

Consulting
Performance, Reward & Talent

2013 Trends in Asia Pacific Employee Engagement



AON Hewitt

McLagan | Radford

2013 Trends in Asia Pacific Employee Engagement

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Introduction

Against an uncertain economic backdrop stemming from the U.S. debt crisis and the European Union's recession, predictions for 2013 and 2014 are marginally optimistic for most regions across the globe. The International Monetary Fund (IMF) predicts stronger growth in 2013 in most countries in Asia Pacific, which is likely to continue in 2014.¹ In Asia Pacific, engaging the right employees in the right behaviors remains a critical ingredient of how companies can improve their competitiveness and business performance. Today, it is imperative that employers understand how current trends in demographics and culture are reshaping what employees demand in exchange for their discretionary efforts. With these trends in mind, companies need to take action to optimize the motivation and productivity of their employees. Striving to maintain a high level of employee engagement not only contributes toward short-term survival during economic volatility, it is also a key factor for longer-term business performance and better positioning when market conditions become favorable. The companies that get employee engagement right can enjoy a competitive advantage that is hard for others to replicate. In addition, with nearly two out of three CEOs in Asia citing "people issues" as their top business challenge, there is a clear consensus that talent is one of the key frontiers of competitive advantage.²

This report is the inaugural Asia Pacific edition of the annual Aon Hewitt Trends in Global Employee Engagement Report. The economic resilience displayed in Asia Pacific since the beginning of this millennium has sparked great interest in this region from within the global business community. As such, we have decided for the first time to write this employee engagement trends report on a regional basis, modeled on our Trends in Global Employee Engagement Report, in order to provide you with the best foundation from which to manage your Asia Pacific employees.

1 International Monetary Fund - Regional Economic Outlook for Asia Pacific, April 2013
2 Aon Hewitt Best Employers 2.0 - Asia 2013 Study

Key Findings

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.

- **Asia Pacific's overall employee engagement levels remained unchanged, although global engagement levels have improved.** Although employee engagement levels rose 2 percentage points globally (from 58% in 2011 to 60% in 2012), they have stayed constant in Asia Pacific at 58%. Out of the eleven countries presented in this report, six saw improvements in employee engagement levels in 2012 and five experienced score declines. Indonesia's 5% improvement was the highest within Asia Pacific (from 66% in 2011 to 71% in 2012). Hong Kong experienced the highest drop in employee engagement levels (from 58% in 2011 to 50% in 2012).
- **Asia Pacific experienced a slight decrease in both Stay and Strive scores.** Whereas global Stay and Strive scores experienced a slight increase in 2012, Asia Pacific saw its Stay and Strive scores marginally decline in 2012 (2% and 1%, respectively) and its Stay score stayed constant. Though these declines are small enough to keep employee engagement levels constant, they reveal the significant pressures that are being placed on Asia Pacific employee engagement levels.
- **In Asia Pacific, 17% of employees are actively disengaged, which aligns with the global trend.** While 58% of employees in Asia Pacific are considered engaged; 42% are not engaged – either passive (25%) or actively disengaged (17%). It is important to note that Asia Pacific employee engagement scores are slightly more clustered around the moderate or passive range, while highly engaged employee levels are below the global average.
- **Employee engagement is a leading indicator of company growth – but lags economic forces.** The financial meltdown of 2008 and its subsequent recession (2008-2009) placed downward pressure on employee engagement levels the following year (2009-2010). Once the economy began to recover in 2009-2010, employee engagement levels quickly followed suit the next year (2010-2011). Thus, looking at the recent trends in Asia Pacific GDP growth, we predict that two consecutive years of weakening growth may lead to a drop in future employee engagement scores. On a microeconomic level, analyses of employee engagement and company performance data reveal that companies able to achieve higher employee engagement relative to their peers throughout the economic downturn, are now seeing greater revenue growth.
- **Total work experience in Asia Pacific has deteriorated slightly.** Unlike the global outlook, where the overall work experience improved by 4%, the quality of the work experience has suffered a 2% decline in Asia Pacific since last year. However, in eight areas, the work experience improved across Asia Pacific, such as communications and managing performance, among others. (Please see page 27 for a detailed chart.) These changes to the total work experience varied by individual country.
- **Top engagement drivers did not see improvement in Asia Pacific.** In line with a weakening quality of work experience, organizations saw declines in three out of the five top employee engagement drivers, and the remaining two stayed unchanged.
- **Engagement drivers differ substantially by country.** Asia Pacific shows a great deal of cultural, economic, and political diversity. Additionally, talent management practices vary greatly in maturity across countries and industries in Asia Pacific. Operating in this complex environment presents a challenge for leaders trying to drive high levels of employee engagement. Organizations that invest in understanding and managing the key drivers of employee engagement across their multiple constituencies will be able to drive performance in more efficient, effective ways.

This report provides insight into Asia Pacific employee engagement trends over the last five years. By examining employee engagement, organizations can design and implement engagement improvement strategies to address employee motivation, behavior, productivity, and subsequent business results. This report concludes with suggested actions that leaders and managers can take to improve employee 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, refined, and validated over 15 years of research on millions of employees across a wide variety of companies and industries throughout Asia Pacific, Europe, Latin America and North America. Our 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 measure 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 a strong desire to be a part of the organization.

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

We believe employees need to display 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 what is minimally required. The behaviors demonstrated by engaged employees 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 a strong correlation with customer satisfaction and an indirect relationship with financial performance.³

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 led to the designation of six major categories that taken together constitute an employee’s overall work experience: the work people do, the people they work with, career opportunities, total rewards, company practices, and general quality of life.

The Aon Hewitt Engagement Model forms 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 then focus on those specific areas of improvement that will have the largest impact on their employee engagement and business results.

3 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)

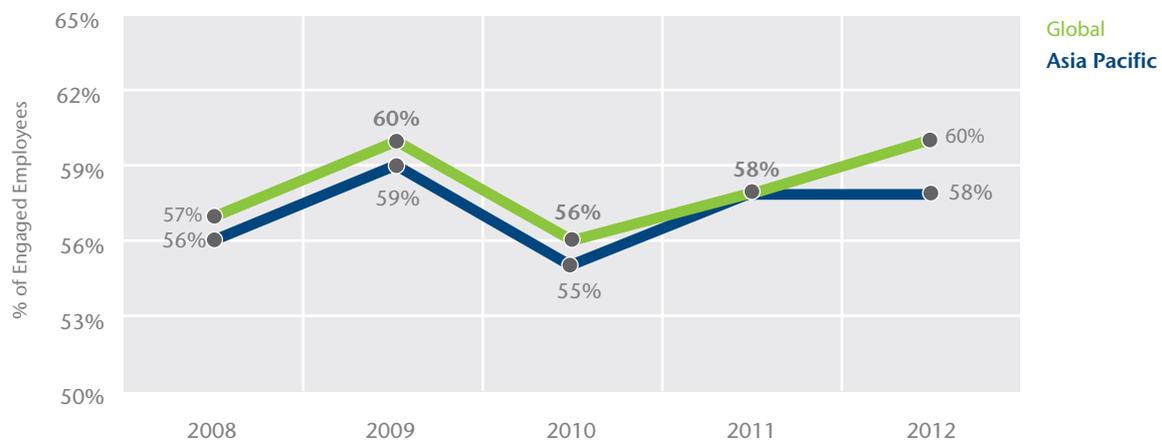
Trends in Asia Pacific Employee Engagement

The economic recession that began in 2008 dramatically changed the landscape of human capital challenges. Severe financial constraints forced organizations to make tough decisions on where to invest their people, time and resources. These management decisions impacted employee engagement levels and perceptions globally (including Asia Pacific). In Asia Pacific, most countries experienced subdued performance in 2010. Since 2010, most countries in Asia Pacific at least sustained or in fact saw growth in their engagement scores.

The chart that follows shows overall trends in engagement scores, both globally and for the Asia Pacific region. Taking stock of employee engagement trends, we can observe that over the last five years (2008-2012), in Asia Pacific the changes in levels of employee engagement have been aligned with global trends. In 2012, the global engagement score was 60%. Despite the 2 percentage point growth in global employee engagement scores, the overall Asia Pacific engagement score remained unchanged at 58%. Globally, the European region showed improvement in levels of employee engagement (up 5 percentage points from 52% to 57%), followed by Latin America (up 3 percentage points from 71% to 74%), thus contributing to the overall upward movement of global employee engagement. North America declined 1% (with the U.S. declining 3% between 2011 and 2012), while Asia Pacific experienced no change.

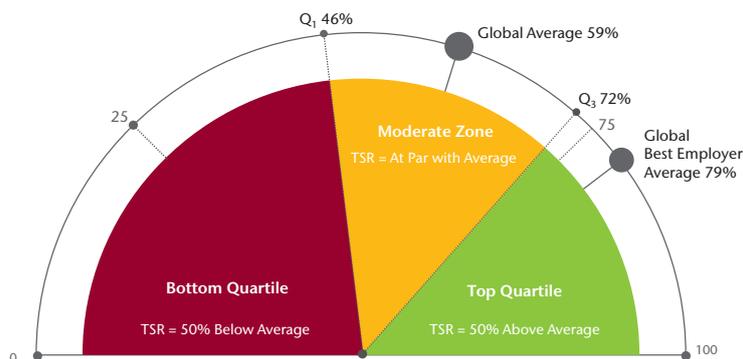
Asia Pacific's overall employee engagement levels remain unchanged, although global employee engagement levels have improved

Global versus Asia Pacific Employee Engagement Scores

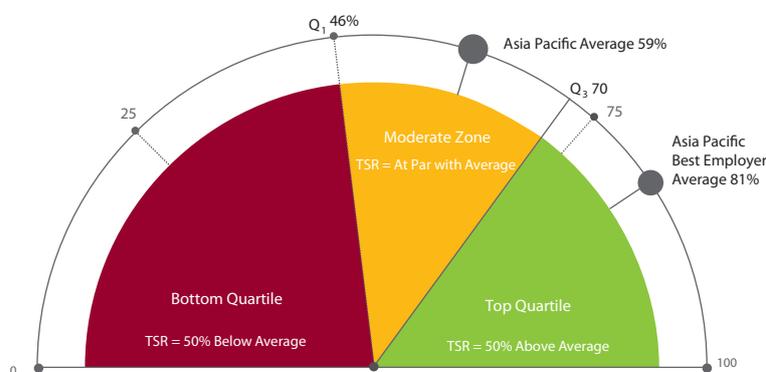


The Aon Hewitt Engagement Meter (as presented on the next page) represents the linkage between employee engagement and total shareholder return. Employee engagement is shown using “traffic signal” colors, whereby the top quartile is green, the bottom quartile is red, and the second and third quartiles are yellow. The Engagement Meter is an effective way to compare employee engagement quartile scores and their relationship with business performance through analysis of total shareholder return. A comparison of global and Asia Pacific engagement meters reaffirms similar engagement patterns with the exception of for the Best Employer score, where the Asia Pacific Best Employer average is 81%, 2% higher than the Global Best Employer average of 79%.

Global and Asia Pacific Engagement Meter



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



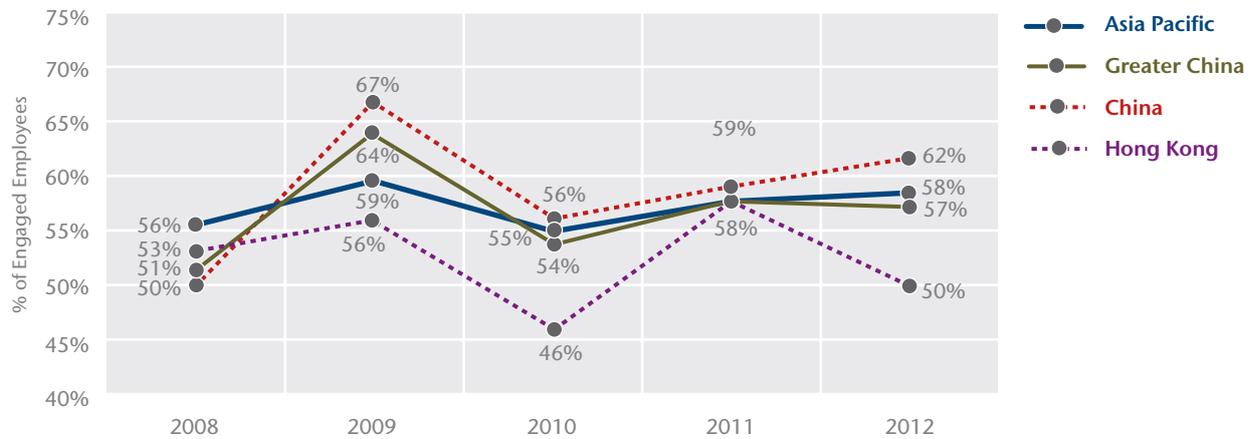
Source: Aon Hewitt Employee Research Database
(Rolling average 2008-2012)

An analysis of overall Asia Pacific employee engagement trends hides the economic dynamism and diversity of the region, which causes the Asia Pacific region to have the widest range of employee engagement scores as compared to any other region. In 2012, Asia Pacific employee engagement levels ranged from 34% in Japan to 71% in Indonesia. Six out of eleven countries experienced improvement in their 2011-2012 employee engagement scores – Australia, China, Indonesia, Japan, Korea, and New Zealand; five experienced declines: Hong Kong, India, Malaysia, Singapore and Thailand.

The charts that follow show the overall trends in employee engagement scores by country, further grouped into three sub-regions: Greater China – comprising China, Hong Kong, and Taiwan; Southeast Asia – comprising Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam; and ANZ – consisting of Australia and New Zealand.⁴

⁴ Asia Pacific employee engagement results include three countries that have not been examined individually in this report (Taiwan, Philippines and Vietnam). These three were recently added to the Aon Hewitt surveys, thus data is insufficient for a detailed country analysis.

