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Engaging Employees to Drive Global Business Success

Insights from Mercer's
What's Working™ research

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Engaging employees to drive global business success:

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On the surface, a workforce composed of employees who are satisfied with their jobs may seem like a desirable and even optimal state for an organization. But in today's global business environment, it is becoming clear that job satisfaction is not enough to help forge the link between employee performance and positive business results.

Over the past two decades, employers' needs and interests have moved from creating conditions and programs that result in employees who are merely "satisfied" with pay, benefits and working conditions, to employees who are "committed" to the organization and not considering a move, to those who are genuinely "engaged" in the work and mission of the organization. For employers, engagement has become the search for the "Holy Grail" of the 21st century.

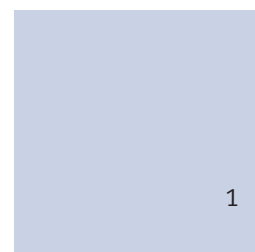
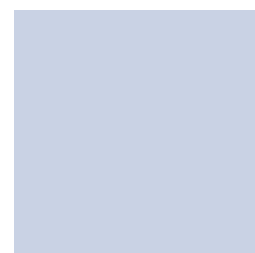
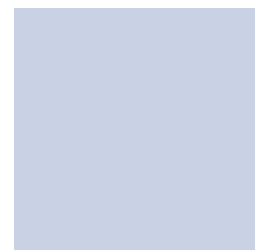
What is employee engagement?

We define engagement as a psychological state in which employees feel a vested interest in the company's success and are both willing and motivated to perform to levels that exceed the stated job requirements.

It reflects how employees feel about the overall work experience – the organization, its leaders, the work environment, and the recognition and rewards they receive for their efforts.

Employee engagement fosters and drives discretionary behavior, eliciting employees' highest productivity, their best ideas and their genuine commitment to the success of the organization. Engagement contributes significantly to an organization's performance, leading to improvements in service quality, customer satisfaction and long-term financial results. All other factors being equal, it also serves the individual, fulfilling a basic human need to be connected to worthwhile endeavors and make a significant contribution. In short, engagement is good for the company and for the employee.

Substantial research has been undertaken by the management and behavioral sciences that supports the theory that when employees are engaged, service quality, customer satisfaction, employee retention, productivity and financial performance improve.¹ By contrast, when employees are alienated or disengaged, organizations experience declines in all of these areas.



¹ See, for example, Harter JK, Schmidt FL and Hayes TL. "Business-unit-level relationship between employee satisfaction, employee engagement, and business outcomes: A meta-analysis." *Journal of Applied Psychology*, Volume 87 (2002), pp. 268–279.

While it is fairly easy to say what engagement is and why it is good for organizations, it has proven more difficult for organizations – particularly multinationals with heterogeneous employee populations – to determine how to increase engagement. Cracking

the code to employee engagement – learning how organizations can win the hearts and minds of their employees – remains a complex yet critically important challenge facing organizations as they strive to reach the highest levels of performance in changing and competitive environments.

About our *What's Working* surveys

As part of our commitment to research-based consulting, Mercer conducts a series of national studies across the globe titled *What's Working*. These studies allow us to identify trends and perceptions of work in many countries. The studies give us general insights into workers' attitudes and what drives their engagement.

The *What's Working* research is then used to both design our clients' internal research studies and evaluate their specific employee survey results. With benchmarks of 30,000 respondents in 17 countries, covering companies of all sizes, the surveys maintain a consistent methodology for effective global comparisons. Our sophisticated analysis includes both **conjoint analysis** to identify what employees value most and **regression analysis** to identify key engagement drivers and other important correlations.

More than 100 questions in each study elicit views across 12 dimensions:

- Work processes
- Quality and customer focus
- Communication
- Work/life balance
- Job security and career growth
- Teamwork and cooperation
- Ethics and integrity
- Immediate manager
- Performance management
- Rewards (compensation and benefits) and recognition
- Leadership and direction
- Training and development

You can find additional information about the *What's Working* studies and results from the country reports at www.mercer.com/whatsworking.

