

Research Summary

Employee engagement trends: 2008-10

Steady decline in engagement and job satisfaction

2010 HEWITT ASSOCIATES STUDY

Significant drop in employee engagement since the onset of the recession

Since July 2008, Hewitt has analyzed quarterly changes in engagement for over 900 organizations worldwide conducting annual studies on such topics as morale, confidence in the organization, trust in leadership, career opportunities, rewards and recognition.

- **Over the past two years, engagement has been steadily declining:**
 - 46% organizations experienced a decline in the quarter ending June 2010 vs. the historical average of 15% in a one- or two-year period.
 - Only 30% saw improvement vs. the historical average of about 50%.
- **Hewitt's analysis links employee engagement levels and financial performance.**
 - Organizations with high engagement (65% or more of employees are engaged) outperformed the total stock market index—even in volatile economic conditions.
 - During 2009, total shareholder return for these companies was 19% higher than the average total shareholder return.
 - Conversely, companies with low engagement (less than 40% of employees are engaged) had a total shareholder return that was 44% lower than the average.

2009 CONFERENCE BOARD REPORT

Growing job dissatisfaction over the past two decades

The Conference Board's survey of 5,000 households recorded the lowest level of American workers' job satisfaction in more than 22 years of studying the issue.

- 45% were satisfied with their jobs in 2009, down from 61% in 1987.
- 51% find their jobs interesting, down from 70% in 1987.
- 43% feel secure in their jobs in 2009, 59% in 1987.
- 56% like their co-workers, down from 68% in 1987.
- 51% are satisfied with their boss, down from 60% in 1987.

Sources

"Americans' job satisfaction falls to record low." *MSNBC.com*. Associated Press, January 5, 2010.

<http://on.msnbc.com/hhPRlo>

"Hewitt Analysis Shows Steady Decline in Global Employee Engagement Levels." *HewittAssociates.com*. Hewitt Associates (now Aon Hewitt), July 29, 2010. <http://bit.ly/d2Wfck>

Sharpest decline among top performers

TOWERS WATSON'S 2009/2010 U.S. STRATEGIC REWARDS REPORT

Long-term impact of employers' response to the recession

This May 2009 survey is based on responses from 1,300 U.S. workers. The findings show that employers' cost-cutting actions during the downturn lowered engagement from 2008 to 2009, most severely among top performers.

→ **Top performers feel less confident about and less committed to their companies.**

- Engagement levels of top performers have dropped 23% vs. 9% for workers overall.
- 36% say their employer's situation has worsened in the past 12 months.
- They're 20% less likely to recommend others take jobs at their company.
- They're 26% less satisfied with advancement opportunities at their company and 14% less committed to stay rather than to take a comparable job elsewhere.
- They're 29% less confident in management's ability to grow the business and 20% less clear on the link between the company's goals and their own.
- 41% say pay and benefit changes have negatively affected quality and customer service.
- Satisfaction with the organizational culture has dropped 28%.

→ **Top performers feel employers have changed the employee value proposition* (EVP).**

- They're 30% less convinced that their employers live up to the employment deal or align it with what the companies stand for in the market.
- 42% say cost-cutting and restructuring activities have been detrimental to the EVP.
- 43% say individual performance expectations have increased, with 65% feeling insufficiently rewarded for that performance.

*The EVP encompasses the collective array of programs and benefits that an organization offers in exchange for employment. The organization's brand, values, culture and leadership shape the EVP.

TOWERS WATSON'S 2009 STRATEGIES FOR GROWTH SURVEY

Inability to find and keep top talent—a threat to recovery and growth

According to this September 2009 global study of nearly 750 companies, the top five workforce challenges to post-recession growth are:

- *Loss of talent in key areas:* Total 51%; North America 37%
- *Lack of succession planning/management:* Total 49%; N. Amer. 52%
- *Inability to attract necessary talent:* Total 38%; N. Amer. 34%
- *Level of disengagement among workers:* Total 30%; N. Amer. 44%
- *Inability to use incentives as needed to differentiate performance:* Total 29%; N. Amer. 36%