China and Hong Kong Trends in Employee Engagement Scores

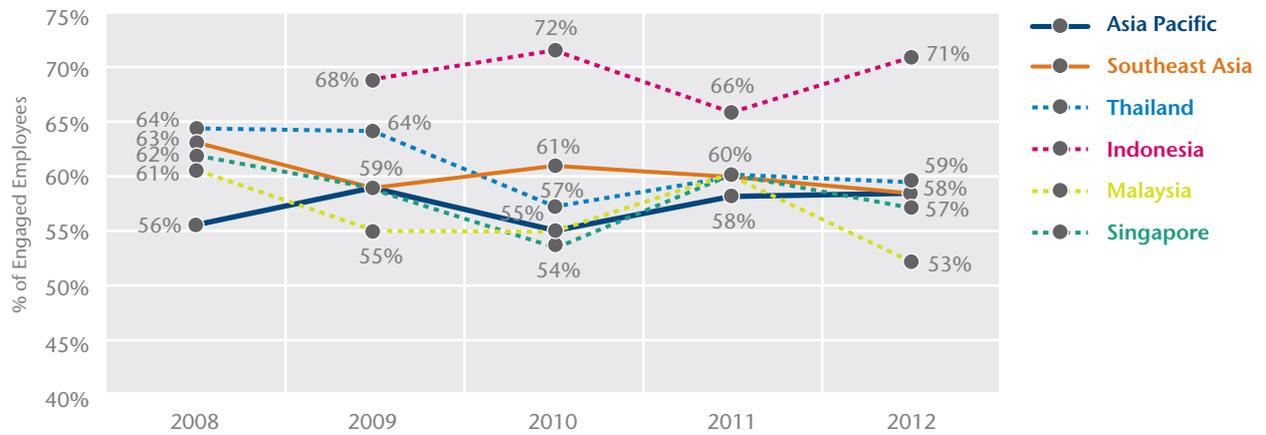


Greater China (Mainland China, Hong Kong and Taiwan) has closely mirrored Asia Pacific employee engagement, albeit with higher volatility. With the exception of 2008, which marked a five-year low at 50% for China employee engagement scores, China scores have been consistently higher than those of Hong Kong. China's score peaked in 2009 at 67%, while Hong Kong's five-year high score was in 2011 at 58%. The spread between Hong Kong and China employee engagement scores reached a maximum in 2012, when China's employee engagement score at 62% led Hong Kong's employee engagement score by 12 percentage points. As a point of reference, Taiwan's employee engagement score in 2012 was also strong at 62%.

The significant difference between China and Hong Kong employee engagement scores can be largely explained through two key economic arguments. When compared to China, Hong Kong's economy is extremely sensitive and vulnerable to global economic developments; the volatility of Hong Kong's employee engagement scores in recent years reflects this sensitivity. Since the 2008 economic crisis, other external factors, such as the European sovereign debt, have put pressures on the economic conditions of Hong Kong. We believe that these macroeconomic factors have impacted microeconomic decisions, which have influenced Hong Kong employees' engagement levels. Thus, Hong Kong's drastic 8 percentage-point drop in employee engagement can largely be explained by the 2 percentage-point slowdown in its GDP growth during the previous year (2010-2011). In addition, the exposure to mature HR practices through the large number of multinational companies headquartered in Hong Kong has meant that employees are familiar with strong talent management practices. In turn, they view local organizations as lagging, thereby resulting in lower employee engagement scores.

The robust growth that China has achieved over the last two decades has certainly contributed to a more positive economic sentiment in China. This economic growth, coupled with a talent shortage, has meant that some organizations in China have started to invest in their workforces to build competitive advantage, which has resulted in the increasingly positive sentiments of China's employees.

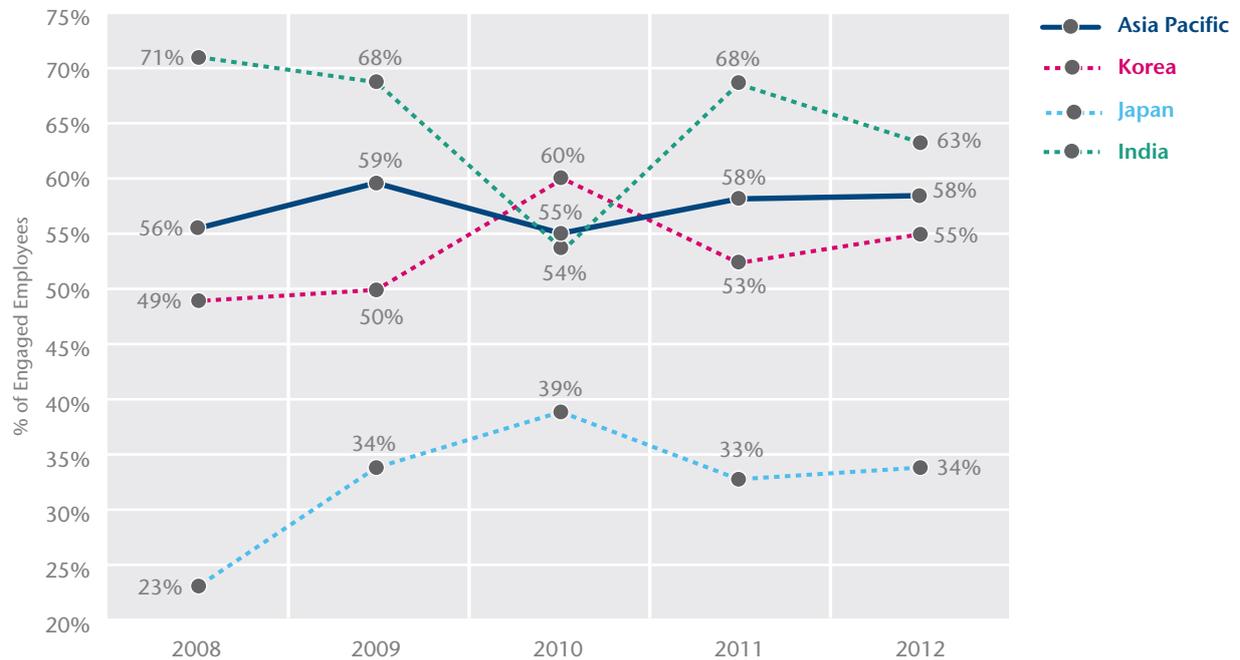
Southeast Asia Trends in Employee Engagement Scores



Overall, the Southeast Asia scores present an inverse pattern to the Asia Pacific scores. In general, Southeast Asian countries have achieved high employee engagement levels over the past five years. Indonesia and Thailand have been consistently outperforming the Asia Pacific score, while Singapore and Malaysia scores are close to the Asia Pacific score.

Malaysia and Indonesia experienced the biggest changes in their employee engagement scores in 2011 and 2012. Malaysia's drop in score from 60% to 53% perhaps can be attributed to the uncertain political and economic environment leading up to the 2013 elections. Organizations were cautious in their 2012 investments in view of this unpredictable atmosphere. Indonesia, on the other hand, has been enjoying economic growth and its organizations are investing more in their people and talent management practices. In 2012, Indonesia's score rose to 71%, up from 66% in 2011.

Korea, Japan, and India Trends in Employee Engagement Scores

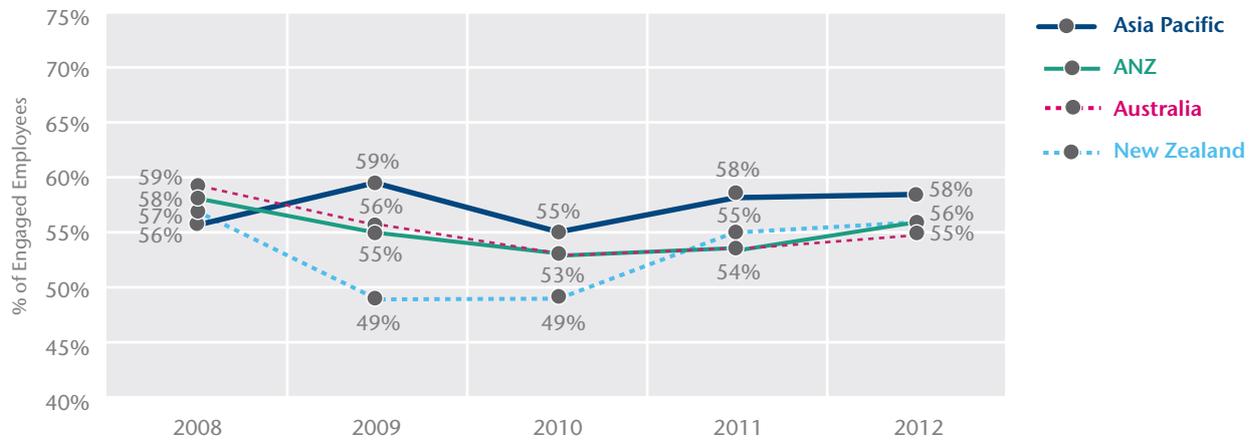


South Korea (referred to as Korea in this report) scores have overall shown improvement in employee engagement levels over the last five years, from 49% in 2008 to 55% in 2012 (reaching a five-year peak score of 60% in 2010). This improvement in scores is in line with the economic conditions in Korea. During this period, Korean organizations have shown commitment towards measuring employee engagement and taken progressive steps to provide a better employment experience.

Over the last five years, Japan has consistently scored around 20 percentage points below the Asia Pacific average. Clearly, culture influences these engagement scores as Japan's tendency is to rate all surveys lower. Though the gap between Japan and Asia Pacific employee engagement scores narrowed swiftly in the years following the 2008 financial crisis, hitting a maximum of 39% in 2010. However, this 39% level has not been regained, as illustrated by the scores between 2010 and 2012. In 2012, Japan was among the group of six Asia Pacific countries that managed to improve their employee engagement scores (by 1 percentage point, from 33% to 34%).

India has exhibited volatility in employee engagement scores over the past five years. Nonetheless, in spite of these score fluctuations, overall India scores have largely outperformed the Asia Pacific employee engagement score, with their highest score at 71% in 2008 (pre-economic crisis). In 2012, despite experiencing a 5% decline in employee engagement, India's employee engagement score ranked second highest among Asia Pacific countries.

Australia and New Zealand Trends in Employee Engagement Scores



Australia's employee engagement trend largely mirrors the Asia Pacific trend, whereas, New Zealand's employee engagement levels show more volatility. Australia and New Zealand have both registered gains in employee engagement scores since 2011, resulting in a combined 2 percentage point rise from 54% to 56%. Australia is the strongest developed economy in Asia Pacific, with a history of positive GDP growth over the last 20 years. Australian organizations have maintained a strong focus on employee engagement and investment in employee engagement initiatives. The impact of this is evident as Australia's employee engagement scores have fluctuated little over the last five years.

New Zealand has experienced high volatility in employee engagement scores, with engagement dropping 8 percentage points to 49% in 2009, where it stayed through to 2010. This is a reflection of the sensitivity of New Zealand's economy to global economic developments.

Despite making steady progress since 2010, Australia and New Zealand scores have largely remained below the Asia Pacific score, which is believed to be higher due to the higher employee engagement scores from developing economies like, China, India, Indonesia, and Thailand influencing the regional average.

Elements of Employee Engagement

As illustrated in the Engagement Model on page 4 of this report, Aon Hewitt measures employee engagement through 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).

According to Aon Hewitt 2013 Trends in Global Employee Engagement Report, global scores have improved slightly from 2011 to 2012, and have been restored to 2009 levels in terms of speaking positively about the organization, intending to remain with the organization, and showcasing discretionary effort. Unfortunately, Asia Pacific does not share this moderately positive trend—results show a slight decline in Stay and Strive scores, while the number of employees who spoke positively about their organization remained the same between 2011 and 2012. Therefore, it is not too surprising that Asia Pacific employee engagement levels have remained unchanged from the previous year.

A 2 percentage points drop in score was seen in the Stay behavior scores. This weaker Stay result can potentially affect companies by increasing their costs related to staff acquisition and retention.

GLOBAL



ASIA PACIFIC



In some countries, employee engagement scores dropped significantly in all three engagement behaviors – Hong Kong and India are examples of this trend. Conversely, Indonesia saw a rise in all three behaviors. Other countries, such as Japan and China exhibited a decrease in one the behaviors but the rise in the other two resulted in an overall increase in their employee engagement score.⁵

Asia Pacific experienced a slight decline in Stay and Strive scores, contrary to the global increases in those engagement behaviors

⁵ See Appendix A for a breakdown of the Say, Stay, and Strive data by country.

Asia Pacific Engagement Distribution

The 2012 Engagement Distribution graph on the following page displays employee responses across engagement profiles and reveals some interesting nuances regionally and across sub-regions. We know that 58% of Asia Pacific employees are engaged, but are all these employees engaged equally? When we look at employees with the highest employee engagement scores (the “highly engaged”), we find that only 16% of employees fall into this category. These employees strongly agree to most or all of the items in our employee engagement index and display strong Say, Stay and Strive aspects to their employee engagement. They are also the group that drives substantially higher outcomes in terms of efficiency, quality, innovation, and customer service.⁶ The rest of the engaged employees are labeled as “moderately engaged”, and they represent 42% of the Asia Pacific employee engagement distribution. These employees agree with most of the items in our employee engagement index, but not strongly. Our research indicates 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.

At the other end of the spectrum, we see that four out of ten employees are not engaged. First are the “passive” employees who show ambivalence in their responses to employee engagement items; they either slightly agree or slightly disagree with most or all of the items in the employee engagement index. They form a quarter of the Asia Pacific engagement distribution and essentially do no harm, but also fail to add significant value. There is a big opportunity in addition to 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. There is also a portion of employees who are “actively disengaged”; they speak negatively about their companies, do not particularly want to remain with their organizations, and do not go above and beyond in their jobs. These employees actively destroy value and constitute 17% of the workforce. There are significant opportunity costs associated with not addressing the passive or actively disengaged members of the labor force.

