ENGAGEMENT TRENDS
ANNUAL REPORT
2023
ECONOMIC PRESSURES, TALENT SHORTAGES, & FLEXIBLE WORK
CONTENTS

Economic Pressures, Talent Shortages, & Flexible Work ........................................... 3

The Impact of (Dis)Engagement ........................................................................ 5

State of Engagement .......................................................................................... 7

Trends Impacting the Workplace ........................................................................... 8

Insights into a Changing Workforce .................................................................... 12

Drivers of Employee Engagement ...................................................................... 13

  Growth & Development ..................................................................................... 14

  Company Communication .................................................................................... 15

  Feeling Valued ..................................................................................................... 16

  Employee Voice .................................................................................................. 17

  Well-being .......................................................................................................... 18

Organizations Cannot Fix What They Do Not Know ........................................ 19

Shaping The Employee Experience .................................................................... 20

People Element’s Vision ....................................................................................... 21

Sources .................................................................................................................. 22
ECONOMIC PRESSURES, TALENT SHORTAGES, & FLEXIBLE WORK

In 2022, we lived through a whirlwind of workplace trends. Early on we saw millions of people leave their jobs during the ‘Great Resignation’ creating talent shortages in workplaces across the board. We also saw a paradigm shift in what employees want from their organizations. From fair wages and benefits to flexibility, employees are expecting more from their employers.

Going into 2023, talent shortage concerns remain as executives worry about the impact economic uncertainty will have on their workforce and bottom line. As we’ve come out of the pandemic, it looks like remote work is here to stay. Nearly half of CEOs (44%) report that they want employees back in the office but are hesitant to mandate because of the tight labor market.¹ Their concerns aren’t unwarranted; in a recent study more than sixty percent of respondents said they would look for a new job if they could no longer work remotely.²
ECONOMIC PRESSURES, TALENT SHORTAGES, & FLEXIBLE WORK

When CEOs were asked about “the biggest challenge they faced throughout 2022”, they overwhelmingly referenced one thing: **TALENT**.

Looking ahead to 2023, CEOs reported they are most worried about:

1. **Economic Uncertainty / Recession**
2. **Inflation**
3. **Labor / Skills Shortages**
4. **Geopolitical Instability**
5. **Engagement of Remote Employees**

Based upon employee feedback captured from hundreds of organizations, the key takeaway is that, more than ever, employees expect more from their organizations and leaders. Leaders have an ever-increasing need and opportunity to listen, learn, and understand those needs and engage and inspire their people in new ways.

In the following report, we’ll examine the state of employee engagement, trends impacting employee experiences, and provide insight into what leaders can do to improve the workplace, enhance the well-being of their employees, better engage their people, and positively impact their organization’s effectiveness.
Research shows that high employee engagement correlates strongly with positive performance outcomes such as profitability, productivity, well-being and retention. Organizations who have increased their percentage of engaged employees to 70% or higher have seen their workplaces completely transform, with corresponding improvements in growth and profits.

Unfortunately, many employees aren’t engaged at work or are even actively disengaged. Disengagement not only impacts business outcomes but can also be very costly.

Disengaged employees have both a financial and cultural impact on their organizations. Not only do their losses in productivity and errors start to add up and affect those around them, but their attitudes can also start to rub off on others.

Ignoring a growing population of disengaged employees will not solve the issue. It is important to identify the factors that are causing people to disconnect and try to mitigate their impact going forward.
THE IMPACT OF (DIS)ENGAGEMENT

One of the most noteworthy differences among those highly engaged is the reciprocal relationship with well-being. With 81% and 66% positive improvement in absenteeism and well-being, respectively, engaged employees feel more supported in their "whole" life, not just in their work life. Gallup discovered that employees who were struggling or suffering in their personal or work lives were almost twice as likely to change jobs compared to those who were thriving. When organizations intentionally address both well-being and engagement, the effects mutually benefit employees and business outcomes.

OUTCOMES OF HIGH ENGAGEMENT

When comparing top-quartile with bottom-quartile engagement, Gallup found that business units and teams resulted in significant median percent differences.

The “healthy” organization finds ways to make every employee feel heard and supported, bringing together healthy people, healthy work, and healthy culture. A “healthy” organization is 2.2x more likely to exceed its financial and business goals. If organizations make the effort to listen to and better understand their employees’ needs, they can gain an edge in retaining the talent they already have and attracting the talent they need during this tight labor market, creating a culture that thrives now and in the future.
STATE OF ENGAGEMENT

In 2020, our data showed the highest levels of employee engagement we’d seen in over 30 years analyzing employee feedback, with 61% of employees reporting high engagement. Data revealed employees felt more connected to their organizations and coworkers as they came together to overcome business challenges at the beginning of the COVID-19 pandemic.