Sources

Looking Toward Recovery: Focusing on Talent and Rewards—2009/2010 U.S. Strategic Rewards Report. Towers Watson, December 2009. <http://bit.ly/eRIR7d>

Strategies for Growth: Talent and Performance Issues Lie at the Heart of an Emerging Global Growth Agenda. Towers Watson, December 2010. <http://bit.ly/eYJJsR>

Need for a new EVP to retain and re-engage key talent

TOWERS WATSON'S 2010 GLOBAL WORKFORCE STUDY

Post-recession workplace—no longer business as usual

The global economic crisis has forced employers and employees to rethink the traditional employment deal. Studying over 20,000 employees in 22 markets from November 2009 to January 2010, this report reveals the post-recession employee mindset—one with lower expectations, increased anxiety and new priorities.

Key findings—low engagement, high anxiety and new priorities

→ Deep, long-lasting fallout from the recession and employers' response to it

- 38% are either disenchanted or fully disengaged.
- Dissatisfied top performers may leave as better opportunities emerge.
- Remaining employees may not be working up to their full potential or delivering their best discretionary effort.
- Losing key talent while keeping more disengaged, under-performing employees will exacerbate productivity, quality and customer service issues.

→ Dramatic shift in the drivers of engagement since 2008

- Greater focus on “empowerment,” the ability to control one’s work situation:
47% in 2009 vs. 21% in 2008
- Lower importance of career development, no doubt because of fewer advancement opportunities and a greater focus on job security:
47% in 2009 vs. 64% in 2008
- Leadership remains the top driver, although less so given the rise of other drivers:
80% in 2009 vs. 100% in 2008
- Greatest increase in “image” (corporate reputation, responsible and ethical behavior, risk management and alignment of what companies say and do inside and outside):
60% in 2009 vs. 29% in 2008

→ Desire for today’s rarest commodity, security and stability

- 76% want a secure and stable position above all else.
- Only 51% think it’s achievable.

→ Anxiety about securing one’s own future, financial and physical health and well-being

- About 75% agree they’re responsible for their financial future and career.
- About 50% have serious doubts about their ability to take on the task.
- 41% anticipate a drop in their standard of living in retirement.
- As a result, employees are focusing on the practical aspects of the deal, such as pay and flexibility in work arrangements.

→ Declining mobility, with many sacrificing career advancement for job security

- 81% aren’t looking for other jobs even though 48% see no advancement opportunities where they are, and 42% believe they must go elsewhere to advance.

→ **Low confidence in leaders and managers, particularly in their people skills**

- 38% feel their leaders have a sincere interest in their well-being.
- 47% feel their leaders are trustworthy.
- 42% feel their leaders inspire and engage them.
- Although 59% say their direct managers are effective at managing, 53% question whether they have time for the interpersonal and relational aspects of the job.
- 61% question how well their managers deal with poor performers.
- 41% feel their leaders are committed to developing critical talent.

→ **Lack of tools and support hindering self-reliance in the workplace**

- Employees want more freedom and flexibility, especially in decision-making and work arrangements, but feel they lack the right tools and support to do either effectively.
- Social media for business purposes is in its infancy, with only 10% using it for work and a third saying it improves their productivity.
- Most companies aren't fully leveraging collaborative Web 2.0 technologies to enhance engagement, productivity and performance.
- McKinsey's 2010 multi-regional survey of 3,249 executives underscores the benefits of using Web 2.0 technologies to interact with internal and external stakeholders.
 - An elite group of 3% was fully networked (internally and externally) and reported higher benefit levels than did companies that weren't.
 - *Internal benefits:* Higher collaboration by breaking down organizational barriers, promoting more fluid information flows, deploying talent more flexibly to deal with problems, and allowing employees lower in the hierarchy to make decisions
 - *External benefits:* Higher market share gains, operating margins and profitability; greater agility in leveraging internal and external resources to form working teams

Takeaways for employers in today's "brave, new world"

The global workforce study findings imply the following employer challenges:

→ **Where will employers wage the next "war for talent"?**

- *Mature economies:* Inside organizational walls—as employers focus on advancing and retaining top talent while continuing to develop and engage the broader workforce
- *Emerging economies:* In the external market—as employers compete for talent that is far more mobile in these faster recovering economies

→ **In mature economies, how will companies plan for an aging workforce that is ready to settle in for years—either unable to retire or choosing not to?**

- Impact on those just entering the workforce and those seeking to advance their careers
- Helping employees build their own sense of security and stability in uncertain times

→ **How much can companies reasonably shift costs, responsibility and risk to employees?**

- Eliminating the stress associated with this shift to avoid negative impacts on morale, productivity and performance
- Equipping employees with the capabilities and tools to work well remotely; to become more self-sufficient and productive; and to secure their own futures and well-being

→ **How can companies foster effective leaders in the post-recession world—ones who are both competent managers and inspiring, people-centric leaders?**

- Emotional/social intelligence tops the list; U.S. respondents ranked these five:
 - 79%: Is trustworthy
 - 67%: Sincerely cares about the well-being of others
 - 56%: Encourages the development of talent in the organization
 - 42%: Is highly visible to employees
 - 42%: Manages financial performance successfully
- Understanding workforce differences across geography, job function, level and role
- Customizing work experiences to draw out people's discretionary effort and potential
- Refocusing leadership development on engaging, motivating and inspiring people

Forging a new employment deal or EVP

To remain competitive, employers must re-engage valued employees by defining a new, sustainable employment deal grounded in self-reliance, personalization and agility.

→ **Self-reliance: Enabling employees to build their skills, plan for their financial future and live healthy lives—active security vs. passive security**

- Employees desire these types of support from their employers:
 - 65% want more frequent communication about reward and benefit programs.
 - 61% want simplified design and administration for benefit and reward programs.
 - 47% want one-on-one counseling sessions with financial advisors.
 - 41% want financial management classes.
 - 38% want an online self-service educational portal.
- Employees want to allocate rewards more flexibly in ways that best suit their needs.
 - 44% prefer to allocate rewards with an organization-provided safety net to protect them against excessive risk.
 - 37% prefer to allocate rewards completely on their own.
 - 20% prefer the organization to allocate all rewards on their behalf.

→ **Personalization: Segmenting the workforce to understand differing needs, preferences and perceptions; and using this insight to create more personalized work experiences**

- Variability across nationality, age, gender, job level, function and career orientation in:
 - Why people join or leave organizations
 - How they define a career
 - How much risk they're comfortable taking on
 - What motivates them with regard to their reward package
 - What they want from their managers
- Using these insights about various employee groups to:
 - Tailor talent and reward strategies that align organizational inputs (workplace programs and processes) with desired outputs (employee behaviors and actions)
 - Personalize every aspect of the EVP: job design, pay, benefits, performance management, professional development, training and work/life arrangements

- Personalizing not only program design and delivery, but also communication
 - Using employee segmentation insights to determine what communication strategies, tactics and channels would resonate best with each internal audience
 - Aligning the message and medium to the interests and needs of each group
 - Measuring effectiveness and adjusting the approach as needed over time
- **Agility: Embedding greater flexibility and scalability into the organization’s talent and reward strategies and programs—and into the HR function itself**
 - Workforce strategy and structure
 - Anticipating and responding quickly to shifts in the business cycle, competitive situation and operating strategies
 - Using the best blend of workforce sourcing and staffing models to meet the needs of various divisions and groups (flexibility within an enterprise framework)
 - Program design and delivery
 - Accommodating differences not only in employees’ roles, skills and performance, but also in their interests, needs and expectations
 - Building variability and flexibility into EVP design, delivery and communication
 - Leadership development
 - Developing and rewarding high-performing employees and future leaders with the right skills, motivation and temperament to succeed
 - Fostering these traits: Strong cognitive abilities; a learning orientation; ability to build and manage relationships; ability to lead and manage change; ability to mentor and coach; ability to motivate and inspire others
 - Closing the gap between the traits employees desire in leaders and the degree to which they feel leaders actually display them—specifically, trustworthiness, concern for employee well-being and commitment to developing talent
 - HR function (structure, staff, services, processes and priorities)
 - Aligning with business needs, goals and strategies, and stakeholder expectations
 - Selecting and training staff to be more business-savvy, with a focus on business acumen, workforce planning and analytics, social media and other emerging skills
 - Investing in the right tools and technologies and updating them as needed
 - Building in measurement systems to ensure the function is doing the right things for the business and delivering results that matter