In Asia Pacific, 17% employees are actively disengaged, which is aligned to the global trend

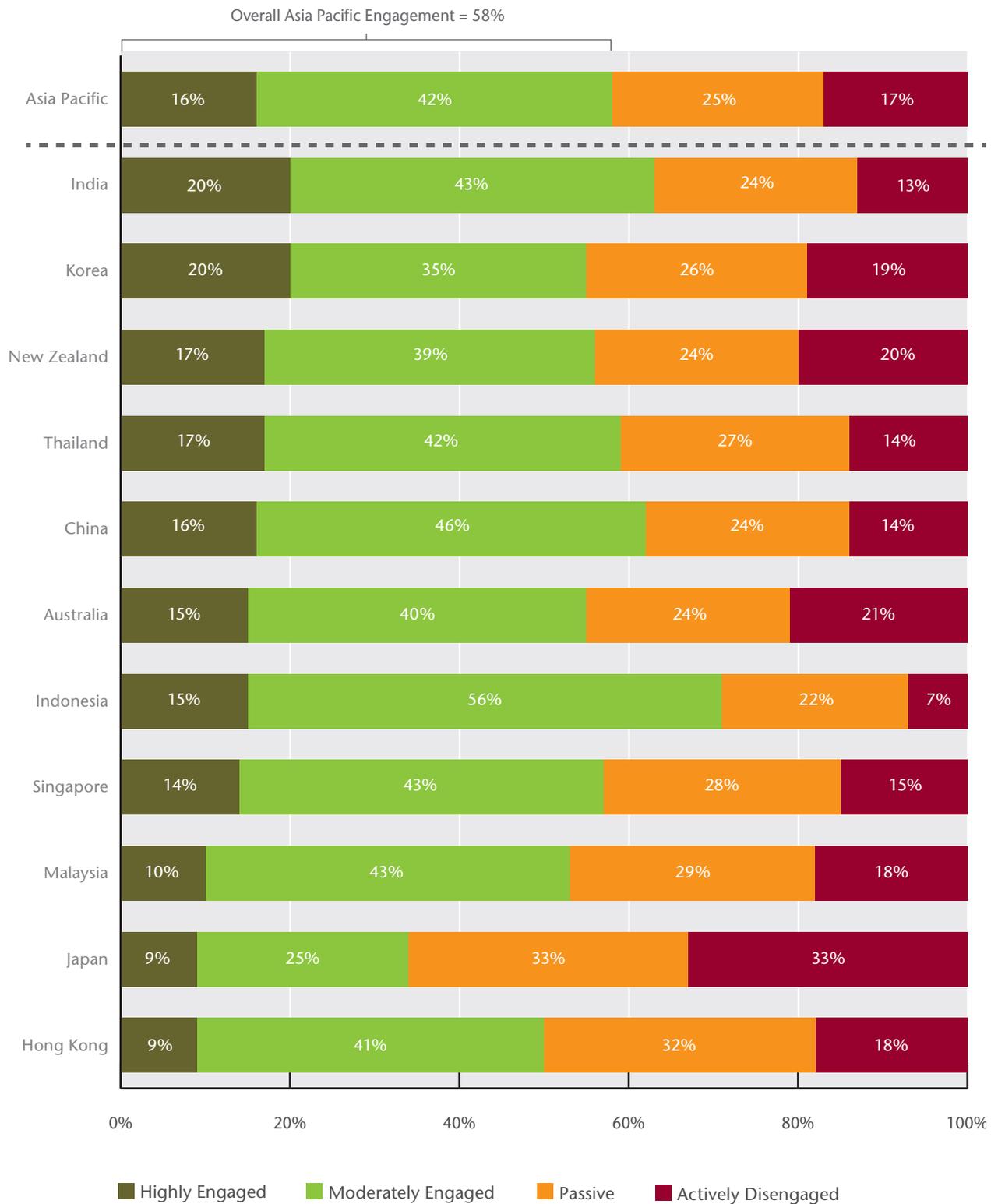
In Asia Pacific, Indonesia had the highest employee engagement score in 2012, yet Indonesia did not lead in terms of highly engaged employees. Rather, India leads the Asia Pacific countries in terms of employees in the highly engaged category. With an overall employee engagement score of 63%, nearly a third of India’s engaged employees are highly engaged. This is good news for India as these are the employees who add the most value to companies and drive substantially higher outcomes.

Despite a 71% overall employee engagement level, 56% of Indonesia’s employees fall into the moderately engaged class. On a positive note, though, Indonesia enjoys the smallest number of actively disengaged workers (7%). Japan has the highest percentage of not engaged (33% passive and 33% actively disengaged). Notwithstanding the substantial progress Japan has made with employee engagement the last five years (in 2008 less than a quarter of its workforce was engaged), the fact that two-thirds of its workforce is not engaged (half of whom are actively disengaged) means that there is still much work to be done to build strong employee engagement, and achieve optimum productivity.

In Asia Pacific, regardless of overall employee engagement levels, employers are at risk of high attrition levels when scores of actively disengaged employees fall between 7% and 33%. Cultural differences in responding to survey questions are a well known fact of the Asian diversity (for example, employee engagement responses in Indonesia are moderate and rarely fall under the extremes, whereas Japanese employees’ responses tend to be on the lower side). It is therefore important to take this cultural diversity into account when examining and interpreting these results.

6 Aon Hewitt (2010). The Engagement 2.0 Study

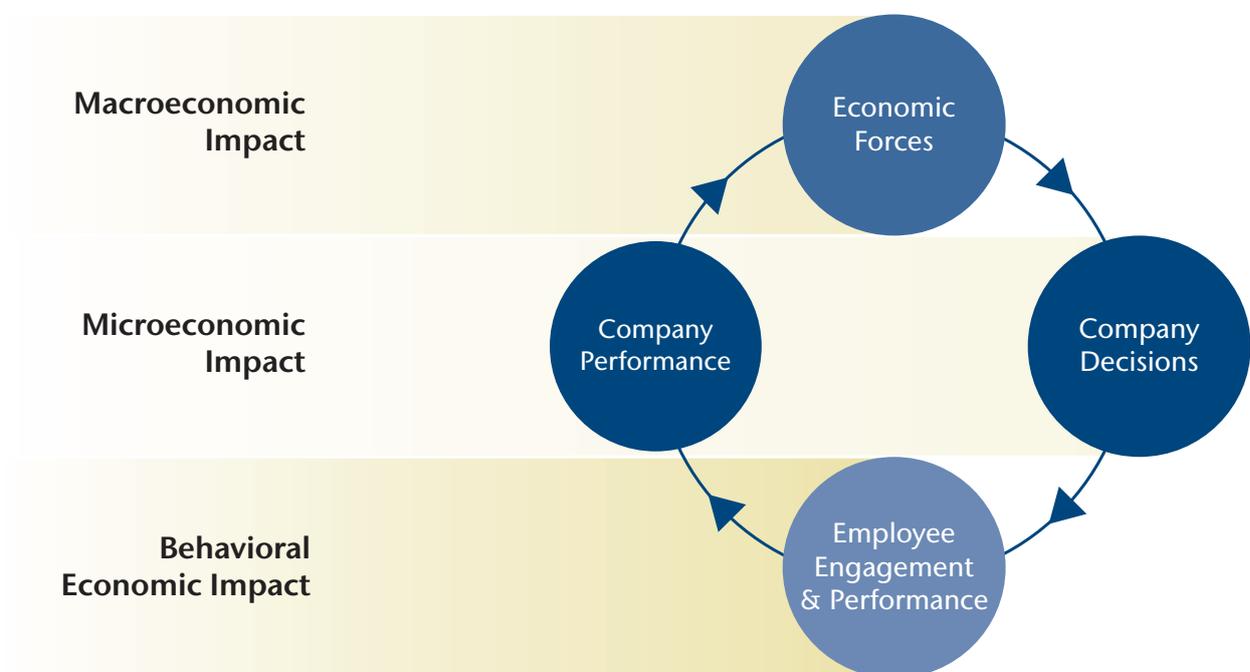
2012 Asia Pacific Engagement Distribution



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 characterized by a lagged chain of events that span macro, micro and behavioral economic dynamics. As the following model illustrates, macroeconomic forces impact the microeconomic decisions that companies make, which influences individual engagement levels, which in turn affects organizational performance, which aggregately impacts macroeconomic indicators. This cyclical pattern shows how employee engagement plays a critical role – not only in the performance of the organization, but on the economic conditions overall. Most importantly, leaders and managers should understand that the area in this model over which they have the most control is where their decisions can impact their employees' engagement and company performance.

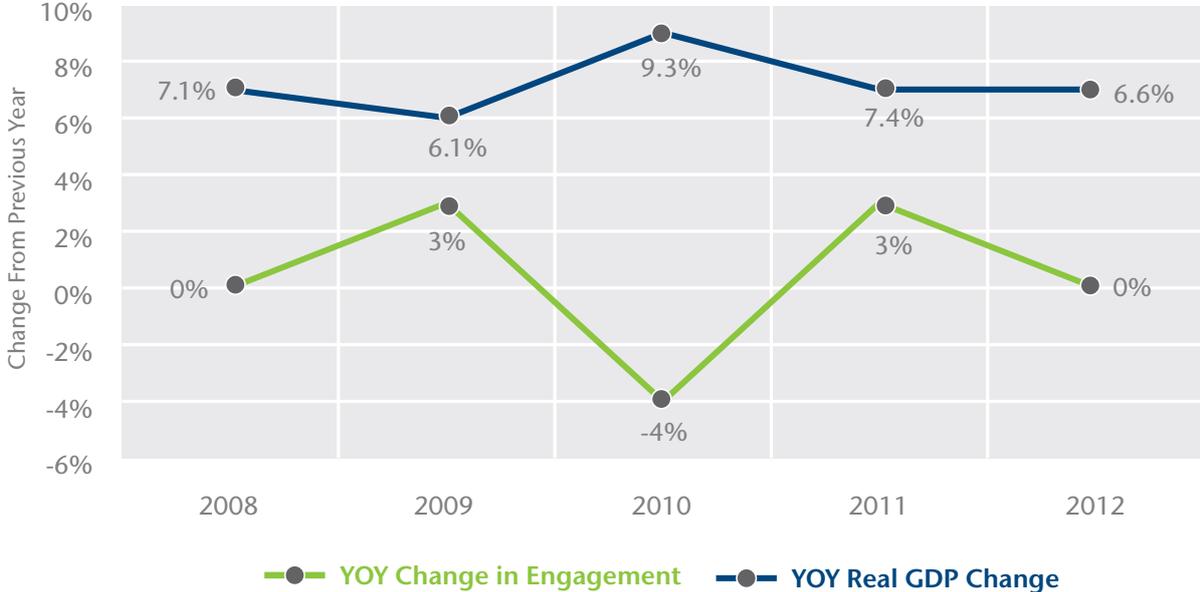
The Cycle of Macro, Micro and Behavioral Economic Performance



It is unlikely that 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 (for example, M&A, restructuring, people investments) that have a significant impact on the engagement levels of individuals within these organizations. Our analysis shows that this directional lagged relationship between GDP and employee engagement continues.

In addition to showing a lagged relationship between employee engagement levels and macroeconomic indicators, we will demonstrate later that improvements in employee engagement are positively correlated with company performance, in particular, operating income.

Asia Pacific Engagement Trends Compared to Asia Pacific Economic Indicators



Note: "YOY" refers to Year over Year

By plotting the level of GDP growth and employee engagement levels in Asia Pacific across the last five years⁷, we can see strong evidence of a lagged relationship between changes in employee engagement and GDP growth consistent with the global trend. For example, after a steep rise in GDP from 2009-2010, employee engagement increased from 2010 to 2011. GDP growth in Asia Pacific slowed slightly from 2010-2011, followed by a stabilization of employee engagement levels in Asia Pacific. This lag indicates that companies adjust their employee engagement strategies and people investments according to the general economic atmosphere. We see a general pattern whereby a negative change in growth is followed by a decrease in employee engagement scores and a positive change in growth is followed by an increase in employee engagement scores. 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 across the Asia Pacific region with notable implications for future employee engagement.

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

Most of the eleven Asia Pacific countries illustrate a lagged relationship between their employee engagement and GDP levels. For example, 2010-2011, all employee engagement scores improved, one year after the economic recovery of 2009-2010. This pattern is reflected in the overall Asia Pacific employee engagement trends in the last five years. Meanwhile, changes in employee engagement scores appear more volatile than changes in GDP over the same period. For instance, China has maintained a steady high level of growth during the last five years with little change in GDP year-on-year. However, its employee engagement scores have fluctuated, from a 17% rise in 2009 to an 11% drop in 2010. This volatility indicates that employee engagement numbers are sensitive to small GDP changes. This large degree of elasticity is consistent through most Asia Pacific markets.

⁷ Gross Domestic Product Data Source: International Monetary Fund World Economic Outlook Database, April 2013: <http://www.imf.org/external/pubs/ft/weo/2013/01/weodata/index.aspx>

Asia Pacific Engagement Trends Compared to Economic Indicators (Country Level)

China



Note: "YOY" refers to Year over Year

Unlike the volatility experienced from 2008-2010, China's most recent employee engagement levels are stable and positive despite the "soft landing" that Chinese authorities are engineering for their economy. The shortage of talent in China and escalating cost of labor have also contributed to a greater focus on human capital initiatives. Companies are refraining from cutting human resource expenses too quickly during times of slower growth. The future of employee engagement in China is dependent on the economic measures implemented by Chinese authorities and how organizations respond to these changes.

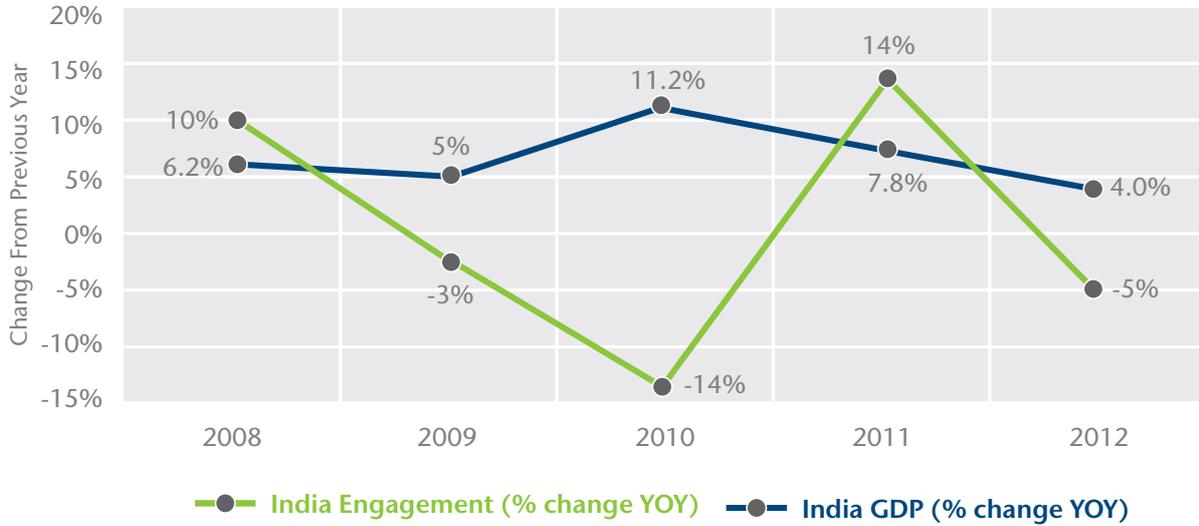
Hong Kong



Note: "YOY" refers to Year over Year

Similar to China, Hong Kong experienced a one-year lagged relationship between its employee engagement and GDP growth. While China's volatility in employee engagement has abated in recent years, scores in Hong Kong have been quite volatile since the financial crash of 2008. One explanation for this persistent volatility is Hong Kong's large exposure to international markets as a key regional financial hub. As GDP growth is expected to recover slightly, Hong Kong could expect small improvements in 2013-2014.

