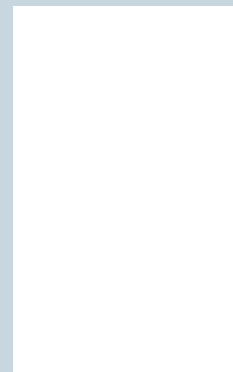
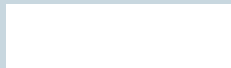
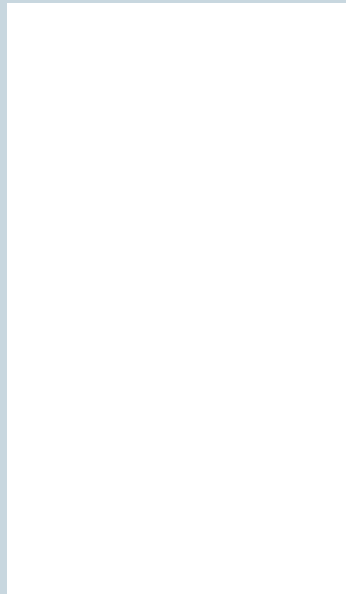


Employee Value Proposition and Total Rewards: Modernize or Risk Irrelevance

Findings from the 2016 Global Talent Management & Rewards
and Global Workforce Studies



About the 2016 studies

Global Talent Management & Rewards Study (TM&R)

Fielded April – June, 2016

- 29 markets globally
- 2,004 employer respondents representing >21 million employees
- 21st annual survey

Key topics covered:

- Attraction and retention drivers
- Talent mobility and challenges
- EVP and total rewards
- Leader and manager effectiveness
- Career management
- Performance management
- Pay for performance

Global Workforce Study (GWS)

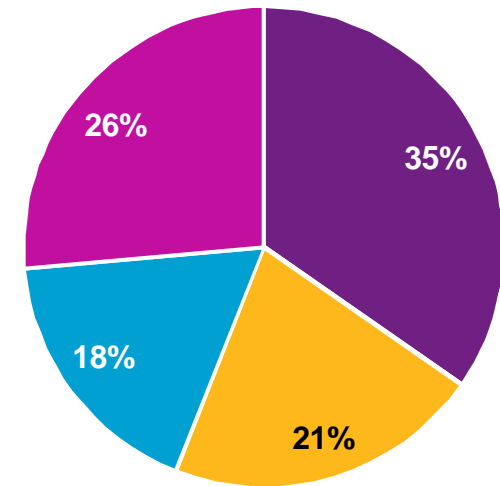
Fielded April – May, 2016

- 29 markets globally
- >31,000 employee respondents

Key topics covered:

- Attraction and retention drivers
- Drivers of sustainable engagement
- Leader and manager effectiveness
- Career management
- Performance management
- Health, stress, wellness
- Communication

2016 Global TM&R Study



■ Asia Pacific ■ EMEA
■ Latin America ■ North America

Number of participants (U.S. middle market):
GWS: 1,063
TM&R: 149

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Getting it right

Effective Leaders are Critical to a Compelling EVP

Addressing the Work Component of the EVP

Employers need to focus on workplace stress and wellness

Achieving Effective Performance Management

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Future of Work

Effective management of work types, channels and options is part of the modernization agenda

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Modernization, relevance and what's at stake

Creates increased pressure and stress on the workforce and a whole new definition of what it means to be a leader

Market trend/reality

Fast-changing market



Fast-changing technology



Demographic shift — It's really happening



Expectations of transparency and individualization



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Getting it right starts with understanding the top drivers of attraction

Comparing top drivers of attraction

Rank	Employee view — U.S. middle market	Employer view — U.S. middle market	Employee view — Global	Employer view — Global
1	Base pay/salary	Organization's mission, vision and values	Base pay/salary	Career advancement opportunities
2	Job security	Challenging work	Job security	Base pay/salary
3	Opportunities to learn new skills	Career advancement opportunities	Career advancement opportunities	Reputation of organization as a great place to work
4	Career advancement opportunities	Reputation of organization as a great place to work	Challenging work	Challenging work
5	Challenging work	Ability to have a real impact on the organization's performance	Opportunities to learn new skills	Job security
6	Length of commute	Base pay/salary	Reputation of organization as a great place to work	Organization's mission, vision and values
7	Health care and wellness benefits	Health care and wellness benefits	Health care and wellness benefits	Opportunities to learn new skills

You also need to understand why employees would choose to leave your organization

