they fit in and the path forward? Employees want to know. Less than half (49%) of employees think their company is effective at communication—even sometimes at just the basics. Positioning the employee as the protagonist of your organization's story (which addresses their need to work for a company with great leaders, a strong reputation and a compelling set of total rewards) will help ensure that they engage, help shape that story and stay to see how the story ends.
  - **Enabling Performance**—We increasingly hear from employees that “it's difficult to get things done around here.” Only 55% of employees say they have the tools and resources they need to be productive. Best Employers are better at enabling performance than the average company. Further, enablement is a top engagement driver of high-potential employees. Perhaps the last ingredient to truly drive engagement once the priorities above have been addressed is to simply remove barriers. This will reduce anxiety, stress and frustration to fully unlock an individual's discretionary effort, potential and performance.

There are some signs of hope in the global economy—engagement and perceptions of the general work experience are on the rise. But the specter of economic recession still looms. Employees, particularly highly engaged employees, are the growth engine. Some companies are winning the engagement race and actually increasing the distance between themselves and the rest. The economic, business and talent challenges are significant. Employee engagement is a leading indicator of business performance that helps mitigate these challenges and drive future growth. This is leadership's responsibility. Now is the time.

# Appendix

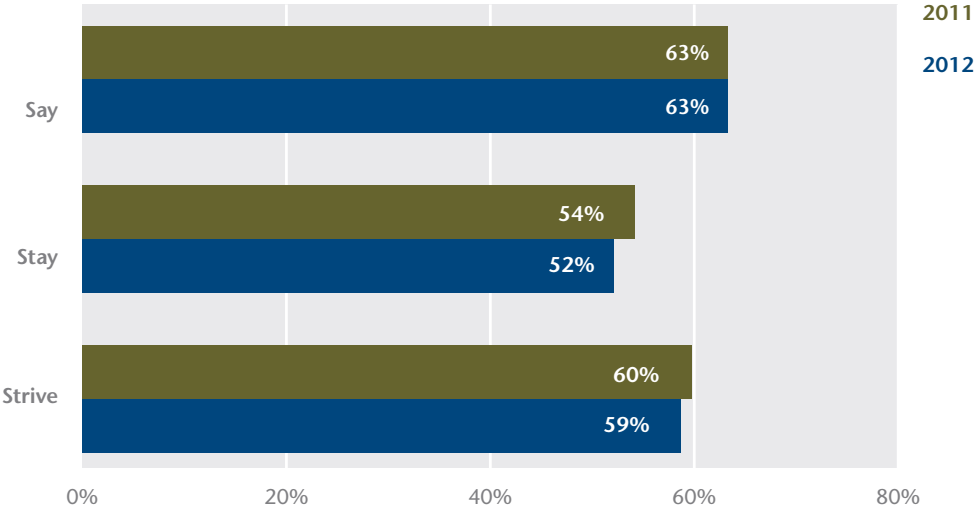
## Global Engagement Meter



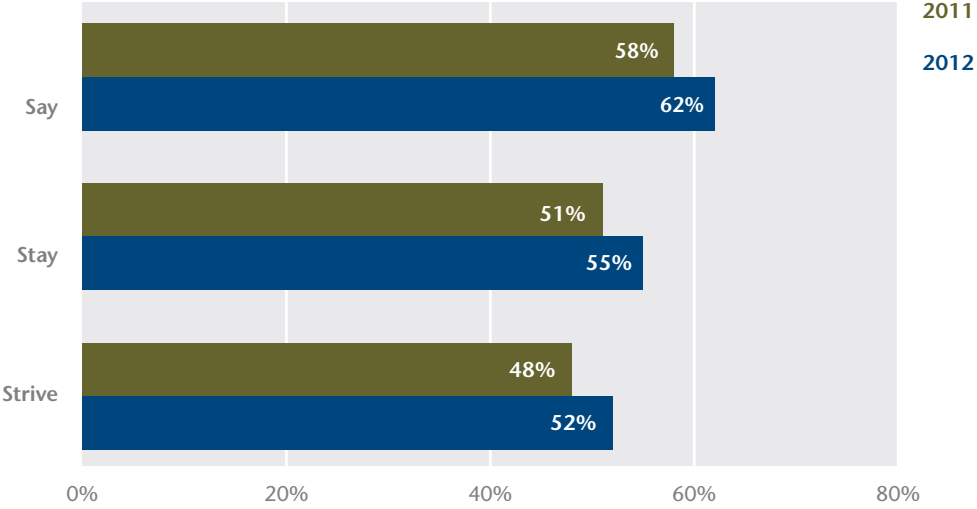
Source: Aon Hewitt Employee Research Database  
(Rolling average 2008-2012)