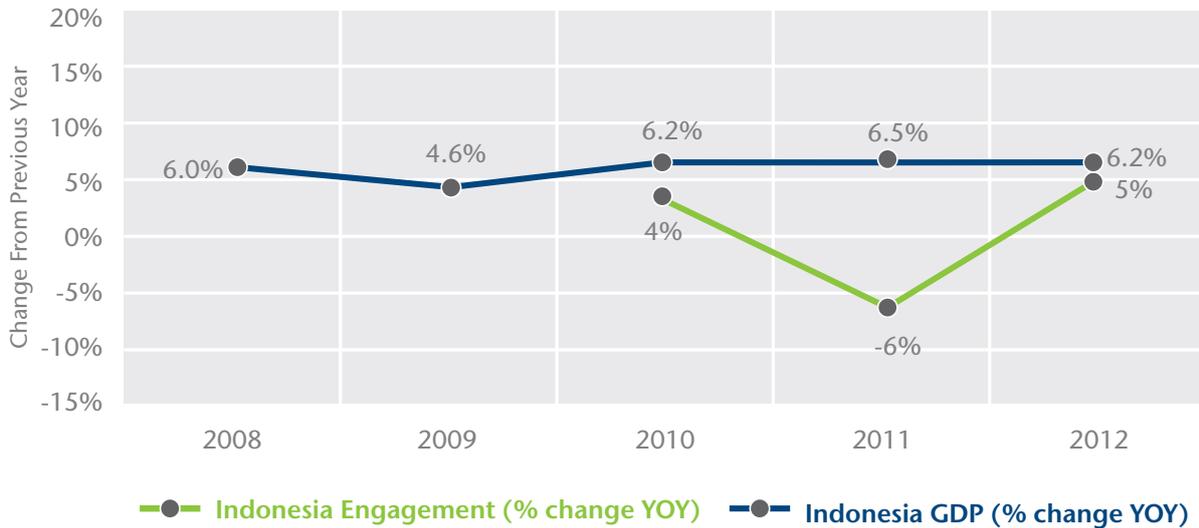
India



Note: "YOY" refers to Year over Year

India has experienced a one-year lagged relationship between its employee engagement and GDP growth. In 2012, India experienced a 5% decline in its employee engagement score in response to the tough economic environment. The future of employee engagement in India will be dependent on the economic environment in 2013 and how organizations respond to the changes.

Indonesia



Note: "YOY" refers to Year over Year

For Indonesia, due to insufficient longitudinal data, it is hard to discern the one-year lag between GDP and employee engagement patterns. Indonesia continues to be a strong emerging market with GDP remaining reasonably stable at the 6% mark since 2010, and predicted to remain stable. While employee engagement levels have seen some fluctuation, companies have started to focus on improving human capital in Indonesia. Therefore, Indonesia is expected to maintain or perhaps slightly increase its high employee engagement levels in the near future.

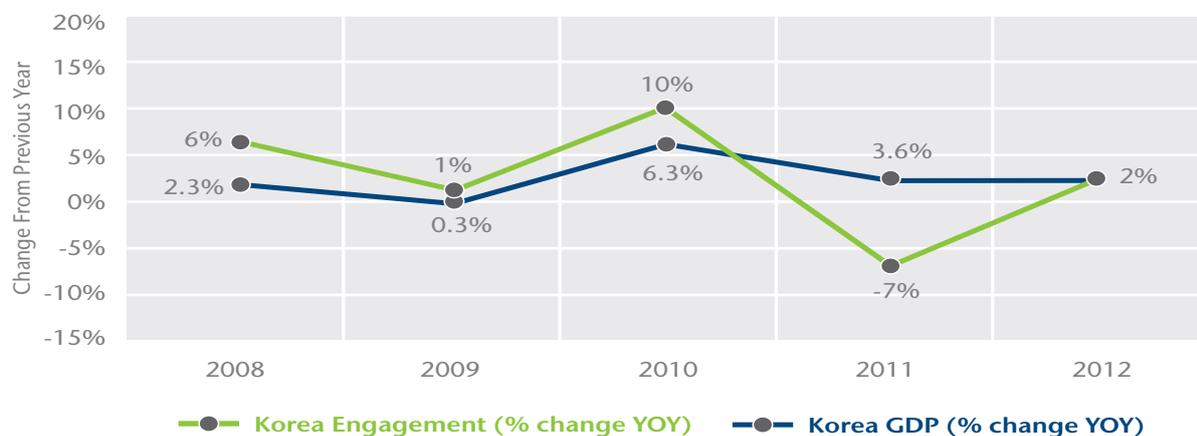
Japan



Note: "YOY" refers to Year over Year

Although the one-year lagged relationship between employee engagement and GDP existed before 2011, this changed in 2011, the year of the Tohoku earthquake. The World Bank estimates that the economic cost of the earthquake reached around USD 235 billion, making it the most costly natural disaster to date.⁸ The earthquake seriously disrupted business, so many companies focused on reconstruction, rather than improving their human capital. Consequently, both GDP and employee engagement numbers dipped in 2010-2011. As the country returned to normality, employee engagement levels improved in 2012. GDP growth predictions for 2013 remain stable and we expect employee engagement levels to remain constant or increase slightly.

Korea



Note: "YOY" refers to Year over Year

Korea presents a special case. Except for 2011, there has been no lag between employee engagement and GDP changes. Instead, the two trends have moved in tandem, implying that employers in Korea may have adjusted their employee engagement strategies quickly in response to prevailing macroeconomic conditions. Overall employee engagement levels in Korea improved in 2012, as compared to those of 2008, with a greater focus given to human capital by organizations in Korea.

8

Source: <http://www.latimes.com/business/la-fgw-japan-quake-world-bank-20110322,0,3799976.story>

Malaysia



Note: "YOY" refers to Year over Year

Since 2010, Malaysia has experienced a one-year lag relationship between GDP and employee engagement until 2012. The steep decline in Malaysia's employee engagement score in 2012 may be attributed to the uncertainty leading up to the 2013 elections and decline in GDP growth in 2011. Organizations might have exercised caution in their investments in response to the uncertain political and economic environment. With a marginal increase in GDP from 2011-2012 and stabilization post elections, Malaysia could expect slight future improvements in employee engagement scores.

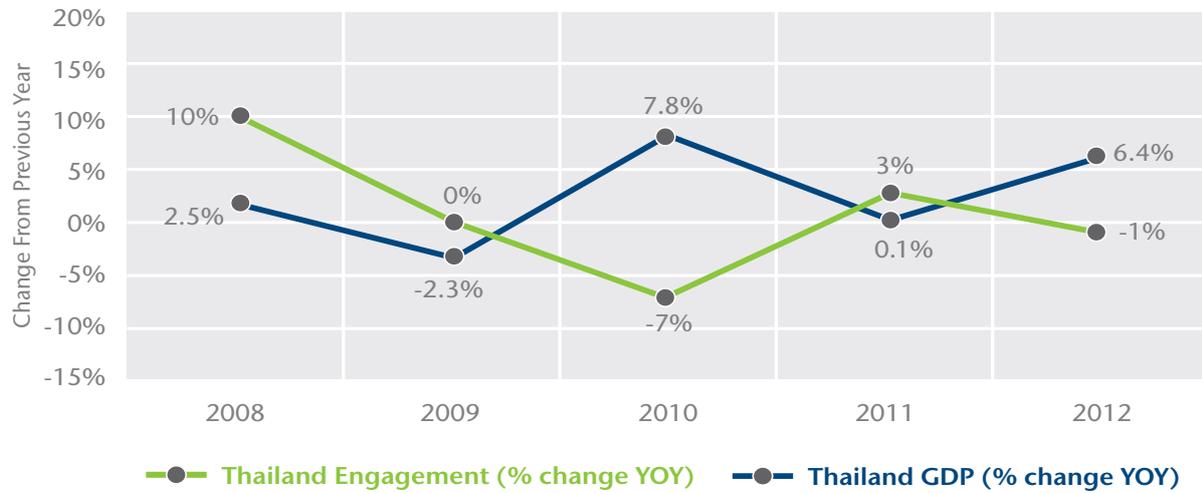
Singapore



Note: "YOY" refers to Year over Year

Similarly, Singapore experienced a one-year lagged relationship between its employee engagement and GDP growth. In its advanced, focal areas for improvement that can advance significant business gains and competitive advantage are shrinking. At this stage, human capital has become an increasingly hot topic among companies. The city-state experienced a second year of slowing economic growth in 2012, although Singapore's GDP is expected to improve marginally in 2013 and significantly in 2014. Organizations will need to keep their focus on human capital in order to navigate anticipated economic changes and ward off further erosion of employee engagement levels.

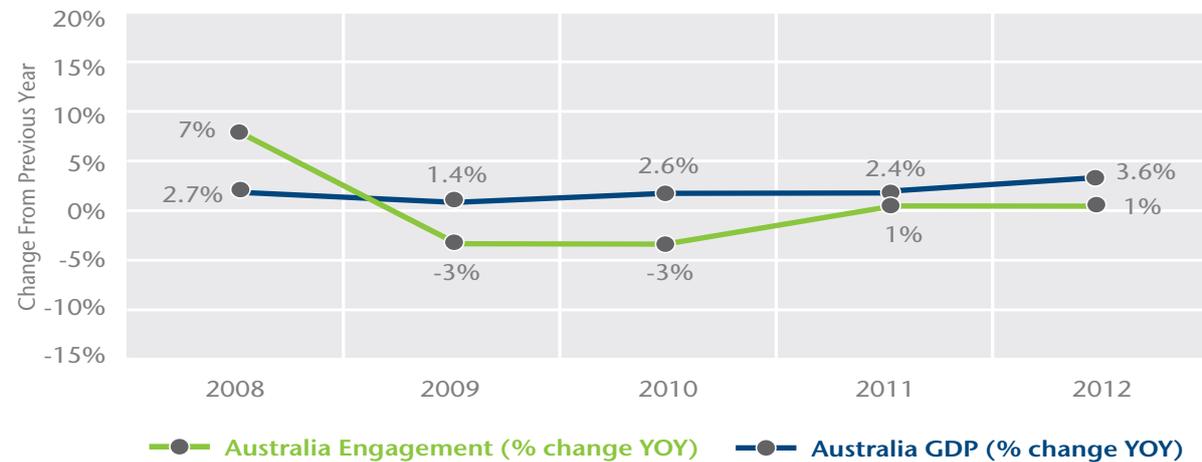
Thailand



Note: "YOY" refers to Year over Year

Thailand experienced a one-year lagged relationship between its employee engagement and GDP growth. In a context of political uncertainty coupled with the 2008 global financial crisis, we observed a large degree of volatility in Thailand's employee engagement scores from 2008 to 2011. Due to the perceived success of the 2011 elections, Thailand is now seeing a relative return to political and economic normality. With an impressive recovery of 6 percentage points in GDP growth and a decline in employee engagement volatility, Thailand's employee engagement scores will likely continue to improve over the next one to two years.

Australia



Note: "YOY" refers to Year over Year

Except for the large drop in employee engagement from 2008-2010, a result of the financial crisis, Australia's employee engagement scores have largely remained stable. There is also a noticeable one-year lag between employee engagement and GDP figures. Consequently, based on this year's acceleration of GDP growth and the overall stability of recent scores, we predict that future employee engagement will be maintained at this year's level, or will increase further. The need for increased employee engagement and discretionary effort is a critical prerequisite to addressing the workforce productivity challenges now confronting the Australian economy.

New Zealand



Note: "YOY" refers to Year over Year

New Zealand has also experienced a one-year lagged relationship between its employee engagement and GDP growth. Pressures owing to the global financial crisis, followed by the 2011 Christchurch earthquake, generated volatility in New Zealand's economic scenario from 2008 to early 2011. We believe the economic fluctuations during this period disrupted business, so many companies focused on business stability as a priority. From mid-2011 to 2012, GDP growth recovered and employee engagement levels improved, in line with organizations refocusing on their people agenda. With an accelerated GDP growth in 2012 expected to continue in 2013, we expect organizations will continue to invest in people initiatives, which should result in sustained employee engagement levels.

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

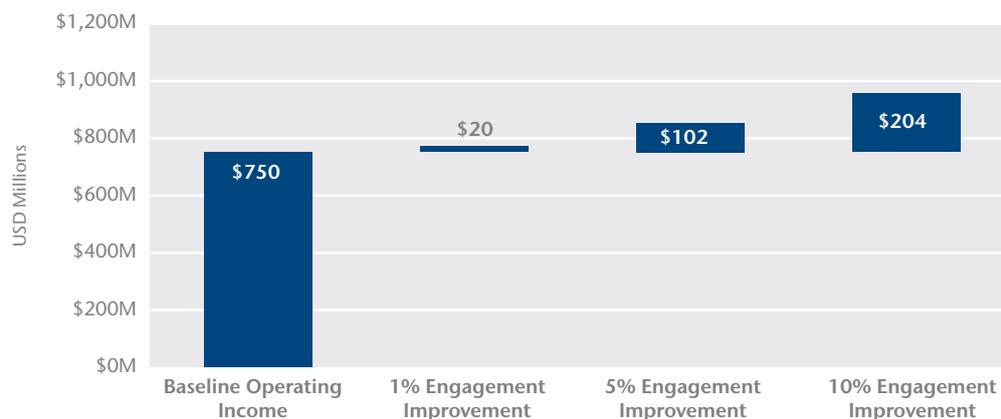
Employee engagement is similar to a boat's propeller — it is under the surface and its impact is moderated by the force of the current moving with or against the vessel. Leaders and managers need to understand how to harness and direct the positive force of employee engagement to navigate with positive economic momentum 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 conducted a global analysis examining the relationship between employee engagement and financial performance using global data from 94 companies in our Employee Research Database. We uncovered a strong positive correlation between 2010 employee engagement relative to regional benchmarks and sales growth one year later in 2011 ($r=.41$, $p<.01$) This lagged relationship intuitively makes sense, considering that an engaged employee yields better efficiency, quality, innovation and customer service. This valuable employee engagement output will likely increase the number of satisfied customers, resulting in new and recurring business. But this effect is not immediate — it takes time for employee engagement to translate into tangible operational and customer outcomes, which over time convert into measurable financial results.