Sources

“Jobless Recovery in the U.S. Leaving Trail of Recession-Weary Employees in Its Wake, According to New Study.”
TowersWatson.com. Towers Watson, March 16, 2010. <http://bit.ly/a5wmFu>

The New Employment Deal: How Far, How Fast and How Enduring? Insights from the 2010 Global Workforce Study.
Towers Watson, 2010. <http://bit.ly/cSjC0g>

Effective communication as a driver of engagement and results

TOWERS WATSON'S 2009/2010 COMMUNICATION ROI REPORT

Communication practices of high-performing companies

This report examines data collected in April and May 2009, from 328 organizations representing five million employees around the world. It identifies how companies with highly effective communication practices are informing and engaging their employees in challenging economic times.

A leading indicator of financial performance

→ Between mid-2004 and mid-2010, the most effective communicators among surveyed companies had 47% higher total shareholder returns than did the least effective.

Defining and communicating the employee value proposition (EVP)

- 2.7x more likely than low performers to have a clearly defined EVP
- 3.1x more likely to align the EVP with their customer-facing brand
- 2x more likely to make the EVP part of their communication strategy
- 1.3x more likely to have revised their EVP as a result of the downturn

Communicating the combined value of reward programs

- 5.2x more likely than low performers to have a coordinated and branded approach to communicate the total value of their health- and wealth-related benefits
- 2.3-3.1x more likely to improve employee understanding of their total rewards

Helping leaders and managers communicate with employees

- 1.9x more likely than low performers to provide training to managers
- 2.5-3x more likely to have managers effective at addressing employees' needs and concerns, implementing change and supporting the organizational vision
- 2.7x more likely to have managers who communicate more during times of change
- 3.4x more likely to have managers able to deal openly with resistance to change

Customizing messages to maximize impact

- Communicating companywide messages for big-picture information and perspective alongside site-specific information for local relevance and impact
- Messages delivered centrally include:
 - Educating employees about organizational culture and values
 - Explaining and promoting new programs and policies
 - Providing information on organizational performance and financial objectives
 - Providing information about the true value of employees' total compensation package
- Messages delivered locally include:
 - Helping employees understand the business
 - Communicating to employees on how their actions affect the customer
 - Integrating new employees into the organization

Increasing use of electronic and face-to-face communications and social media

- 1.4x and 1.9x more likely to have increased their use of electronic and face-to-face communications respectively—especially to deliver business change messages
- 1.2x more likely to have decreased their use of print (overall trend for all companies)
- 2.2x more likely than low performers to have expanded their use of social media
- 2.6x more likely to report their social media tools as cost-effective
- 2.4x more likely to have tools in place to measure social media effectiveness
- 1.2-1.4x more likely to use social media with employees to address:
 - Community or team building
 - Adapting to organizational/HR changes
 - Collaborating or sharing new ideas
 - Encouraging health or wellness
 - Clarifying how one's job contributes to the organization's success
 - Engaging a workforce in real time
 - Promoting risk taking
- 2-3x more likely to use social media tools to reach all employee audiences, such as telecommuters, local and global staff, recruits, sales staff and line management

Having a documented communication strategy

- 2.1x more likely than low performers to have an electronic communication strategy
- 2.2x more likely to have a global communication strategy
- 2.8x more likely to have a social media strategy

Measuring communication effectiveness

- 1.6x more likely than low performers to have increased the number of communication outcome metrics in the past year
- 1.5x more likely to formalize these metrics in a corporate scorecard
- 1.9-3.3x more likely to use measurement findings for planning and decision-making, to benchmark results and performance, and to use communication advisory groups.
- Conversely, low performers are 3x more likely than high performers to report having no formal measurements of communication effectiveness.