# Elements of Engagement—Say, Stay, Strive

## Asia Pacific

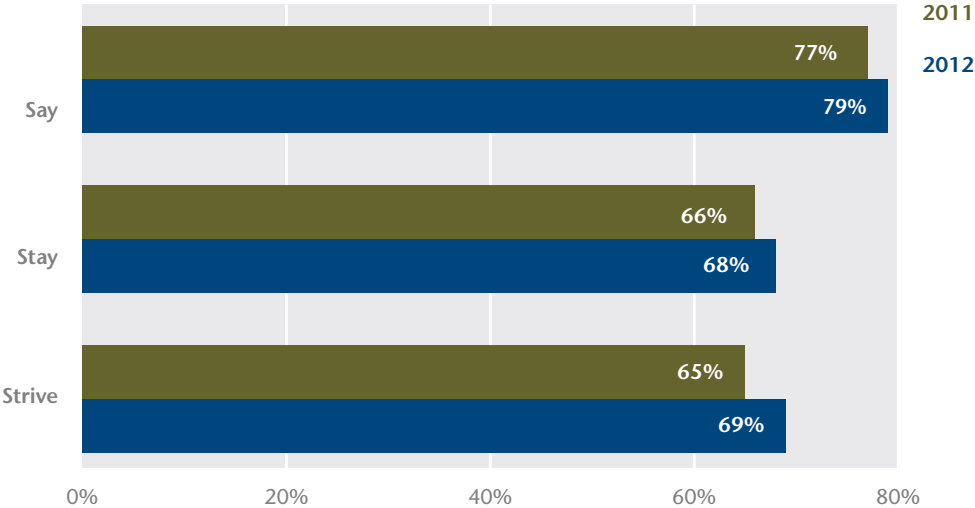


## Europe

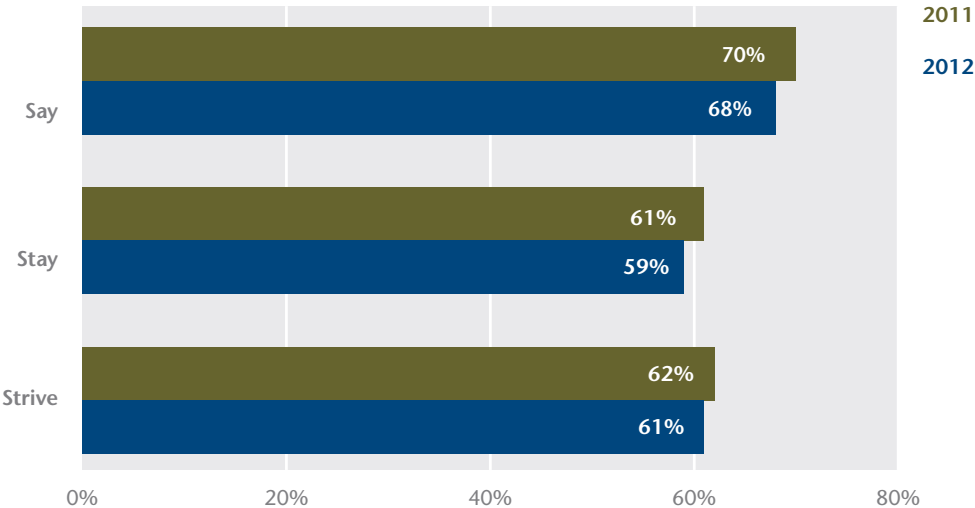


# Elements of Engagement—Say, Stay, Strive

## Latin America



## North America





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