Comparing top drivers of retention

Rank	Employee view — U.S. middle market	Employer view — U.S. middle market	Employee view — Global	Employer view — Global
1	Base pay/salary	Career advancement opportunities	Base pay/salary	Career advancement opportunities
2	Career advancement opportunities	Relationship with supervisor/manager	Career advancement opportunities	Base pay/salary
3	Job security	Base pay/salary	Physical work environment	Relationship with supervisor/manager
4	Opportunities to learn new skills	Ability to manage work-related stress	Job security	Ability to manage work-related stress
5	Trust/Confidence in senior leadership	Flexible work arrangements	Ability to manage work-related stress	Opportunities to learn new skills
6	Ability to manage work-related stress	Trust/Confidence in senior leadership	Relationship with supervisor/manager	Flexible work arrangements
7	Length of commute	Opportunities to learn new skills	Trust/Confidence in senior leadership	Short-term incentives (e.g., annual bonus)

To achieve desired outcomes, companies must address the drivers of sustainable engagement

Sustainable Engagement Drivers			
Rank	2016 — U.S. middle market	2016 — Global	2014 — Global
1	Senior Leadership	Senior Leadership	Senior Leadership
2	Clear Goals and Objectives	Clear Goals and Objectives	Clear Goals and Objectives
3	Workload and Flexibility	Supervision	Workload and Flexibility
4	Image and Integrity	Image and Integrity	Image and Integrity
5	Supervision	Workload and Flexibility	Empowerment

What is Sustainable Engagement?

- **Engagement** – Rational, emotional and behavioral attachment to the company
- **Enablement** - A local work environment that supports productivity and performance
- **Energy** - Individual physical, interpersonal and emotional well-being at work



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In the modernization agenda, we (re)define the term “leader”

However, what the leader leads is dependent on the role within the organization

In simplest terms, a leader is someone who leads —

not necessarily a specific role or title (e.g., a manager or executive)

Manager ←-----→ **Executive**

The manager-leader:

- Makes sure things are done right
- Engages others in getting the work done every day
- Manages the work/outcomes while leading others
- Creates a local environment for success and fulfillment

The executive-leader:

- Makes sure the right things are done
- Engages others in building and driving the business
- Leads others while managing outcomes/results
- Fosters a broad culture of success and fulfillment

So what are companies doing around leadership development?

Overall there is room for improvement



Our organization develops leaders who will be able to meet changing business needs

Strongly Agree/Agree

64%



My organization makes effective use of a leadership competency model

Strongly Agree/Agree

61%

Which of the following HR technologies does your organization currently have or plan to add in the next year or two?

Leadership development

Currently have	Plan to add in next year or two	No plans
46%	35%	20%



In U.S. middle market:

- 55% of organizations agree or strongly agree that they develop leaders who will be able to meet changing business needs
- 49% report that they make effective use of a leadership competency model
- 47% currently have and 34% plan to add leadership development technology in the next year or two

Employees give senior leadership low marks on key aspects of their role

Item	Percent favorable	
	U.S. middle market	Global
How would you rate the job that senior leadership is doing to:		
Grow the Business	58%	52%
Manage Costs	54%	47%
Develop Future Leaders	42%	39%
Senior leadership behaves consistently with the organization's core values	56%	52%
I believe the information I receive from senior leadership	55%	50%
I have trust and confidence in the job being done by the senior leadership of my organization	49%	48%
Senior leadership at my organization has a sincere interest in employees' well-being	50%	44%

Fewer than half (42%) of the next generation of leaders think their organization does a good job of developing future leaders

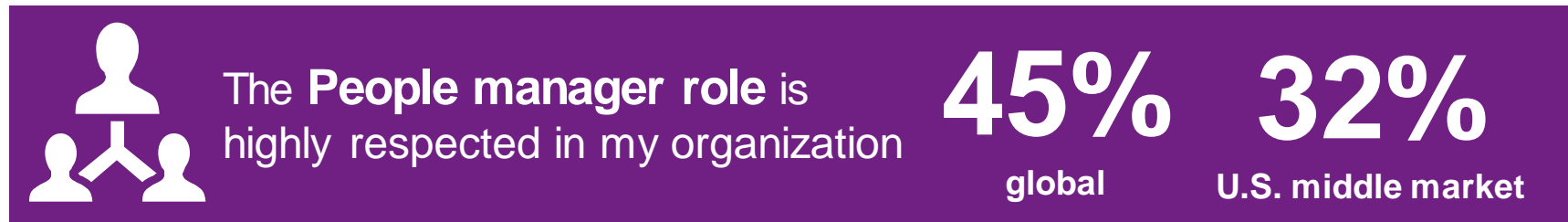
Employees give their immediate managers better marks than senior leaders