Sources

Capitalizing on Effective Communication: How Courage, Innovation and Discipline Drive Business Results in Challenging Times—2009/2010 Communication ROI Study Report. Towers Watson, December 2009. <http://bit.ly/aLw0Q5>

The ROI of employee engagement

GALLUP'S Q¹²® META-ANALYSIS

Positive link between employee engagement and business outcomes

Gallup's 2009 meta-analysis of 199 research studies across 152 organizations in 44 industries and 26 countries shows dramatic differences between top- and bottom-quartile workgroups on key business outcomes. In total, this seventh iteration of the Q¹² study examined the relationship between engagement and the following nine performance criteria for 32,394 business/work units comprising 955,905 employees:

- Customer loyalty/engagement
- Profitability
- Productivity
- Turnover
- Safety incidents
- Shrinkage (theft)
- Absenteeism
- Patient safety incidents
- Quality (defects)

Description of the Q¹²

- The Q¹² is Gallup's proprietary set of engagement indicators based on more than 30 years of in-depth behavioral economic research involving more than 17 million employees.
- It measures 12 core elements that best predict employee and workgroup performance: employees' perceptions of people-related management practices in their business units.
 - Q00 (overall satisfaction): On a five-point scale, where 5 is extremely satisfied and 1 is extremely dissatisfied, how satisfied are you with your company as a place to work?
 - Q01: I know what is expected of me at work.
 - Q02: I have the materials and equipment I need to do my work right.
 - Q03: At work, I have the opportunity to do what I do best every day.
 - Q04: In the last seven days, I have received recognition or praise for doing good work.
 - Q05: My supervisor, or someone at work, seems to care about me as a person.
 - Q06: There is someone at work who encourages my development.
 - Q07: At work, my opinions seem to count.
 - Q08: The mission or purpose of my company makes me feel my job is important.
 - Q09: My associates or fellow employees are committed to doing quality work.
 - Q10: I have a best friend at work.
 - Q11: In the last six months, someone at work has talked to me about my progress.
 - Q12: This last year, I have had opportunities at work to learn and grow.

Key findings of the latest Q¹² meta-analysis

→ Comparing engaged vs. disengaged workgroups:

- Workgroups scoring in the top half on the Q¹² nearly double their odds for success within their own organizations (94% higher success rate) and increase their odds by 2.4x across business/work units in all companies (145% higher success rate).
- Those scoring in the 99th percentile on the Q¹² have nearly 5x the success rate (83% chance of high performance) as those scoring in the 1st percentile (17% chance).

→ Median differences in nine performance criteria between the top and bottom quartile workgroups are:

- 12%: Customer loyalty/engagement
- 16%: Profitability
- 18%: Productivity
- 25%: Turnover for companies with 60% or higher annualized turnover
- 49%: Safety incidents
- 27%: Shrinkage (inventory loss due to theft, error or fraud)
- 37%: Absenteeism
- 41%: Patient safety incidents
- 60%: Quality (defects)

→ Beyond these significant differences between engaged and disengaged workgroups, Gallop research indicates that engaged organizations have 3.9x the EPS growth rate compared to those with lower engagement in their same industry.

FORTUNE'S 100 BEST COMPANIES TO WORK FOR®

- The Great Places to Work® Institute produces *FORTUNE's* 100 Best Companies to Work For® list, identifying organizations with high-trust cultures and engaged workers.
- Annually, it publishes data from Russell Investment Group analyzing the stock performance of a portfolio comprised of these companies.
- Data shows how these companies have outperformed the major stock indices since the list's inception in 1998.
- 1998-2009 annual returns:
 - 10.3%: "100 Best Companies" list
 - 2.95%: S&P 500
 - 3.27%: Russell 3000

Sources

Harter, James K., Frank L. Schmidt, Emily A. Killham, and Sangeeta Agrawal. *Q¹² Meta-Analysis: The Relationship Between Engagement at Work and Organizational Outcomes*. Gallop, August 2009. <http://bit.ly/bj6vra>
Greatplacetowork.com. Great Place to Work Institute, Inc., 2010. <http://bit.ly/hiRB6r>