We applied the statistical relationship we found in a sensitivity analysis to show what a 1%, 5% or 10% employee 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 employee engagement predicts a 3% increase in sales growth).

As a practical illustration of the power of this relationship, for a USD 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 USD 20 million in incremental operating income. Likewise, a 5% employee engagement increase would yield an incremental USD 102 million, and a 10% employee engagement improvement would render an incremental USD 204 million straight to the bottom line. Although this study was conducted on a global level, Asia Pacific companies were included in the analysis, which means that its results are just as relevant from a regional perspective. Understanding this relationship allows leaders to recognize and realize the incredible financial opportunity behind their investments in talent.

Figure 1: Sensitivity of Lagged Operating Income to Changes in Employee Engagement for a USD Organization with a 15% Operating Margin (numbers in USD millions)



Source: Aon Hewitt Engagement database

Note: Sensitivity assumes a USD 5 billion 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 that 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 that those organizations that managed higher levels of employee engagement during the financial crisis, also experienced significantly higher revenue growth in the years that followed.

Further, we see a strong correlation between employee engagement levels and total shareholder return (TSR). Our analysis shows that companies with employee engagement levels in the top quartile (72% or higher) attain 50% higher TSR than the average organization. Likewise, companies in the bottom quartile of employee engagement levels (46% or lower) have 50% lower TSR than the average organization. (Please refer to page 7 for the Global and Asia Pacific Engagement Meters.)

As we saw earlier, average employee engagement is on the rise by 2 percentage points. The 12% difference between the average global employee engagement level (60% for 2012) and the top quartile cut-off means that some companies are pulling away from the pack in their employee 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 duration of the effects may vary. The way organizations react to economic cycles often foretells how well they succeed or survive. During turbulent times and uncertain economic forecasts, many organizations react with decreased investment in their talent. It may be tempting to think that employee engagement is just a function of the economy. But many elements within the control of management can improve and sustain employee engagement in times of economic health or crisis. In that context, employee 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, employee 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 employee engagement.

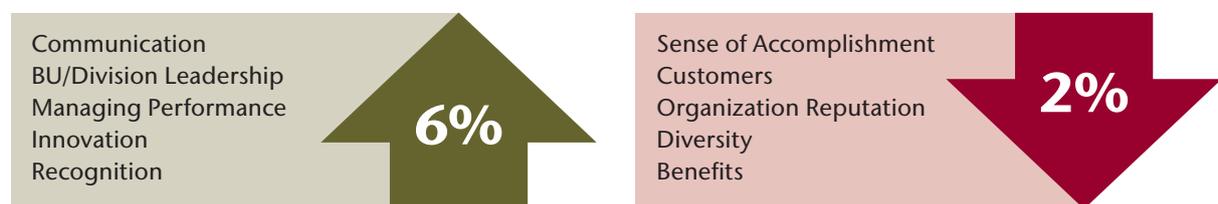
The sections that follow highlight changes in the overall work experience, key drivers of employee engagement within that work experience, and how each of the drivers varies according to demographic and geographic groups.

Changes in the Work Experience

Understanding and managing employee engagement requires managers to dig deeper into how employees feel about the work experience. According to 2013 Trends in Global Employee Engagement Report, more areas of the work experience improved in 2012 than deteriorated at a global level. In particular, globally the top five work experience drivers 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 globally improving the most seem to pertain to organizational programs and practices - communication, performance management, innovation, and recognition. The areas that are deteriorating globally relate to job fit and culture - one's sense of accomplishment in the work, customer interactions, and the organization's reputation.

Both globally and regionally, we observe an average increase of around 6 and 4 percentage points, respectively, for the top five drivers. The five drivers with the largest decrease in Asia Pacific registered a reduction of 6 percentage points. The work experience improved more decisively across the world than within Asia Pacific.

Global



Asia Pacific



Total work experience in Asia Pacific has deteriorated slightly, contrarily to the global trend

As the following heat map illustrates, the work experience is changing in different ways across Asia Pacific sub-regions. Scores on the work experience perception indicators largely improved in Japan, Korea, and Southeast Asia. India sustained losses in its perception scores, which accounts for the 5 percentage point drop in its employee engagement score this last year. (Please refer to Appendix B for heat map by individual country.)

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

| Work Experience Indicator | Asia Pacific | India | Korea | Japan | ANZ | Greater China | South East Asia |
|-----------------------------|--------------|-------|-------|-------|-----|---------------|-----------------|
| 2012 Engagement Score | 58% | 63% | 55% | 34% | 56% | 57% | 58% |
| BU/Division Leadership | 8% | -10% | - | - | 7% | 9% | -7% |
| Communication | 4% | -2% | - | 6% | -1% | -3% | -4% |
| Managing Performance | 4% | -1% | - | 5% | -1% | -2% | -4% |
| Physical Work Environment | 3% | 2% | - | 7% | 2% | 0% | -3% |
| Customer Focus | 2% | -3% | 3% | 0% | -5% | -4% | 7% |
| Work Tasks | 2% | -2% | 3% | 5% | 1% | 1% | 0% |
| Valuing People/People Focus | 1% | -3% | - | 5% | 1% | 5% | -1% |
| Safety | 1% | 1% | - | -5% | 1% | -3% | -2% |
| Brand Alignment | 0% | -7% | 2% | 7% | 0% | -1% | 2% |
| Recognition | 0% | -4% | 1% | 1% | 0% | -6% | 3% |
| Manager | 0% | -3% | -3% | 3% | -1% | -3% | 1% |
| People/HR Practices | -1% | -8% | 4% | 2% | 0% | -8% | 5% |
| Learning and Development | -1% | -6% | 5% | -1% | -2% | 1% | 4% |
| Pay | -1% | -6% | 2% | 6% | 2% | 1% | 5% |
| Career Opportunities | -1% | -5% | 3% | 2% | 0% | -5% | 3% |
| Co-workers | -1% | -4% | 3% | -1% | 0% | -3% | 0% |
| Innovation | -2% | -8% | 1% | - | -8% | -5% | 9% |
| Senior Leadership | -2% | -5% | 3% | -1% | -1% | -3% | 1% |
| Work Processes | -2% | -5% | 2% | 3% | 1% | -4% | 6% |
| Diversity | -3% | -6% | -2% | 9% | -1% | -4% | 1% |
| Work/Life Balance | -3% | -3% | -1% | -1% | -3% | -11% | 3% |
| Resources | -3% | -3% | 0% | 0% | -2% | -7% | 4% |
| Benefits | -4% | -5% | 0% | -2% | 2% | -3% | 4% |
| Organization Reputation | -4% | -7% | 3% | -5% | 0% | -5% | 5% |
| Sense of Accomplishment | -5% | -3% | 2% | -3% | -1% | -3% | 1% |
| Career Aspiration | -6% | -5% | - | - | - | -4% | -4% |
| Autonomy/Choice | -7% | -8% | - | -2% | 0% | -8% | 9% |
| Customers | -7% | -5% | - | -3% | 0% | -13% | 4% |

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

Key Drivers of Employee Engagement

As our Engagement Model suggests, all of these aspects of the work experience have an impact on employee engagement. However, some areas impact engagement more than others. These “key drivers of employee engagement” are identified through statistical analysis that prioritizes them based on both the strength of their statistical relationship with employee 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 (out of which 916 are in Asia Pacific), representing more than 3.8 million employees across the globe (out of which 840,000 are in Asia Pacific). Rankings indicate the dimensions of the work experience that most frequently emerged as key drivers and offer the greatest opportunity to improve employee engagement.

Top employee engagement drivers did not see improvement in Asia Pacific

Key Drivers of Employee Engagement (Rank)

| | 2012 Global Rank | Global Change in 2012 (over 2011) | 2011 Asia Pacific Rank | 2012 Asia Pacific Rank | Asia Pacific Change in 2012 (over 2011) |
|-------------------------|------------------|-----------------------------------|------------------------|------------------------|-------------------------------------------------------------------------------------------|
| Career Opportunities | 1 | 3% | 1 | 1 |  -1% |
| Pay | 3 | 2% | 4 | 2 |  -1% |
| Recognition | 4 | 5% | 3 | 3 |  0% |
| Organization Reputation | 2 | -2% | | 4 |  -4% |
| Brand Alignment | | 4% | 5 | 5 |  0% |
| People/HR Practices | | 3% | 2 | |  -1% |
| Communication | 5 | 7% | | |  4% |
| Managing Performance | | 5% | | |  4% |

Globally, all of the top five employee engagement drivers for 2012 improved except for organization reputation. However, Asia Pacific presents a rather different situation—its 2012 top five drivers either decreased or remained unchanged. Furthermore, organization reputation is a new addition to the top five drivers in Asia Pacific. Unfortunately, this new indicator has also experienced the largest decrease in Asia Pacific perception scores since 2011.

However, there are still important similarities between global and Asia Pacific trends. First, on both levels we observe that increasing emphasis is being placed on pay and that the rest of the priorities have remained fairly consistent from 2011-2012. Secondly, out of the top five drivers, four of them are highlighted both regionally and globally, demonstrating a strong alignment in priorities. Finally, whether it is global or Asia Pacific, career opportunities remain at the top of the employee engagement driver rankings.

The existence of pay in the key driver rankings (in China, Korea, Malaysia and Hong Kong) is also notable. In traditional employee engagement belief, pay is considered as a “hygiene” factor only - meaning organizations have to pay at market level, but incremental investments do not have significant impact. However, the ranking of the pay driver climbing from fourth to second place certainly has important implications. It could mean that the pay freezes and bonus impacts of the last few years have started to meet the “hygiene threshold”, and that pay is factoring into employee engagement more and more. It could also mean the employment contract is changing, and that today’s employees espouse less long-term loyalty and increasingly value pay. Above all, since Asia Pacific is a growing region where the job market is highly competitive, pay remains a critical aspect of the value proposition to attract, retain, and engage talent.

Ranked Drivers of Employee Engagement for 2012 by Country

| | Asia Pacific | CHN | HKG | IND | IDN | JPN | KOR | MYS | SGP | THA | AUS | NZL |
|--------------------------------|--------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| Career Opportunities | 1 | 2 | 2 | 1 | 1 | | | 2 | 1 | 1 | 1 | 1 |
| People/HR Practices | | | 1 | 4 | | | 1 | | | 2 | | |
| Recognition | 3 | | | 2 | 2 | | | 1 | 3 | 3 | | |
| Pay | 2 | 3 | 4 | | | | 2 | 5 | | | | |
| Organization Reputation | 4 | 4 | | | 2 | 4 | | | 2 | | 2 | 2 |
| Brand Alignment | 5 | | | | | | | 3 | | | 4 | 4 |
| Benefits | | 1 | | 5 | 2 | | | | | | | |
| Resources | | 5 | | | 5 | 3 | | | | | | |
| Career Aspiration | | | | 3 | | | | | | | | |
| Work Tasks | | | | | | 1 | | | 5 | 5 | | |
| Innovation | | | | | | | | 4 | 4 | | | |
| Communication | | | 5 | | | | | | | | 5 | 3 |
| Managing Performance | | | 3 | | | 1 | 3 | | | | 3 | 5 |
| Work Processes | | | | | | 4 | 5 | | | 4 | | |
| Senior Leadership | | | | | | | 4 | | | | | |

Note: CHN: China, HKG: Hong Kong, IND: India, IDN: Indonesia, JPN: Japan, KOR: Korea, MY: Malaysia, SGP: Singapore, THA: Thailand, AUS: Australia, NZL: New Zealand.

Examining the country-level breakdown of the rankings also yields some interesting analysis. Considering how scattered most of the numbers are, it is surprising to see such an overwhelming consensus over the importance of career opportunities, which emerged as one of the top two drivers of employee engagement in nine countries we surveyed. Other important factors cited as a priority by around 50% of the countries include recognition, pay, and organization reputation. Naturally, the importance of all of these drivers is reaffirmed by the overall Asia Pacific key drivers list.

It is important to include a special note on why benefits are being perceived as so important by some employees. China's emphasis on benefits can be accounted for with two explanations. First, since the introduction of the "one child policy" in 1979, China's demographic distribution has been impacted. It has given rise to the "4-2-1 problem", wherein a child needs to support two parents and four grandparents. Hence, today's employees understandably place heavier emphasis on finding the best benefit package to reduce their financial burdens. Another source of economic concern stems from the high inflation caused by an overheating economy. A steady rise in living costs has accompanied the economic growth of recent years, which means that most wage increases have been more nominal than real. In many cases, disposable incomes and government benefits have not kept up with the rising costs.

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

| | 2010 GDP Growth | 2011 GDP Growth | 2012 GDP Growth | 2011-2012 Change in Engagement | Change in Work Environment | Change in Top Engagement Drivers |
|--------------|-----------------|-----------------|-----------------|--------------------------------|----------------------------|----------------------------------|
| Asia Pacific | 9.3% | 7.4% | 6.6% | 0% | -1% | -1% |
| CHN | 10.4% | 9.3% | 7.8% | 3% | 0% | -2% |
| HKG | 6.8% | 4.9% | 1.4% | -8% | -9% | -8% |
| IND | 11.2% | 7.8% | 4.0% | -5% | -4% | -5% |
| IDN | 6.2% | 6.5% | 6.2% | 5% | 6% | 2% |
| JPN | 4.7% | -0.6% | 2.0% | 1% | 1% | 2% |
| KOR | 6.3% | 3.6% | 2.0% | 2% | -8% | -7% |
| MYS | 7.2% | 5.1% | 5.6% | -7% | -5% | -8% |
| SGP | 14.8% | 5.2% | 1.3% | -3% | -1% | -3% |
| THA | 7.8% | 0.1% | 6.4% | -1% | -4% | -6% |
| AUS | 2.6% | 2.4% | 3.6% | 1% | 0% | 0% |
| NZL | 1.8% | 1.4% | 2.5% | 1% | 0% | 0% |

■ Deteriorating ■ Improving ■ Staying Constant

Though the Asia Pacific economic landscape remained largely expansionary in 2012, the same cannot be said for the employee engagement landscape. Of the Asia Pacific countries surveyed, Indonesia, Korea, Australia, New Zealand, and Japan managed to improve all of their employee engagement measures during the last year (refer to the column titled “Change in Work Environment” in the above figure). There are some instances where the scores remained constant, but in most cases, the top employee engagement drivers and the overall change in work experience suffered declines (refer to the column titled “Change in Top Engagement Drivers”). The general deterioration of the work environment in these economies could be attributed to the economic conditions in 2010-2011. As the euro crisis escalated, it could have hampered growth globally and in Asia Pacific due to Asia Pacific’s heavy reliance on European demand for its exports. In response to this growth contraction, Asia Pacific companies likely began to divest from engagement initiatives, hence accounting for the underperformance of engagement drivers and the engagement score drops seen this year.