Identifying the drivers of employee engagement

The changing nature of work and the emergence of the global economy both have affected not only what employers want from their employees, but also what employees want from their work and their careers.

As employers endeavor to build competitive advantage in the global economy, engagement is essential for optimizing human capital. More than ever, employers need to apply those practices that lead to higher levels of employee engagement. Those companies that have identified drivers of workforce engagement, and the specific HR/organizational practices that affect employee experience of those drivers, have been able to use this knowledge to allocate resources more strategically to achieve greater engagement.

Case in point

A large US-based financial services company analyzed the drivers of engagement among the 12,500 employees in its major operating groups. The data on employee perceptions showed that the factors that have the greatest impact on engagement are:

1. The chance to do challenging work
2. Access to needed information
3. Ability to reach career goals
4. Access to needed training

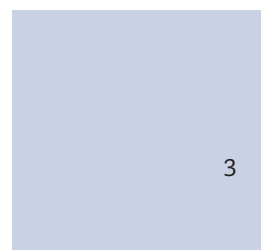
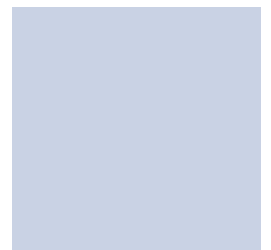
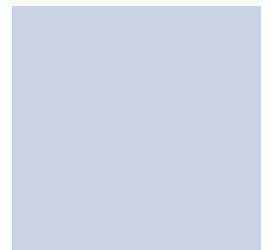
When the company then compared employee perceptions results, including the drivers of employee turnover rates, it found that a five

percentage-point improvement in favorable scores would reduce employee turnover – a measure of *disengagement* – by three percentage points. This translated into a potential \$3 million improvement in the company's bottom line through annual cost savings associated with recruiting, training and customer retention. Convinced of the value of working toward higher levels of engagement, the company targeted its HR efforts to improve these areas by replicating across all its operating groups the best practices of those units identified as having highly engaged employees.

What drives engagement?

Research has confirmed over time that employee perceptions about the work experience differ by country, industry sector and organization. National culture shapes the reality of the employee experience and, therefore, engagement. Thus, for employers expanding their operations around the globe, the question of what drives engagement takes on both increasing complexity and importance as their workforces become more culturally diverse.

Even if business leaders of multinational companies know how to engage staff in their home-country offices, they might not succeed in delivering the most value for their HR investments if they simply transfer HR policies and practices to other countries.



Using the Employee Engagement Index® to identify engagement drivers

Using the What's Working data, Mercer first devised a measure of engagement, the Employee Engagement Index®, which quantifies the degree of engagement among a group of employees based on their responses to the following five statements:

- I feel a strong sense of commitment to this company.
- I am proud to work for this company.
- I would recommend my organization to others as a good place to work.
- I am not considering leaving this company in the next 12 months.
- I am willing to go "above and beyond" in my job to help this company be successful.

The Employee Engagement Index score is then compared to employees' responses to other survey items, yielding information about those factors that correlate with a high level of engagement. Employers can use this information to focus organizational and HR efforts in those areas that affect employee perceptions about those factors.

Over the past several years, Mercer has conducted *What's Working™* studies around the world in order to capture and track employee perceptions and attitudes about work; identify the drivers that contribute the most to employee engagement in various countries; and develop reliable normative or comparative data that enable employers to assess their own levels of employee engagement relative to national or regional benchmarks.

Each national study's results are based on data collected from a statistically valid sample from a broad cross-section of employees designed to represent the nation's workforce. More than 100 questions in each study elicit views in such areas as communication, leadership, perfor-

mance management, training and development, work/life balance, and pay and benefits. (See "About our What's Working Surveys" on page 2.)