In 2021, engagement levels started to drop and slowly decline month over month, ending with an overall average engagement level of 58%.

2022 Engagement Declines

In Quarter 1 of 2022, employee engagement levels were trending well compared to 2021, with an overall engagement of 60% and only 13% actively disengaged. When looking at the overall average for 2022, engagement remains similar to 2021 with 58% average engagement, but the second half of 2022 tells a different story.

By Quarter 3, engagement levels dropped significantly to 54% and slowly declined from July to December. When we examine the last 6 months of 2022 and compare it to the first half of the year, the number of people actively disengaged significantly increases and the overall engagement average falls to 55%, five percentage points down from the beginning of 2022.

2022 Engagement by Quarter

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Engagement Level</th>
<th>Actively Disengaged</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>60%</td>
<td>13%</td>
</tr>
<tr>
<td>Q2</td>
<td>59%</td>
<td>15%</td>
</tr>
<tr>
<td>Q3</td>
<td>54%</td>
<td>19%</td>
</tr>
<tr>
<td>Q4</td>
<td>56%</td>
<td>19%</td>
</tr>
</tbody>
</table>
TRENDS IMPACTING THE WORKPLACE

Shifting Expectations

Since the pandemic, people have started to look deeper and reflect on the work that they do. We are seeing people move away from the mindset of just working for a paycheck and start to seek out meaningful work that gives them a sense of purpose. According to research, 62% of people say they get some sense of purpose from their work but want more. When employees feel a strong sense of purpose in their work, they report better workplace outcomes in areas like engagement, satisfaction, and excitement compared to their peers. Similarly, new research shows that workers want “less work,” and only feel ambitious when their work-life balance is intact. The 2023 Salary & Recruiting Trends report determined that 56% of employees are now willing to accept a lower wage in exchange for a better work-life balance and 62% would consider taking a new job if they were able to choose how often they worked in the office. This research—and others like it—continue to suggest that organizations willing to be more flexible with their people will become the more desirable employers.

Demand for Flexible Work Styles

The blend of home and work life has triggered employees to re-think their relationship with work. More people are asking themselves ‘How do I want work to fit into my life?’ Workers with full schedule flexibility reported 29% higher productivity and 53% greater ability to focus than workers with no ability to shift their schedule. Remote and hybrid workers were more likely to feel connected to their direct manager and their company’s values, and equally or more likely to feel connected to their immediate teams than fully in-office workers.

From 2021 to 2022 we saw preferred work styles shift and favor more flexible arrangements. The preference for remote work increased to 42%, up nine percentage points from the year prior. Similarly, interest in hybrid work grew to 36%, up five percentage points. Unsurprisingly, the preference for in-office work decreased seven points and sits at only 22%.

<table>
<thead>
<tr>
<th></th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prefer Remote Work</td>
<td>42%</td>
</tr>
<tr>
<td>Prefer Hybrid Work</td>
<td>36%</td>
</tr>
<tr>
<td>Prefer in Office Work</td>
<td>22%</td>
</tr>
</tbody>
</table>
TRENDS IMPACTING THE WORKPLACE

The desire for flexibility isn’t just surface level—for many it is a top priority. Data shows that 1 in 2 workers say they would take a pay cut of 5% or more to have flexibility in working location, with 23% saying they would take a pay cut of 10% or more.\(^2\)

Although the majority of employees want to work either remotely or hybrid, many executives don’t want it to become the new normal. Forty-four percent of CEOs reported they want their workforce back in the office and more than half believe hybrid models lead to less engagement. \(^1\) On top of engagement concerns, 85% of leaders also feel that hybrid work has made it hard to be confident in employee productivity levels. Only 12% of leaders say they have full confidence their team is productive, in comparison to the 87% of employees who report that they feel productive at work. \(^9\)

The Productivity Gap

For flexible work styles to be sustainable for everyone, the gap in perceptions around productivity needs to be addressed and adjusted. The challenge is that it requires a culture of trust. Historically the trust level has been low between leadership and rank-and-file employees, with the theory that if management can’t see their employees working, they must not be working. Organizations can create policies to support and guide a flexible workplace; however, leaders need to trust and empower their employees, regardless of location, to enable them to be successful in their role.

