



## PEOPLE & ORGANIZATIONS

# The Era Of Disengagement And How To Beat It

## OVERVIEW

2016 ushered in a new age of uncertainty. Rising populism and protectionism is putting a question mark over the future of globalized businesses. At the same time, the digital revolution continues to transform traditional ways of thinking and existing models of work across every industry.

It is perhaps unsurprising that in such a volatile climate rates of employee engagement are, for the first time in years, on the decline.

The latest Aon Employee Engagement Survey found that overall global engagement in 2016 dropped two points from 65 percent to 63 percent. It's the first decline since 2012, and one which almost offsets the three-point gain made in 2015 against 2014 figures.

Studies repeatedly show that employee engagement is linked to productivity. The formula is simple – the more engaged people are, the more productive they are. And the more productive they are, the better companies perform. According to Gallup, companies with high employee engagement reported 21 percent higher productivity than their less engaging peers.

If organizations are to reverse the decline in engagement, they must take a serious look at how they are engaging their workforce. In particular, companies might need to fundamentally re-think two key drivers: leadership and pay. There has been a tendency in recent years to emphasize the importance of both non-financial forms of motivation and mid-level management, however, these new findings suggest a different approach. Compensation strategies and strong leadership will be the order of the day.

## IN DEPTH

Aon's top-line figures show workforces around the world are less engaged than the previous year and demonstrate a stark contrast from figures just a few years ago that promised healthier gains.

- Asia saw the biggest decline in engagement, down to 62 percent in 2016 from 65 percent in 2015.
- Decline in Europe was less steep, from 60 percent to 58 percent, but the second figure is the lowest engagement rate of any major region in the world.

- Decline in North America, from 65 percent to 64 percent, was mild but still present

It wasn't all bad news. Despite overall downward trends, there were exceptions:

- Latin America saw engagement increase from 72 percent to 75 percent.
- Africa saw engagement increase from 59 percent to 61 percent.

Even within regions where overall trends were negative, some individual countries posted gains. Although Asia saw the biggest decline overall, Australia and South Korea both posted gains of 3 and 2 points respectively.

However, the big picture of engagement is undeniably negative.

Political and economic volatility are partly to blame. "The uncertainty and complexity we saw last year seems to have continued. Populist sentiment, politically divided nations, surprising election results, and continued technological disruption across industries make for economic and business jitters," says Ken Oehler, Global Culture & Engagement Practice Leader at Aon. "As leaders have tried to adjust to a rapidly evolving global reality, the average employee across the globe is left with a great deal of fear and anxiety that threatens their full engagement at work."

Emerging protectionist sentiment in the U.S. and in Europe threatens labor mobility. "The rise in populist movements – like those in the U.S., the U.K., and other regions – is creating angst within organizations, as they anticipate the potential for a decrease in free labor flow," says Oehler.

This may encourage people to switch jobs while they can, meaning less immediate engagement with long-term company goals. Mexico's drop from a 79 percent engagement rate to a 75 percent engagement rate, for example, could be a pre-emptive reaction to the possibility of a commercially destructive trade war with the U.S.. Conversely, upward trends in other Latin American countries like Brazil and Argentina (up 8 points and 4 points respectively) may be in response to stabilizing or strengthening regional economies.

Trends in technology are another factor. Uncertainty about radically transformative technology – such as artificial intelligence, and its potential effects on employment – may make people feel less attached to their companies and more anxious about their future prospects. "Rapid advances in technology are increasingly threatening job security," explains Oehler. This is also likely leading employees to feel less engaged with work.

### **New Priorities**

When the going is clear, and metrics are glowing with positive upwards trends, there's a fairly firm argument for business-as-usual. But during this uncertain time, organizations should reassess their approach to address such declines.

Aon's report identified five key drivers of engagement about which respondents registered the most concern in 2016:

1. Rewards & Recognition
2. Employee Value Proposition (EVP – the benefits, skills and experience the employee gains by being at their organization)
3. Senior Leadership
4. Career Opportunities
5. Enabling Infrastructure

These drivers can be broken down into two key areas – leadership and pay. And the evidence is showing that established ways of thinking about these areas may not be what is needed when dealing with engagement in uncertain times.

### **Findings Suggest Senior Leadership More Influential Than Direct Managers**

Difficult times call for determined leaders. "After three straight years of global economic expansion and employee engagement gains, the engagement drop is a strong indication that executives are going to have to work harder to attract, engage, and get superior performance from employees," says Don MacPherson, Partner, Global Culture & Engagement Practice, Aon.