Since we have already established that there is a significant lagged relationship between GDP growth and employee engagement scores on both regional and country levels, we can make some reasonable predictions about future employee engagement trends. For instance, Thailand’s significant growth bursts from 2011-2012 signals a potential improvement of employee engagement scores next year; while the continued erosion of Indian 2011-2012 GDP growth suggests a second year of employee engagement declines. Similar expectations can be extended to the employee engagement drivers, as the close alignment between the employee engagement drivers and scores continues.

Understanding Engagement by Segments

There are many factors 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 and target programs for specific employee groups.

Job Level

The data shows some interesting trends by job level. In Asia Pacific, executives and senior managers are the most engaged (66%), followed by middle managers, team leaders and supervisors (58%). This is not particularly surprising, since this group is likely the most involved with planning and executing efforts designed to enhance employee engagement. As we learned in the previous section, the element of employee engagement that is likely to exert the greatest impact on a positive experience is career opportunities. Executives and senior managers are likely to have access to the greatest career opportunities, better pay and the remove visibility that come with a strong organizational reputation, contributing to their higher engagement score. Following on this, senior leadership are also more likely to exhibit engaged behaviors, as it is generally expected for senior leaders to positively promote the organization (68% Say, 62% Stay, 65% Strive). Interestingly, a cross-level comparison reveals significant differences in which drivers are most related to improving engagement levels for employee at across job levels. The following chart displays the drivers that are most important to improving employee engagement for the various job levels.

Engagement Drivers by Level (Rank)

| | Executive and Senior Management | | Middle Management | | Professional Employee | | Team Member | |
|---------------------------|---------------------------------|-------------------|-------------------|-------------------|-----------------------|-------------------|-------------|-------------------|
| | 2012 Global | 2012 Asia Pacific | 2012 Global | 2012 Asia Pacific | 2012 Global | 2012 Asia Pacific | 2012 Global | 2012 Asia Pacific |
| Benefits | | | | | 1 | 3 | | 4 |
| Brand Alignment | | | | 4 | 5 | 4 | | 5 |
| Career Opportunities | 2 | 1 | 1 | 1 | 3 | 1 | 1 | 1 |
| Communication | | | 2 | 2 | 2 | | 2 | |
| Managing Performance | | 5 | | | | | | |
| Organization Reputation | 1 | 4 | 3 | 5 | | | 3 | 2 |
| Pay | 5 | | | 3 | | 2 | 5 | |
| People/HR Practices | | 3 | 4 | | | | | |
| Physical Work Environment | | | | | | 5 | | |
| Recognition | 3 | 2 | | | | | 4 | 3 |
| Resources | | | | | 4 | | | |
| Senior Leadership | 4 | | | | | | | |
| Work Processes | | | 5 | | | | | |

Function/Job Type

There are also some differences in employee engagement related to functional area. Engineering and Production have the highest employee engagement level of all functions in Asia Pacific (56%). The lowest level of employee engagement globally is in Finance/Administration, where only 54% of the employees in this function are engaged.

Other support functions appear to be more misaligned between global and Asia Pacific levels in 2012. However, this can be attributed to the fact that the variety of professions grouped under the “Other Support Functions” category is too wide to maintain consistency among rankings. The Sales, Marketing, and Business Development segment enjoys the most alignment between global and regional scopes, with only one out of five pairs of rankings mismatched. We also see irrefutable evidence illustrating that career opportunities are a top priority in everyone’s mind.

This chart displays the most important drivers for improving employee engagement in terms of job functions.

Engagement Drivers by Job Function/Type (Rank)

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

Generational Differences

There are some substantial differences in employee engagement by generation — a consistent trend globally and across most regions. The Baby Boomers (born between 1946 and 1964) have the highest level of employee engagement with 62% engaged, followed by the Generation X cohort (born between 1965 and 1978) with a score of 55% employee engagement score, followed by the Millennials (born 1979 and later) with 53%. To some extent, this may represent 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. Millennials, in particular, have different expectations of the workplace as a result of their backgrounds and experiences. From the table below, it can be observed that the Baby Boomers display a strong alignment between global and Asia Pacific data. On the other hand, the Millennials demonstrate that there is very little alignment in their age group between Asia Pacific and global rankings. In Asia Pacific, the Millennials' focus is more on managing performance, pay and benefits and less on recognition and communication. However, we see how the importance of career opportunities is reiterated throughout all generations, regardless of geography.

The chart that follows displays the drivers that are most important to improving employee engagement for these various generational segments from global and Asia Pacific employees.

Engagement Drivers by Generation (Rank)

| | Millennials | | Generation X | | Baby Boomers | |
|--------------------------------|-------------|-------------------|--------------|-------------------|--------------|-------------------|
| | 2012 Global | 2012 Asia Pacific | 2012 Global | 2012 Asia Pacific | 2012 Global | 2012 Asia Pacific |
| Benefits | | 3 | | 5 | | |
| Brand Alignment | | 4 | | | | |
| BU/Division Leadership | | | | | | 4 |
| Career Opportunities | 1 | 1 | 1 | 1 | 1 | 1 |
| Communication | 4 | | | 3 | 3 | 2 |
| Innovation | | | 3 | | 5 | |
| Managing Performance | | 5 | | | | |
| Organization Reputation | 2 | | 2 | 2 | 2 | 3 |
| Pay | 5 | 2 | | | | |
| Recognition | 3 | | 4 | 4 | 4 | 5 |
| Work Processes | | | 5 | | | |

Given the importance of the Millennials in Asia Pacific (22% of respondents are Millennials), we have provided their engagement drivers in key Asia Pacific markets.

Though the focus placed on career opportunities is maintained in this table, an interesting split appears between the developing and developed markets. More emphasis is placed on effective communication of goals and managing performance in mature markets like Australia and Singapore to drive Millennial engagement. It is likely that China Millennials have prioritized benefits and pay as their top two drivers due to the economic burden they face as members of the “one-child policy” generation.

Millennials: Ranked Engagement Drivers for Selected Asia Pacific Countries

| | China | India | Singapore | Australia |
|-------------------------|-------|-------|-----------|-----------|
| Benefits | 1 | | | |
| Brand Alignment | | | | 3 |
| BU/Division Leadership | | 4 | | |
| Career Aspiration | | 2 | | |
| Career Opportunities | 4 | 1 | 1 | 1 |
| Communication | | | 4 | 5 |
| Managing Performance | | | 3 | 4 |
| Organization Reputation | 5 | | | 2 |
| Pay | 2 | | | |
| People/HR Practices | 3 | 5 | | |
| Recognition | | 3 | 4 | |
| Work Tasks | | | 2 | |

Conclusion: Improving Employee Engagement in Asia Pacific

As organizations continue to rebound from the recent economic conditions, companies recognize that opportunities to grow can be impeded by resource constraints and talent gaps. This is particularly true for managing workforces in fast growing economies such as China, Indonesia, Thailand and India. Successful organizations are clear on how to improve employee engagement and focus on a small number of high-impact initiatives. This section highlights the priorities we see for organizations across Asia Pacific to improve their employee engagement levels.

Organizations in Asia Pacific should seize the opportunity to improve employee engagement to drive business results

- **Career Opportunities**—Consistently showing up as one of the most important employee engagement drivers across all Asia Pacific countries; 41% of employees do not believe that they have good advancement opportunities with their current employer. Our research shows that this is a key area of opportunity to improve employee engagement, especially for Generation Y employees in Asia Pacific. Organizations with flexible, but clearly defined, career paths and options for short-term assignments and geographic transfers will differentiate themselves from other organizations, and achieve higher levels of employee engagement. In addition, there should be a focus on improving people management capability to enable leaders to conduct successful career conversations with their employees.
- **Pay**—Only a third of Asia Pacific employees (33%) think they are paid fairly for their contributions. This driver has been rising in its ranking over the last two years in some Asia Pacific countries. Employees' perceptions of pay fairness have improved slightly, but the absolute 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 represent more than just "hygiene" and to be more highly sought after in specific Asia Pacific countries.
- **Recognition**—Recognition schemes are certainly less costly for an employer than direct pay and can also have a significant impact on employee engagement. Employees want recognition for their performance, but only 31% think they get this recognition. Despite economic and business pressures, employee engagement has remained stable in Asia Pacific in the last year. Employees have said good things about their company (Say), committed to staying (Stay), and exerted extra effort in their work (Strive). Recognition practices will pay off in turn with sustained or even higher employee engagement.
- **Reputation**—When asked "Does your organization have a positive reputation in the job market?", only 31% of employees answered this question positively. Yet, reputation is ranked as the fourth employee engagement driver in Asia Pacific. With this weak result, it is difficult to attract the talent needed for organizational success. Organizational reputation is a function of business performance, social responsibility and general perceptions. Reputation is also built on the opinions that people in the job market form of the organization as a potential workplace.
- **Brand Alignment**—It is important that organizations are consistent in the promises they make to their employees, and the experience the employees receive once on-board. Only 50% of Asia Pacific employees confirmed that their organizations delivered on the promises made to employees. This represents a great opportunity for organizations. Those who focus on articulating a unique and compelling employee value proposition for prospective and current employees, and then subsequently deliver on that proposition, will be rewarded with higher employee engagement.

Based on our findings from the Asia Pacific trends in this report, this section further highlights the priorities for improved employee engagement by country.

China

China's meteoric rise to become the world's second largest economy and subsequent talent shortages have definitely spurred investments by organizations in their people. The impact is visible, as the volatility in employee engagement scores in China has decreased during times of economic slowdown. Nevertheless, it is critical that engagement improvement initiatives be expanded by China-based organizations, as future deceleration in economic growth will place them under pressure. Addressing the two top key employee engagement impact drivers of benefits and pay will be critical for improving employee engagement in China.

Hong Kong

Despite recently lowering GDP growth rates, unemployment rates have stayed low in Hong Kong (3.4% in May 2013), implying that the "talent war" will continue to persist in the near term.⁹ Additionally, employee engagement in Hong Kong has not only been consistently lower than the Asia Pacific average, but Hong Kong also has the lowest number of highly engaged employees. To win the "talent war" and improve employee engagement levels, employers need to devise more robust strategies that strike a balance between supporting the business while engaging employees. Hong Kong organizations are recommended to focus on their top employee engagement drivers of career opportunities, managing performance, pay, and communication.

India

India's employee engagement level has been above the Asia Pacific average over the last five years (except for 2010), albeit with high score volatility. The distribution of India's engaged population is strong, having the highest proportion of highly engaged employees in Asia Pacific and the second-lowest proportion of actively disengaged employees. In 2012, India experienced a 5% decline in employee engagement levels and is likely to continue operating in a tough economic situation. Therefore, management in India needs to take proactive decisions when it comes to investments in their people to avoid further decline in employee engagement levels. In particular, it is recommended that organizations focus on improving career opportunities, work tasks, and providing meaningful recognition for their employees.

Indonesia

Indonesia's employee engagement level has been consistently above the Asia Pacific average in the last four years. Predictions for a stable GDP growth and the maturing HR practices in organizations operating in Indonesia mean that employee engagement levels should at least stay steady, if not continue to rise gradually. Management in Indonesia needs to make wise decisions when it comes to investments in their people. In particular, it is recommended that organizations focus on career opportunities, total rewards for employees (pay and recognition systems) and their organization's reputation to drive employee engagement in addition to talent attraction and retention.

Japan

Japan has a historically low level of employee engagement. Clearly, culture influences this result, but we also believe that business practices play a role. Although the Japanese economy now has a strong focus on the service sector, people management practices have not transitioned at the same pace as the rest of the economy. Whereas emphasis was placed in the past on teamwork, and learning from skillful employees during the manufacturing phase, current business practices place more value on individual performance and innovation. This transition aligns with Japan's employee engagement top impact drivers - managing performance, work tasks, resources, and work processes. Therefore, it is critical for organizations in Japan to align employees with business goals and direction by providing clarity to each employee as to what they are expected to do at work ("managing performance" and "work tasks") and how the organization will support them in doing so ("work processes" and "resources"). As Japan expects GDP recovery in 2013-2014, how organizations use this opportunity to invest in their people will be the key to improving employee engagement in Japan.

9 <http://www.tradingeconomics.com/hong-kong/indicators>

Korea

Historically Korea has not scored as low as Japan in terms of employee engagement, yet the two economies share some similarities. Korea is also transitioning from being a high-tech manufacturing economy to one now focusing on the service sector. Therefore, the top five employee engagement drivers relate to people practices and work efficiency. We see employees concentrating on work processes, managing performance, and people practices, as they seek to maximize their workplace performance and productivity. Additionally, it is not surprising to see senior leadership prioritized in recent years as a top employee engagement driver, as younger employees look up to their senior leaders to navigate this change. Korean organizations need to focus on getting basic talent management practices right by focusing on the top employee engagement drivers in the next few years.

Malaysia

Among Southeast Asian countries, Malaysia has one of the lowest employee engagement levels over the past five years (with high volatility in scores) and the highest proportion of passive employees (neither engaged, nor actively disengaged). Hence, there is strong opportunity for Malaysian organizations to tap into this relatively large pool of “fence sitters”, as with the right management and work conditions their levels of engagement could be improved. This, coupled with a positive economic outlook, means that Malaysia has the potential to catch up with the other countries in the region in terms of employee engagement by focusing on their key employee engagement drivers: career opportunities, managing performance, work tasks, and work processes.

Singapore

With GDP growth slowing down for a second year in 2012, there has been a subsequent slight reduction in employee engagement levels in Singapore. However, with Singapore GDP predicted to recover across 2013 and 2014, organizations can look forward to recovering this loss in employee engagement score, if management decides to invest effectively in their people. Organizations should focus on the key Singapore employee engagement drivers of career opportunities, recognition, organization reputation, and innovation. Interestingly, Singapore’s 2012 employee engagement score of 57% is the fifth highest among the eleven Asia Pacific countries covered in this report. However, Singapore scored fourth lowest in terms of a highly engaged employee population, which poses another opportunity area for Singapore organizations to seize—moving their moderately engaged workforces to become highly engaged.