**RESEARCH SHOWS THAT EMPLOYEES SATISFIED WITH THEIR ORGANIZATION’S FLEXIBILITY IN WORK TIME OR LOCATION ARE:** \(^{10}\)

- Employees who feel their organization is meeting their flexibility needs are more than three times happier than their peers
- 3.4X more likely to successfully balance work and personal obligations
- 2.6X more likely to be happy working for their employer
TRENDS IMPACTING THE WORKPLACE

Stress & Burnout

In 2022 we saw stress and burnout levels reach new heights, hitting record numbers similar to what we saw during the peak of the pandemic in 2020.

Research shows that nearly 70% of people experienced burnout, with the highest levels among Gen Z and Millennials. With more burnout comes other negative factors like decreased morale, lower engagement, and increased likelihood for turnover.

Furthermore, burnout and work-related stress are starting to have other impacts on employees. An overwhelming 84% of respondents reported at least one workplace factor negatively impacted their mental health. The most common factor found was emotionally draining work (e.g., stressful, overwhelming, or monotonous), followed closely by a lack of work-life balance.

With talent shortages persisting and positions going unfilled, people are craving respite from the stresses of work. When asked what the future of work is about, over half of the respondents stated ‘balance’, where work would be designed to allow time for family, friends, hobbies, and activities. If the goal is to increase employee engagement, it is important to create more opportunities for better work-life balance and allow people time to prioritize their mental and physical wellbeing.
TRENDS IMPACTING THE WORKPLACE

Pressures of Economic Uncertainty

With growing inflation rates and a sense of economic uncertainty, employees are looking for stability from their workplace. Last year 72% of employees said they were stressed about their finances, up from 65% in 2021—and nearly 9 in 10 employees revealed that they are reassessing their financial situation. ¹⁴

If concerns about a pending recession continue throughout 2023, people will be looking to leadership to confirm job security and the organization’s continued success. Additionally, as the cost-of-living climbs, people will want assurance that they are being paid fairly. Transparency around compensation and benefits needs to be a focus of leadership and communicated clearly with the whole organization. If employees don’t feel secure in their roles, it is likely that their engagement level will suffer as a result.
If there’s one thing we’ve learned, it’s that there’s no stopping the changes that are happening in our workforce. The way we move forward is to ask, listen, discover, and learn what we don’t know. Leaders must be more attuned with their employees, ask the right questions, empathize, and learn to understand the world from the employee’s perspective, making the key changes their employees need and want.

Our research suggests that, more than ever, employees want to feel valued, heard, and supported. Employees need to feel included and inspired with every interaction with their leaders, not just one time a year. Leaders must consider what they can do to act thoughtfully and intentionally to increase employee engagement or risk losing their people.

The following engagement insights are based on leading engagement drivers across hundreds of organizations but may not represent the action areas needed most in your organization. Each organization is different, and the people within them have unique needs. There is no one-size-fits-all solution. What’s important is to listen to what employees need—and most importantly, act on the feedback they’re giving.
DRIVERS OF EMPLOYEE ENGAGEMENT

Across our research since the beginning of the pandemic, it’s clear that certain employee experiences are trending downward, and new items have emerged as the strongest drivers of employee engagement.

We uncovered the five leading drivers of employee (dis)engagement in 2022:

- Growth & Development
- Company Communication
- Feeling Valued
- Employee Voice
- Well-being
GROWTH & DEVELOPMENT

Offering a path for career growth and development is essential in retaining high performers. Without clear opportunities for growth, employees can feel unmotivated, uninspired, and unwilling to perform at their best, leading to disengagement, low productivity and ultimately departure. Employees want to work for companies that can show them better career paths.

If your high performers can’t see their opportunities for growth, they’ll look elsewhere. Seventy-six percent of employees would stay longer at a company if they could benefit more from learning and development support, according to a Microsoft study. Help them understand what skills they need to advance and develop plans that link their personal success with the organization. Build paths for growth, training, and development that benefit both the organization and the people who keep it running.

**FOCUS AREA**

- Communicate clear and transparent career paths and succession plans.
- Foster one-on-one conversations between employees and managers to better understand employee interests and development needs.
- Help close skill gaps with online training and webinars, coaching and mentorship, cross-training, and stretch assignments.
- Consider promoting employees into additional levels within their existing role as one way to address growth.
- Make it a habit to recognize people for good work.
- Encourage and recognize longevity. Set an example for what a long-term employment relationship looks like. Having senior employees is significant in the onboarding and encouragement of new hires.
In 2021, communication was the #1 driver of engagement across organizations. When companies attempted to “return to normal” after the height of the pandemic, we saw many revert to old ways of working and communicating, and as a result there was a sharp decline in the transparency, effectiveness, and frequency of company communication.