Through this research, not only has Mercer learned about employee perceptions and how they differ by country and by region, but, more important, it has been able to identify and quantify particular drivers of engagement. (See "Using the Employee Engagement Index® to Identify Engagement Drivers.") This has yielded a wealth of information that CEOs, HR directors and other executives with global workforce-management responsibilities can act on to improve employee engagement and enhance business results, such as customer service, productivity and turnover.

Findings: Global drivers of engagement

Our research and client experience demonstrate that the drivers of engagement will vary considerably by country, by industry sector and by organization. In all instances, Mercer recommends that these key drivers be identified within the organization's context, which will allow it to identify the drivers that will have the greatest impact on performance.

While the specific set of key drivers will vary by organization, Mercer's *What's Working* research has also identified four relatively consistent global drivers of employee engagement. These are:

- The work itself, including opportunities for development
- Confidence and trust in leadership
- Recognition and rewards
- Organizational communication

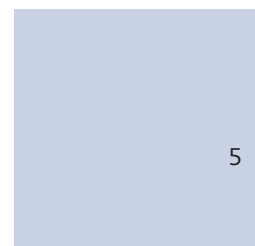
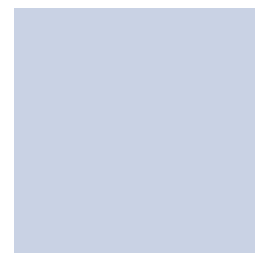
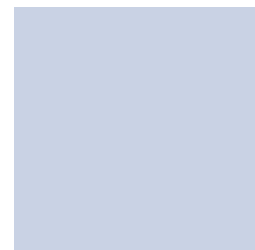
In the absence of any additional information, focusing on these four drivers would enable a global organization to focus on areas that could significantly raise levels of employee engagement. Examining the organization's employee survey data could lead to a refinement of the key driver analysis – identifying the specific issues that would have the greatest impact on engagement, given the organization's context.

Using the research to enhance engagement

Leveraging the global drivers

Throughout their operations, multinationals should look for both common threads of engagement across countries and distinct or unique drivers in each major cluster or location. This can provide the framework for a global engagement strategy, lending cohesiveness, consistency and efficiency to engagement initiatives.

Strategic HR management practices across the organization also support a global employer brand, a sense of common corporate culture, a consistent basis for leadership training, more permeable internal boundaries for employees' cross-unit moves, and other benefits.



Following are some of the hallmarks of organizations that excel in leveraging these four global drivers to enhance engagement:

■ **The work itself, including opportunities for development.**

Engagement-focused companies have found ways to make work an effective driver of employee engagement. For example, although these companies may have flattened their organizations, limiting the opportunities for traditional promotions and upward advancement, they allow employees to grow within a job through expanded training opportunities and to move laterally within the organization. Particularly important in these companies is explaining how jobs fit into the overall mosaic of the functions and activities that bring services and products to customers, so employees can map out and understand how their contributions fit into the larger scheme of things. These factors are in addition to the work itself, which may have intrinsic appeal to each employee.

■ **Confidence and trust in leadership.**

Engaged employees see and experience their leaders acting in accord with the expressed values of the organization and allocating resources in ways that support strategy. Strong leaders believe in acting in visible and transparent ways that generate involvement with customers and employees. Leaders who can help employees see how strategy relates to various processes and procedures build engagement.

■ **Recognition and rewards.**

Recognizing individual and group performance and contributions in tangible and immediate ways enhances an employee's sense of the organization's appreciation and support of his or her efforts. While competitive pay and cash bonuses are not, in and of themselves, engagement drivers, they should be structured so as to be internally fair and externally competitive and, therefore, not de-motivators. Nonmonetary rewards, both formal and informal, are an effective part of a reward mix that supports engagement.

■ **Organizational communication.**

In organizations with engaged workforces, information cascades from top management to employees in a timely and orderly fashion, with processes established to build upward flow of information from employees to top management. Supervisors are trained to actively disseminate information, handle questions and provide feedback – effective ways to build awareness, understanding and cooperation. Communication is planned, yet it is flexible enough to meet the day-to-day needs of information-thirsty employees and crafted to take into account the various learning styles within the organization and the communication vehicles preferred by employees (for example, face-to-face meetings, email, intranets, print newsletters or regular home mailings).