Thailand

Thailand’s employee engagement trends have been moving in tandem with the Asia Pacific average; it has undergone the same declines and rises as a result of the global financial crisis and recovery. Thailand’s GDP growth has leaped from 0% in 2011 to 6.4% in 2012, and the restoration of some political stability after the 2011 elections means that organizations are now more likely to make investments in their people. We therefore predict a recovery in employee engagement levels in Thailand in 2013. With Thailand GDP predicted to decrease slightly in 2013-2014, Thailand organizations need to sustain their efforts on people management to keep up their employees’ engagement levels. In particular, the focus should be on people practices, career opportunities, managing performance, and pay.

Australia

As the Australian economy undergoes one of its largest macroeconomic transitions since the great depression, every Australian organization should be focusing on increasing the productivity of its workforce. More work needs to be done by Australian organizations to create the conditions whereby employees become truly productive at work. This starts with targeted strategies to ensure high employee engagement in those workforce segments with the most direct impact on overall productivity levels. We also recommend increased focus on ensuring that employees have the skills that Australian organizations require now and into the future, that performance is conscientiously managed to give every employee the opportunity to improve their contribution, and that there is an emphasis on the organization’s overall reputation as an employer.

New Zealand

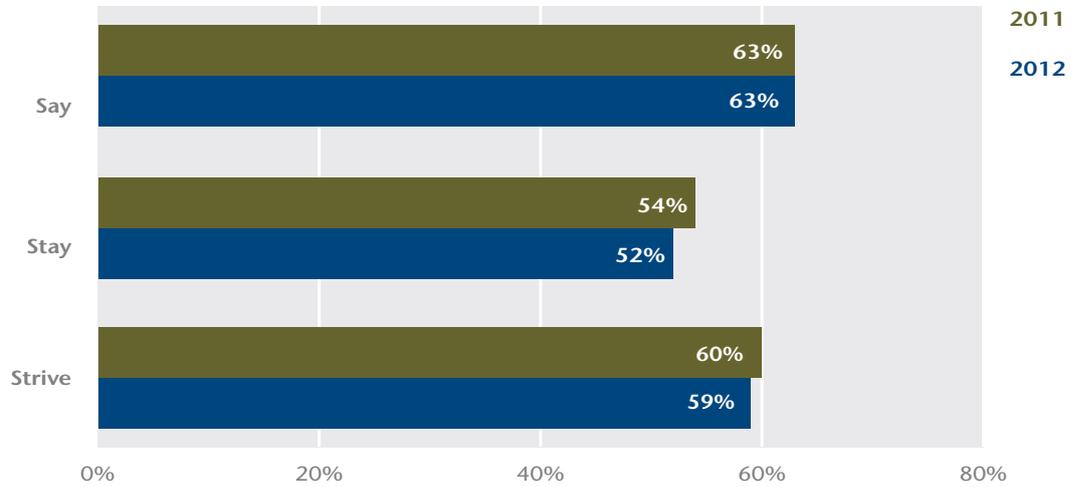
Like Australia, New Zealand scores slightly below the Asia Pacific average in terms of overall employee engagement. Engagement distribution is wide in New Zealand. It ranks third in terms of the proportion of highly engaged employees, but this is counter-balanced by also having the third highest proportion of actively disengaged employees. This data reinforces the need to continue improving engagement as highly engaged employees have the greatest impact on productivity and performance outcomes. New Zealand's 2012 Say score is slightly lower than the Asia Pacific average; the Stay score equals the Asia Pacific average, the Strive score is higher than the Asia Pacific average, a solid position for future productivity and performance. Therefore, we recommend that organizations in New Zealand focus on the five focal areas of career opportunities, organization reputation, and brand alignment (all closely linked to the Say score), in addition to communications and managing performance, in order to sustain and grow their employee engagement levels.

In conclusion, today's talent challenges in Asia Pacific are significant. Organizations have to put in extra effort to stay ahead of the race. Getting employee engagement right is a strong step towards driving positive business results through employee productivity. Now is the time to focus on improving employee engagement.