In 2022, we saw a positive shift and an increase in scores for company and leadership communication as organizations worked to improve their communication strategy. While there has been a slight improvement in how organizations communicate with their people, it has consistently shown up as a key driver in employee engagement.

Although the topics may have changed, organizations need to continually communicate with employees, letting them know when and why certain decisions are being made, get their buy-in, and include them in the process. With the world constantly changing and digitizing, people have come to expect immediacy. When issues arise, employees expect a quick and thorough response.

FOCUS AREA

✓ Give front-line managers time, answers, and backup to communicate HR policies and corporate information directly to employees.
✓ Deploy multiple delivery mediums (town hall meetings, video, team chats, recorded messages, email, etc.) that support different communication styles.
✓ Communicate a clear vision for the company and help employees find ways to connect with it. Communicate the vision often and in a way that inspires.
✓ To boost employee confidence, consider your business’ purpose. What are you striving for beyond an improved bottom line? Weave your vision and values into day-to-day activities.
✓ Listen to employees more throughout the year. Take pulse surveys, measure moments that matter, and review topics that are critical to employees and your business.
FEELING VALUED

The pandemic permanently shifted traditional expectations of work. People have begun to rethink the notion of job security, purpose, and how work fits into their lives and what they value. The employee shift in mindset has led to new expectations of flexibility, career choices, and job roles, Sixty-four percent of professionals say that leaders making decisions without seeking input is one of the biggest problems in the workplace today." Companies who are willing to ask their employees for input and put that feedback into action will build stronger trust by showing they validate employees' opinions.

![Graph showing 65% saying they feel valued at work and 61% feel leadership values employees.]

One thing that has emerged is the focus that employees now place on having genuine support from leadership. Fifty-two percent of workers say having a caring, empathetic leader is more important now than before the pandemic. In order to be more engaged, people don’t want to be treated like they are only valued for their work, they want to feel acknowledged and valued for their whole self.

FOCUS AREA

✓ The number one suggestion from employees is for leaders to be transparent and provide frequent, authentic communication. People feel leaders need to connect with them in a real and honest way.

✓ Leaders have an opportunity to build trust and confidence by acting on feedback, showing they value their opinions.

✓ Consider town hall meetings and immersive, small group sessions to help employees align their day-to-day work with the organization’s broader mission.

✓ Enable frequent check-ins between employees and their managers to capture immediate feedback and address problems in real-time.
EMPLOYEE VOICE

Employees are asking leaders to listen, understand and empathize with what they’re going through in their whole life, not just their work life. When leaders develop a greater understanding of their employees’ challenges and needs, they can begin to provide the flexibility, connectivity, and sense of value people desire.

By 2030, [30% of the global workforce](#) will be composed of Gen-Z and they will bring a completely new mindset and set of expectations we have never seen before in how we work. Among these new expectations, if you are not listening and responding to employee feedback consistently, you will struggle to retain and hire top talent.

✓ Build an environment of psychological safety. Create a culture where people feel safe to voice their opinions without fear of being judged or persecuted.
✓ Make time for the question “How are you?” to build meaningful interactions. The importance of empathy and authenticity cannot be overstated.
✓ Promote deeper one-on-one conversations between managers and direct reports as well as between colleagues.
✓ Build a culture of continuous listening and action response. Leverage employee voice surveys to better understand the entire employee experience. Acting on employee feedback shows you value their opinions.
**WELL-BEING**

When employees feel they have less work flexibility, the level of workplace stress felt by employees increases, causing lack of inspiration, burnout, and disengagement in an already stressful climate. Leaders can help reduce stress among employees by acknowledging they hear their employees, and show they understand what people are feeling and experiencing in their “whole” life.

When employees can care for their well-being, they are better performers. Employees who reported having a good work-life balance work 21% harder than those who don’t. Further, Gallup has found a reciprocal relationship between engagement and well-being. Although employees may be engaged, if their well-being is neglected, they are 61% more likely to experience burnout often and 48% more likely to report daily stress.

![Pie charts showing percentages of employees feeling well-supported](chart)

**FOCUS AREA**

- Bring your human to work. Create a workplace that’s inclusive, safe, and inspires people to be themselves and build deeper connections.
- Help managers promote and model healthy boundaries between work and home. If managers lead by example, employees will more likely feel supported in balancing work and life demands.
- Train leaders, managers, and all employees on how to navigate mental health at work, have difficult conversations, and create supportive workplaces.
- Foster well-being and resilience through mental health policies, programs, benefits, and other resources.
- Make resources available to all employees and (over) communicate them.
ORGANIZATIONS CANNOT FIX WHAT THEY DO NOT KNOW

Our research highlights many ways employee engagement has been affected in 2022. The landscape will continue to change as the global economy changes, organizations adapt, and people’s expectations of work and life shift. This constant state of change means leaders need to do more to listen, understand, act, engage, and inspire their employees like never before. Leaders need to find better and more frequent ways to connect with their employees, build trust, and understand people’s whole life needs. This dictates the need for leaders to consult with their employees to help them shape the future of work.