Case in point

A global manufacturing company conducted a broad-based employee engagement study of its 90,000 employees at locations across major industrial countries. When the results were interpreted in light of national cultural differences, the company identified several global issues as well as guidelines for regional and local interventions to address the company's issues. For example, one engagement issue for employees worldwide related to how the company adopted new technology. In response, the company developed a uniform program for future technology rollouts. But it also tailored its implementation to reflect regional differences. In its Nordic region, for instance, the programmatic actions were spearheaded by the immediate supervisors, whereas in Japan, with its more formal and hierarchical culture, the highest unit executive in the locale took the lead in launching the changes, which were then cascaded down into the organization. This is a powerful example of how to blend local and global drivers of engagement based on information and insight derived from employee research.

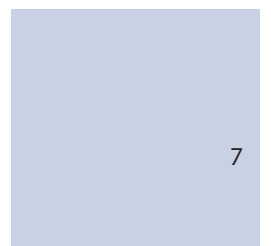
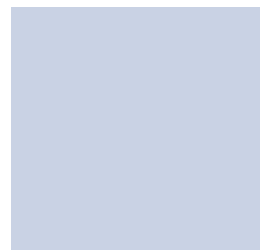
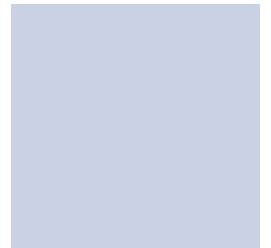
Using norms to better interpret internal employee survey data

While employee surveys provide valuable insights about employee perceptions within an organization, multinationals that seek to compare findings across regions or assess their performance as a whole, without reference to local and global norms, could misinterpret the results.

For example, even if a survey indicates that employees in a given country rate a company's performance in a particular area to be "low," this information alone does not tell leaders whether this is unusual for this country (that is, do employees working for a broad cross-section of employers in the country also give this item a low rating, such that the company's performance in this area is at least as good as – or perhaps even better than – that of its competitors?).

Without this type of information, the organization could allocate resources to solving a problem that might not be a problem, but a reflection of general attitudes and culture in that country. Meanwhile, executives might ignore an area in which the organization's absolute score was "high" but which could have been expected to be higher given local norms.

The combination of specific employee survey results with norm comparisons allows the organization to identify issues and follow up with interventions that will have the greatest impact on employee engagement – and ultimately on business performance. (See "Using Employee Surveys to Drive Business Decisions" on page 8.)



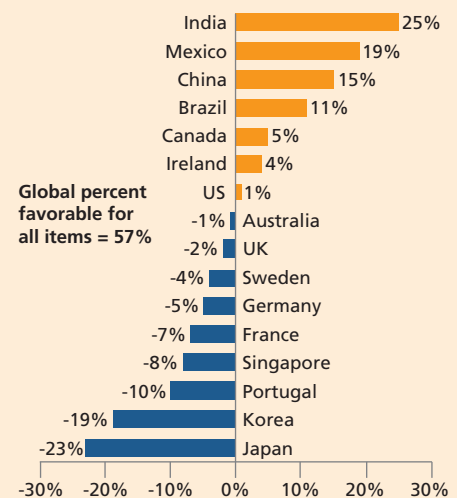
Using employee surveys to drive business decisions

Because each organization is unique, organizations need to measure work-force viewpoints using employee research. Yet internal surveys by themselves are not sufficient if organizations are to develop meaningful insights they can use to form their human capital strategies. Results must be analyzed in light of normative data and, when available, historical data to develop a more complete assessment of engagement.