While engagement drives performance, good corporate performance doesn't necessarily lead to higher employee engagement. Managers' roles may be limited. It is up to leaders at higher levels to instill a collective corporate culture throughout the organization that can mobilize efforts from individual employees. "It is the organizations with the strongest cultures and the greatest ability to engage employees that thrive through instability, regardless of whether it is political uncertainty, or rapid technological or economic change," says MacPherson.

Employees want two-way dialogues with leaders. Feeling like their voice is being heard at the top levels of an organization, and not just by immediate managers and team leaders, can have a profound effect on making employees feel like part of a grander mission – and purpose is a key driver of employee engagement.

### **During Times Of Uncertainty, Pay Seems To Matter More Than Ever**

There is compelling evidence to suggest that in some circumstances, pay isn't everything. Some studies have found that employees can perform even better when motivated by non-financial incentives.

However, during times of uncertainty, pay surfaces as more important than ever as a key driver of engagement.

Aon's study measures engagement with a variety of different metrics. The rewards and recognition metric typically ranks highly, but 2016 was the first year in which it ranked as the top concern. This was seen worldwide, but most notably in Asia.

Stagnating pay in the region may mean that high performers are hopping from company to company in search of higher pay, instead of waiting for internal promotions and raises – which may never materialize. Stephen Hickey, Head of Talent Practice at Aon Hewitt Australia, sees the principle point as one of fairness – people want to be rewarded according to what they feel they are due.

"Fairness in reward programs and success in colleague recognition are increasingly critical to achieving a highly engaged and high performing workforce," says Hickey. "Taken to the extremes, we see substantially different levels of employee engagement in Asia when we contrast perceptions of reward and recognition with levels of employee engagement. Our 2016 Asia Best Employers research found that successful reward and recognition programs could not be clearer."

Of course, pay rises for all aren't necessarily a financially feasible option. But identifying and rewarding top performers should be a top priority for organizations looking to preserve their engagement rates where they really count.

Christopher Adair, Lead Consultant, Employee Engagement & Culture, Aon, emphasizes how crucial pay is: "rewards and recognition is this year's top engagement driver." What does this mean for leaders? More than ever, he explains, "it's important to make sure employees understand how their pay and benefits are determined. We see this sense of equity as a major factor in driving engagement, and the leaders who are able to create a more open and honest climate with regards to rewards and recognition will put themselves in the best position to have more engaged employees."

Oehler too sees that this is critical, "this finding about compensation actually reflects employees' perceptions of fairness. While organizations may not be able to make sweeping changes to compensation, it is important that they take steps to address these sentiments."

#### Re-thinking Engagement Models In An Uncertain World

The forces ranged against employee engagement – political instability, demographic shifts, and technological change – are big, historical ones, beyond the control of even the most determined leaders. Adair emphasizes the role of senior leadership during these times, "leaders need to ensure that their employees understand how their work connects to the larger business." In these times of perpetual change, it can be easy to get fatigued and the best leaders will "be more visible to employees, be clear on strategy and business priorities and create excitement for the future." Such actions can go a long way to ensure an organization will not only thrive in the present, but see continued success in the years to come.



## TALKING POINTS



"The key is not to get engagement confused with engaging. A CEO can engage with their team several times a day, over anything, simply by having a quick conversation at the water cooler. Employee engagement is much more emotional and holistic. It is about the overall employee experience." – Sharon Kennedy, Founder & Principal Consultant, Engage And Prosper



"Many organizations say they want high levels of engagement without doing very much. Their chief executives espouse the importance of staff engagement, while preferring to hide themselves away from the action. Success only comes where actions match words and the CEO sees it as their personal mission too. Also the costs of staff engagement are often seen as too high when, in reality, the costs are limited and the results produced are worth far more." – Nick Stace, CEO, Royal College of Veterinary Surgeons



## FURTHER READING

- Why The Millions We Spend On Employee Engagement Buy Us So Little – Harvard Business Review, March 10, 2017

- APAC Employees Aren't Happy At Work – CNBC, February 12, 2017
- 3 Ways To Gauge Employee Engagement And Satisfaction – CIO, March 2, 2017
- Why Millennials Actually Want More Feedback At Work – Fortune, February 14, 2017
- Aon 2017 Employee Engagement Survey