More than ever, employees are looking for organizations that trust, listen to, and collaborate with them, creating a sense of belonging and value. By listening to and paying attention to what employees are asking for, leaders can correct the areas that lead to disengagement and enhance areas that are strong indicators of engagement before it’s too late.

Leaders need to find better and more frequent ways to connect with their employees, build trust, and understand people’s whole life needs.
SHAPING THE EMPLOYEE EXPERIENCE

The disruptions of the past few years vastly changed how people feel about their work. With more employees feeling burnout, unhappiness and separation, companies must adapt to keep their employees engaged. We must be intentional in our approach to employee experience to succeed regardless of external factors. It’s time to transform and take concrete actions. Companies that continue to thrive and grow are those that put their people first and make the changes their employees are asking for.

Beneath the Great Resignation is ultimately a reflection of people’s desire for purpose and fairness after years of disruption and turmoil. To retain the deep and varied talents your people possess, reflect on what you want to offer them and what you’re actually giving them. To drive employee engagement, your organization must actively demonstrate that it recognizes them, cares for them, trusts them, and respects them.

WHAT YOU CAN DO?

1. Lead with humanity

2. Find a way to strengthen your connection with employees

3. Ask, listen, and understand what your employees are saying, and not saying

4. Develop actionable insights, leveraging continuous listening to help you make better decisions

5. Act thoughtfully, intentionally, and timely on employee feedback

6. Communicate with authenticity and show you care with real and meaningful actions
OUR VISION AT PEOPLE ELEMENT

We believe every employee should have a voice. We believe every organization can be better tomorrow by acting on employee insights today. We hope this report helps you achieve the change your company needs to improve the employee experience and, as a result, take advantage of the benefits a highly engaged workforce can provide.

SURVEY METHODOLOGY

The research from this report was derived from 2022 Employee Engagement surveys powered by People Element. This survey measures employee engagement from more than 200 organizations in the United States. The data analysis was based on over 50,000 responses across numerous industries including healthcare, manufacturing, education, real estate, finance, transportation, construction, municipalities, government, technology, and farming.

Our employee voice platform gives us the ability to understand workplace trends across thousands of employees to supply insights that help organizations succeed.

Engagement is a composite score of six main factors
1. Discretionary effort
2. Pride in the organization
3. Advocacy for the organization
4. Feelings of accomplishment from work
5. Commitment to the organization

ABOUT PEOPLE ELEMENT

We keep the measuring and improving of the employee experience simple by providing you an innovative solution that gives you the speed and confidence to act on the things that matter most to the success of your business.

Combining an easy to use yet powerful platform with world-class services and expert support, People Element provides the best of both worlds for understanding and improving your employee experience.

Schedule a live tour of our engagement platform
1. 2022 Fortune/Deloitte CEO Survey

2. 2022 State of Remote Work Report

3. 2020 Gallup Report Employee Engagement and Performance: Latest Insights From the World’s Largest Study

4. Gallup Workplace

5. Gallup Workplace


7. McKinsey & Company

8. Forbes

9. Microsoft Worklab
   https://www.microsoft.com/en-us/worklab/work-trend-index/hybrid-work-is-just-work

10. LinkedIn

11. Asana
    https://resources.asana.com/americas-anatomy-of-work-burnout-ebook.html

    https://hbr.org/2021/10/its-a-new-era-for-mental-health-at-work

13. Mercer

14. Bright Plan

15. McKinsey & Company

16. Korn Ferry

17. Society For Human Resource Management
    https://blog.shrm.org/blog/5-reasons-why-you-should-listen-to-your-employees

18. PR Newswire

19. Entrepreneur
    https://www.entrepreneur.com/business-news/gen-z-is-looking-for-these-5-things-in-a-job-and-career/429439

20. Harvard Business Review
    https://hbr.org/2021/06/4-steps-to-boost-psychological-safety-at-your-workplace

    https://hbr.org/2021/10/its-a-new-era-for-mental-health-at-work

22. INC.

23. Gallup Workplace

24. Forbes
ENGAGEMENT TRENDS ANNUAL REPORT 2023

ECONOMIC PRESSURES, TALENT SHORTAGES, & FLEXIBLE WORK