Mercer's What's Working studies are used to develop norms that are used both to design internal research studies using the core survey items, and to evaluate and interpret survey results to guide organizations, thus helping them interpret their own results. Glancing at the chart at right, it might be easy to conclude that, in general, Indian employees are delighted with their work situation and may be more engaged, while their Japanese counterparts are less engaged. But these results do not tell the whole story. For example, they take little account of differences in sectors or the cultural biases in upward communication such as surveys.

To properly assess responses, Mercer combines normative data with historical data (how employees' views have changed over time) to produce a more robust interpretation of employee perceptions. In that way, an executive team can see where the company is performing well and not so well against norms and historical trends. When this is combined with an analysis to identify the key drivers of engagement in the organization, executives can set priorities and allocate resources based on a deeper understanding of the factors that are likely to have an impact on organizational engagement outcomes, such as customer service.

Who's happiest? The danger of jumping to conclusions



Crucial insights

As leaders and managers of multi-nationals work to apply research derived from employee perceptions to enhance employee engagement with the aim of improved business results, there are some key lessons to keep in mind:

- ***Global HR decisions have to be viewed in the context of national cultures.***

Business leaders cannot assume that a global economy means a homogeneous workforce. What engages employees in the US might be very different from what engages their colleagues in Australia or India. Valid research, properly interpreted and applied, can help tailor HR strategies to meet the expectations and needs of local workforces and businesses.

- ***National stereotypes are a dangerous way to frame HR policies.***

It is important to base HR practices designed for a local population on valid research findings rather than on informal impressions or beliefs. Although the *What's Working* research might sometimes support national stereotypes, it adds a depth of understanding that goes beyond stereotypical conclusions. Failure to align practices with actual employee attitudes and perceptions can seriously undermine employee engagement efforts.

- ***The “norm” varies widely from one country to another.***

When analyzing employee survey results, it is crucial that business leaders have data on national norms so they can correctly interpret the results for operation, country by country. If they do not have that data, they risk making decisions that will fail to address genuine areas of employee concern. By comparing internal survey results to norms for a particular country, leaders can identify areas of strength and areas of genuine employee concern.

- ***Employee engagement is related to employment branding.***

The same elements within the organization that create employee engagement create the employment brand, and vice versa. Thus, research on engagement can also help to inform employment branding efforts across the marketing, communications and HR functions. Conversely, if the drivers of engagement are ignored within the organization, no amount of effort on the brand itself will transform the company into an employer of choice.

- ***Culture trumps everything in the effort to build an engaged workforce.***

Finally, how the organization conducts its work is a reflection of its culture – how employees are treated and, in turn, treat one another and customers – and is inextricably tied to engagement. None of the drivers of engagement can be effectively applied to enhance engagement if employees feel alienated from the organization.

Cracking the code for optimal performance

Even as research confirms the influence of national culture on employees' perceptions of their employers' practices and actions, research has also discovered new areas of commonality emerging among workers worldwide. Such information could empower a global company to leverage those practices that lead to a globally valued work experience, even as it responds to the needs and preferences unique to each culture represented in its workforce. Global companies that use this information to approach engagement as a strategic goal can expect to see a positive impact on profitability, retention, productivity and more.

About Mercer

Mercer is a leading global provider of consulting, outsourcing and investment services, with more than 27,000 clients worldwide. Mercer consultants help clients design and manage health, retirement and other benefits and optimize human capital. The firm also provides customized administration, technology and total benefit outsourcing solutions. Mercer's investment services include global leadership in investment consulting and multimanager investment management.

Mercer's global network of more than 20,000 employees, based in over 40 countries, helps ensure integrated, worldwide solutions. Our consultants work with clients to develop solutions that address global and country-specific challenges and opportunities. Mercer is experienced in assisting both major and growing, midsize companies.

The company is a wholly owned subsidiary of Marsh & McLennan Companies, Inc., which lists its stock (ticker symbol: MMC) on the New York, Chicago and London stock exchanges.

Visit www.mercer.com/whatsworking for additional information about our *What's Working* studies, results from the various country reports and contact information for our employee research consulting experts.

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