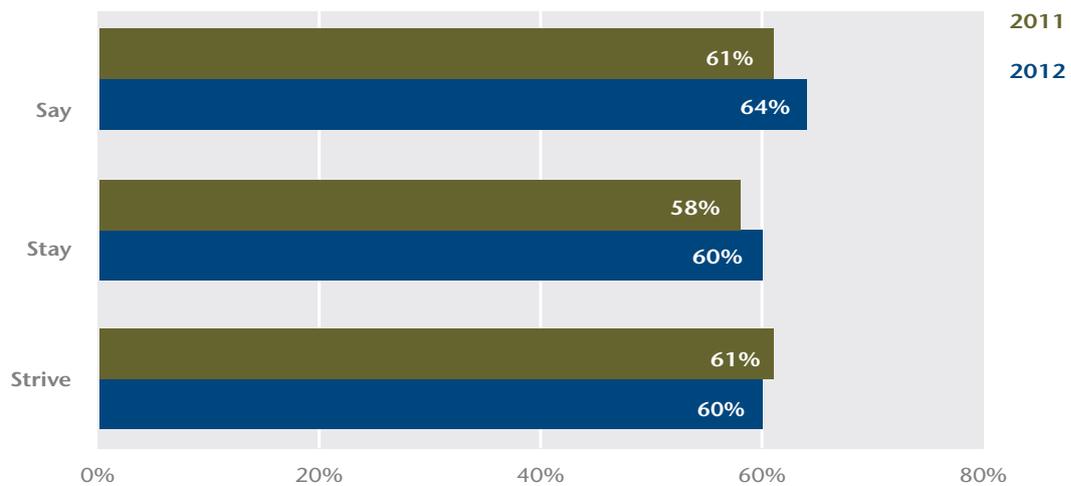
Appendices

Appendix A: Say, Stay, and Strive by Country

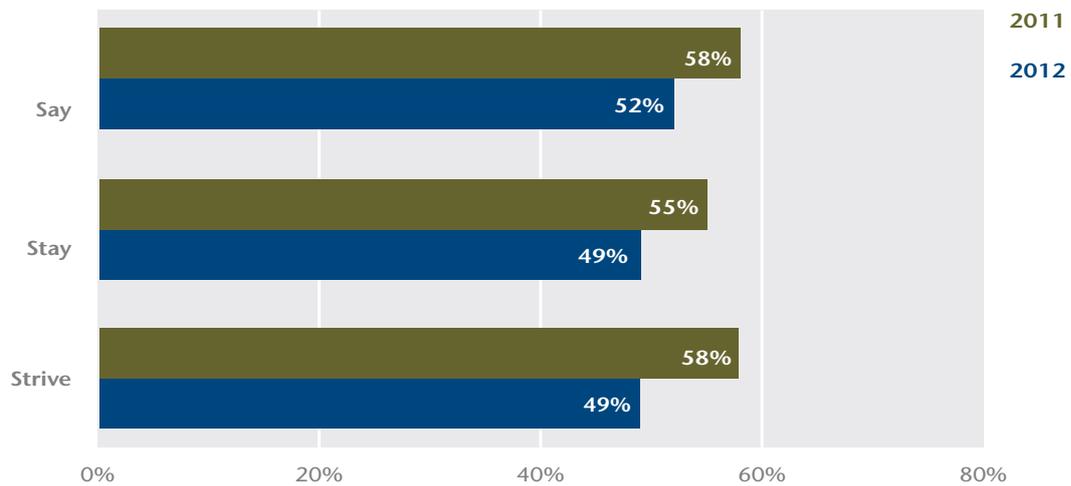
Asia Pacific



China

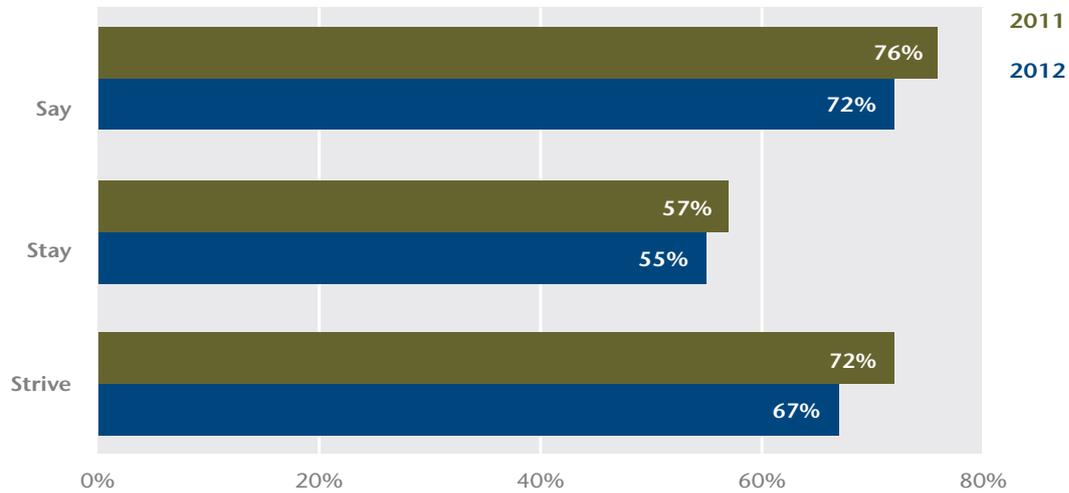


Hong Kong

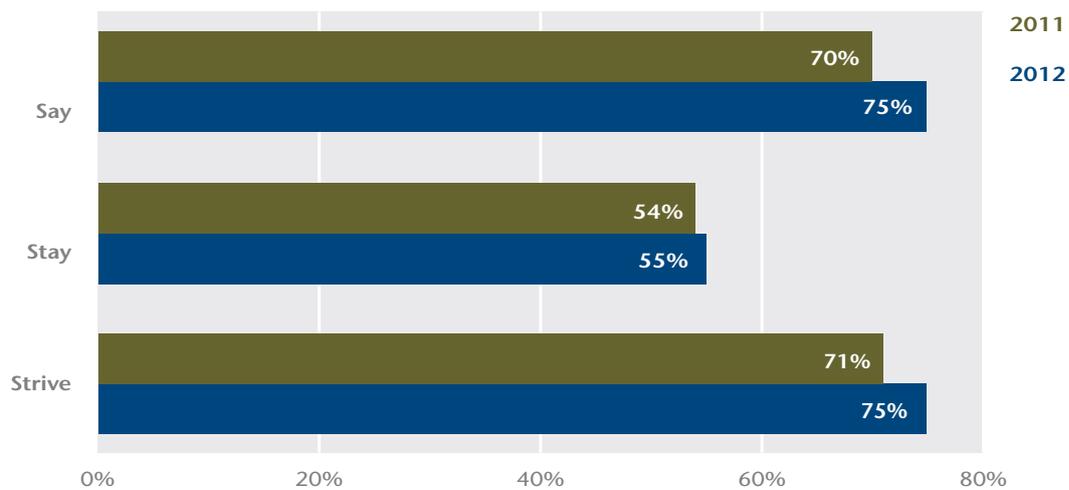


Elements of Engagement—Say, Stay, Strive

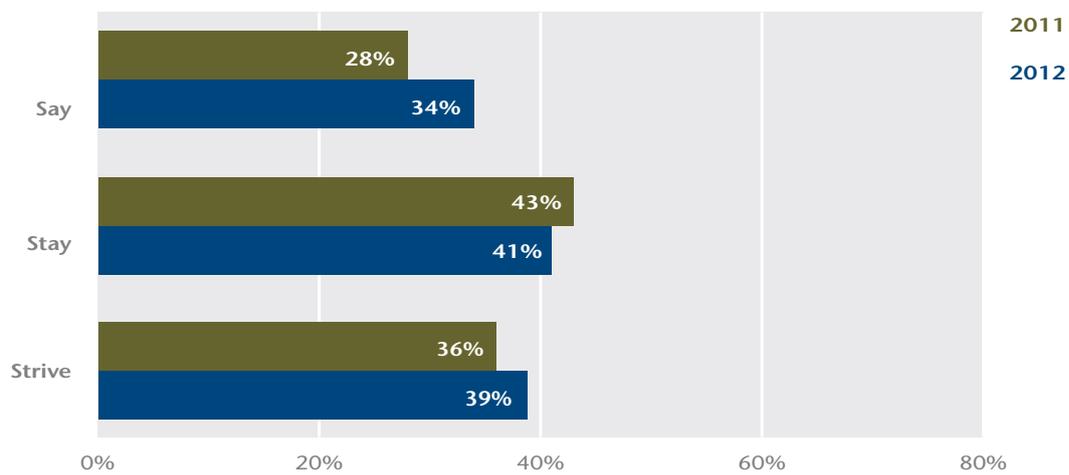
India



Indonesia

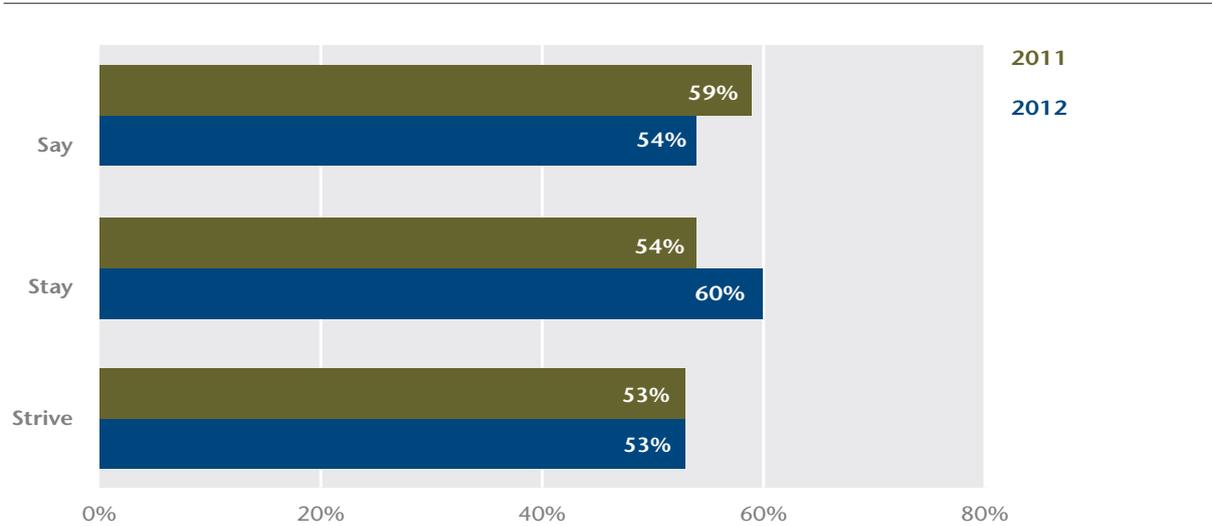


Japan

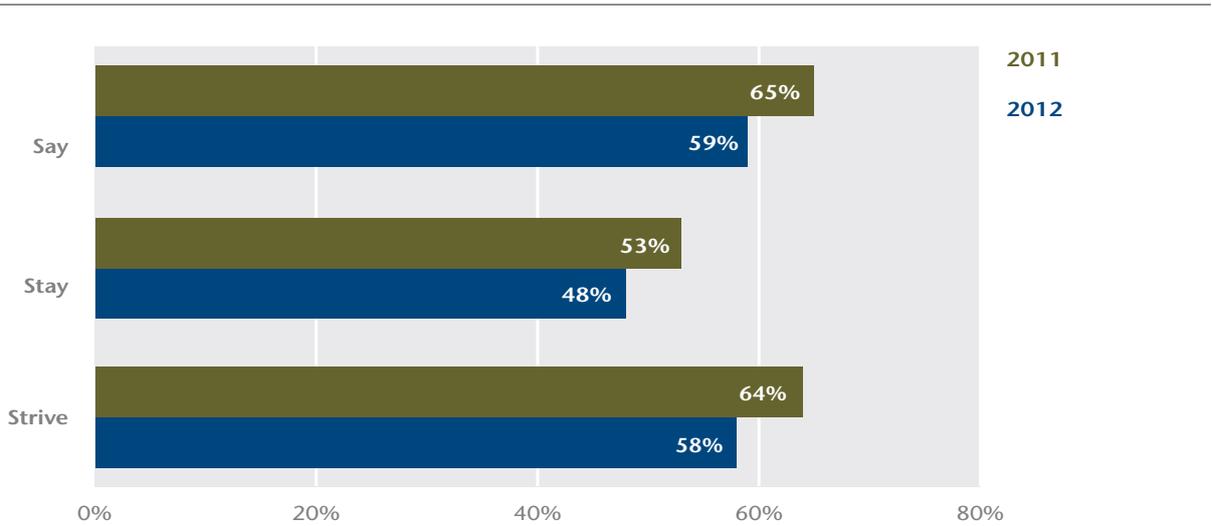


Elements of Engagement—Say, Stay, Strive

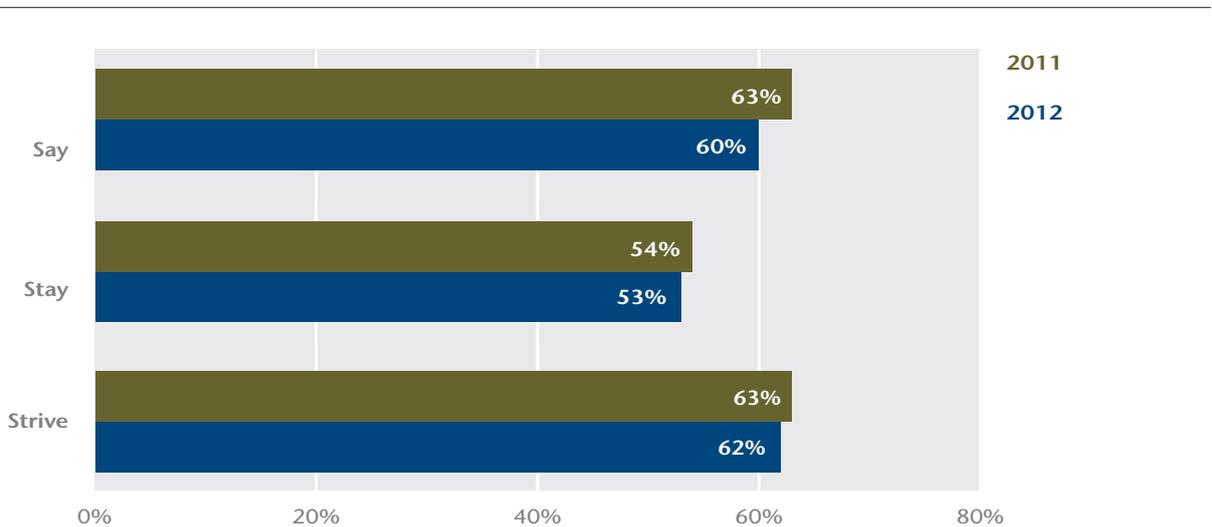
Korea



Malaysia

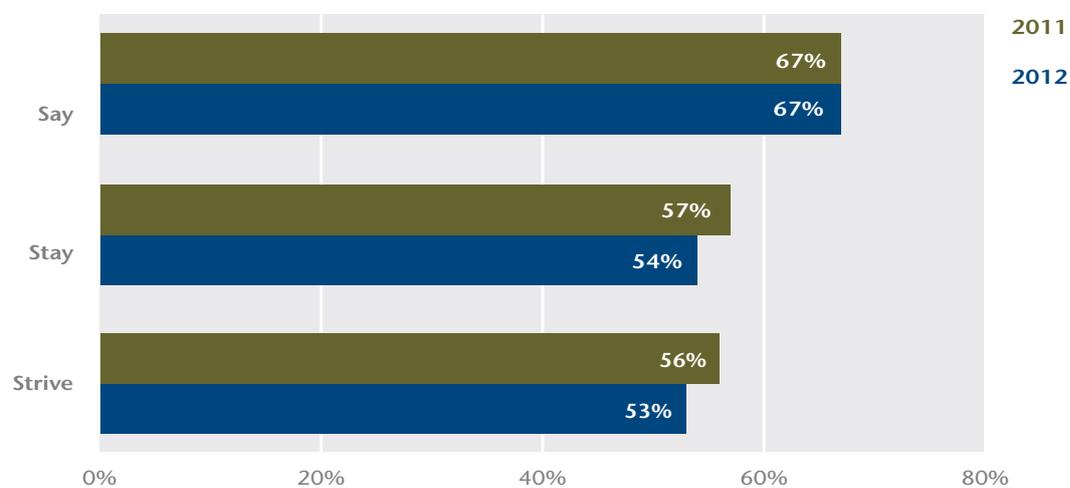


Singapore

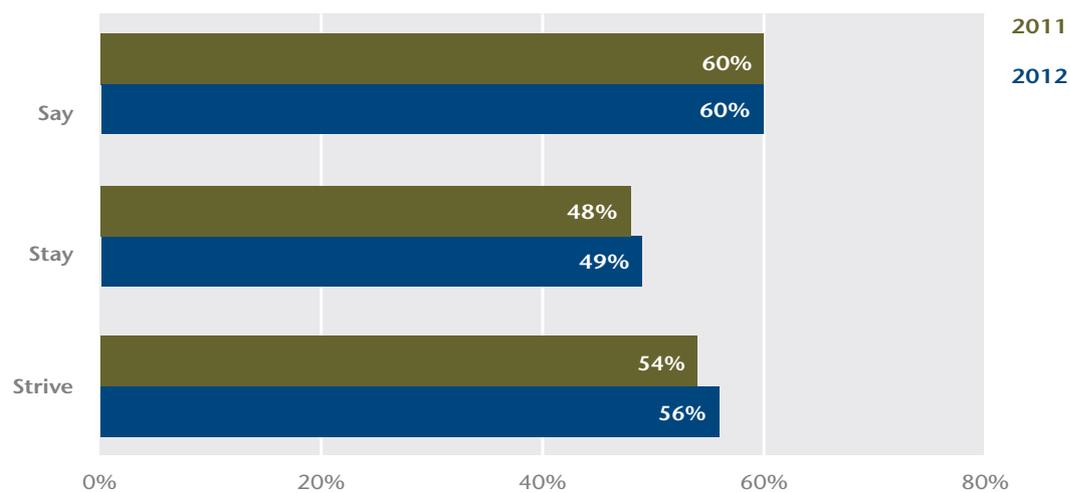


Elements of Engagement—Say, Stay, Strive

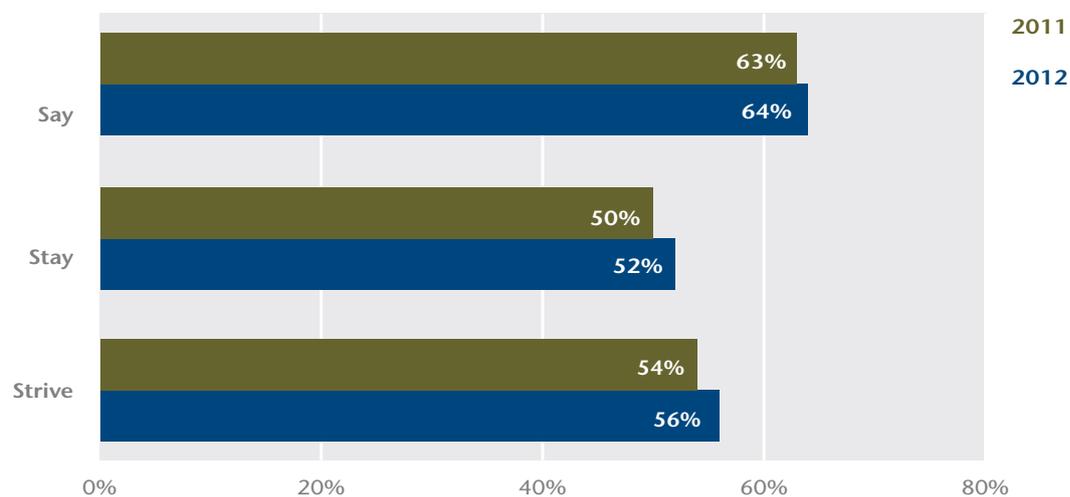
Thailand



Australia



New Zealand



Appendix B: Relative Changes in Work Experience Perception Scores (2011-2012)

| | Global | Asia Pacific | CHN | HKG | IND | IDN |
|-----------------------------|--------|--------------|-----|------|------|-----|
| BU/Division Leadership | 6% | 8% | 6% | - | -10% | - |
| Communication | 7% | 4% | -4% | -1% | -2% | 16% |
| Managing Performance | 5% | 4% | 0% | -5% | -1% | 16% |
| Physical Work Environment | 4% | 3% | 0% | -7% | 2% | - |
| Customer Focus | - | 2% | 5% | -14% | -3% | -2% |
| Work Tasks | 2% | 2% | 5% | -6% | -2% | 10% |
| Valuing People/People Focus | 3% | 1% | 13% | -6% | -3% | 9% |
| Safety | 3% | 1% | -1% | -7% | 1% | 16% |
| Brand Alignment | 4% | 0% | 1% | -3% | -7% | 6% |
| Recognition | 5% | 0% | -3% | -8% | -4% | 13% |
| Manager | 1% | 0% | -2% | -4% | -3% | 8% |
| People/HR Practices | 3% | -1% | -3% | -17% | -8% | 12% |
| Learning and Development | 3% | -1% | 3% | -6% | -6% | 5% |
| Pay | 2% | -1% | 4% | -10% | -6% | 5% |
| Career Opportunities | 3% | -1% | -2% | -8% | -5% | 6% |
| Co-workers | 0% | -1% | -1% | -4% | -4% | 2% |
| Innovation | 5% | -2% | 1% | -13% | -8% | - |
| Senior Leadership | 2% | -2% | 0% | -6% | -5% | 11% |
| Work Processes | 2% | -2% | 0% | -9% | -5% | 2% |
| Diversity | -1% | -3% | 0% | -8% | -6% | 8% |
| Work/Life Balance | 0% | -3% | -7% | -11% | -3% | 1% |
| Resources | 3% | -3% | -5% | -11% | -3% | -5% |
| Benefits | -1% | -4% | -1% | -12% | -5% | 2% |
| Organization Reputation | -2% | -4% | -4% | -7% | -7% | -4% |
| Sense of Accomplishment | -3% | -5% | 1% | -8% | -3% | 8% |
| Career Aspiration | - | -6% | 7% | -16% | -5% | - |
| Autonomy/Choice | -1% | -7% | -7% | -12% | -8% | 4% |
| Customers | -3% | -7% | -8% | -15% | -5% | -2% |

■ Deteriorating
 ■ Improving
 ■ Staying Constant

| | JPN | KOR | MYS | SGP | THA | AUS | NZL |
|-----------------------------|-----|-----|------|------|------|-----|-----|
| BU/Division Leadership | - | - | 10% | - | 9% | - | - |
| Communication | 6% | - | -3% | 7% | 7% | 1% | -2% |
| Managing Performance | 5% | - | -1% | 8% | 2% | 0% | 0% |
| Physical Work Environment | 7% | - | -3% | 10% | 2% | 0% | -2% |
| Customer Focus | 0% | 3% | -11% | -5% | -10% | 0% | 3% |
| Work Tasks | 5% | 3% | -3% | 0% | -3% | -3% | -1% |
| Valuing People/People Focus | 5% | - | -4% | -1% | 0% | - | - |
| Safety | -5% | - | 0% | 2% | -1% | -1% | 2% |
| Brand Alignment | 7% | 2% | -6% | -1% | 0% | 7% | - |
| Recognition | 1% | 1% | -5% | -1% | -5% | -2% | -6% |
| Manager | 3% | -3% | -5% | 1% | -1% | -2% | 1% |
| People/HR Practices | 2% | 4% | -9% | -6% | -4% | 2% | 2% |
| Learning and Development | -1% | 5% | -6% | -5% | -7% | -1% | -2% |
| Pay | 6% | 2% | -8% | -1% | -8% | 0% | 1% |
| Career Opportunities | 2% | 3% | -4% | -2% | -7% | -1% | -2% |
| Co-workers | -1% | 3% | -3% | -1% | 1% | -6% | - |
| Innovation | - | 1% | -16% | -8% | -11% | -3% | 1% |
| Senior Leadership | -1% | 3% | -5% | -3% | 0% | -2% | 2% |
| Work Processes | 3% | 2% | -6% | -2% | -12% | 1% | 4% |
| Diversity | 9% | -2% | -3% | -1% | -4% | - | - |
| Work/Life Balance | -1% | -1% | -6% | 0% | -7% | - | - |
| Resources | 0% | 0% | -8% | -1% | -6% | 1% | -1% |
| Benefits | -2% | 0% | -5% | -1% | -6% | 0% | 1% |
| Organization Reputation | -5% | 3% | -7% | -2% | -7% | 1% | 4% |
| Sense of Accomplishment | -3% | 2% | -3% | -3% | 0% | 1% | -1% |
| Career Aspiration | - | - | - | - | - | 1% | -2% |
| Autonomy/Choice | -2% | - | -10% | -10% | -15% | 0% | -2% |
| Customers | -3% | - | -6% | -6% | -8% | 0% | -4% |

■ Deteriorating
 ■ Improving
 ■ Staying Constant

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