Given the importance of managers, there is still room for improvement

My immediate supervisor/manager:	Employee view	
	U.S. middle market	Global
Treats me with respect	80%	72%
Assigns tasks suited to my skills and abilities	77%	66%
Clearly communicates goals and assignments	58%	55%
Encourages new ideas and new ways of doing things	56%	54%
Listens carefully to different points of view before reaching conclusions	58%	54%
Helps remove obstacles to doing my job well	57%	52%
Is effective at differentiating performance between high and low performers	56%	52%
Makes fair decisions about how my performance links to pay decisions.	54%	48%
Has enough time to handle the people aspects of the job	53%	46%
Coaches me to improve my performance	33%	44%

* Based on limited samples

The responsibility-respect mismatch: Less than half of all employees think the role of the manager is respected



Yet so much is expected of them, and having the necessary skills is the number one facilitator of performance management



* Based on limited samples

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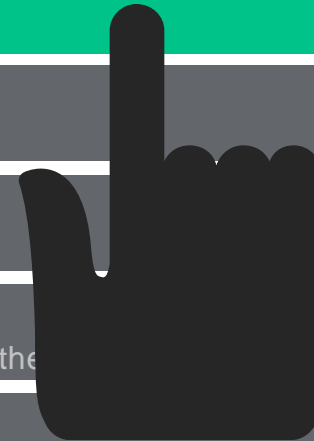
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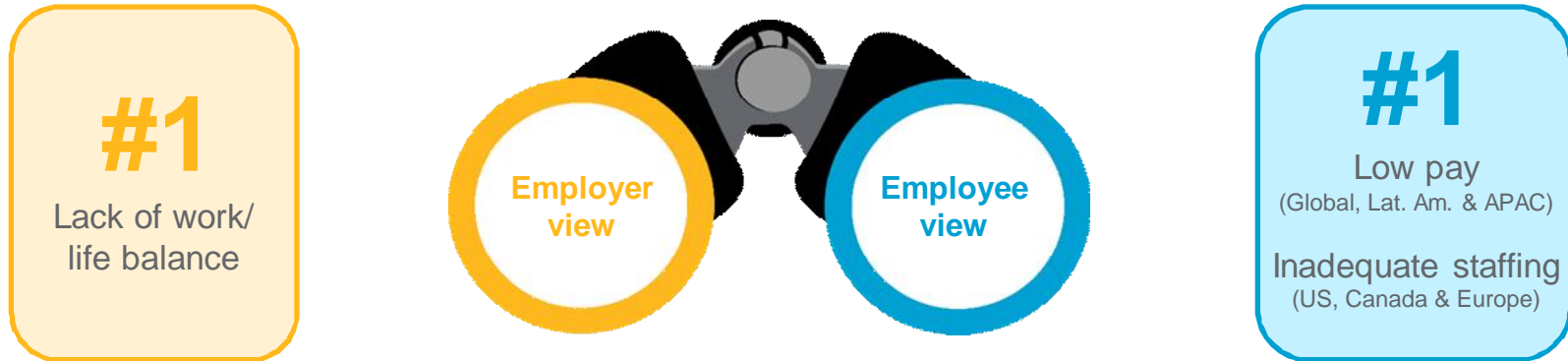
Two-thirds of employers globally identify stress as the top workforce health risk issue

Rank	Global	US	Canada	Europe	Latin America	Asia Pacific
1	Stress (64%)	Stress (75%)	Stress (85%)	Stress (74%)	Stress (72%)	Lack of physical activity (52%)
2	Lack of physical activity (53%)	Overweight/Obesity (70%)	Lack of physical activity (46%)	Lack of physical activity (45%)	Lack of physical activity (58%)	Stress (44%)
3	Overweight/Obesity (45%)	Lack of physical activity (61%)	Unplanned absences (45%)	Presenteeism (35%)	Overweight/Obesity (47%)	Overweight/Obesity (32%)
4	Poor nutrition (31%)	Poor nutrition (50%)	Overweight/Obesity (43%)	Overweight/Obesity (31%)	Presenteeism (40%)	Lack of sleep (30%)
5	Lack of sleep (30%)	Lack of sleep (31%)	Poor nutrition (41%)	Poor nutrition (30%)	Poor nutrition (36%)	Presenteeism (23%)

Source: 2015/2016 Global [Staying@Work](#) Survey

Addressing workplace stress involves rethinking pay, addressing staffing issues, and changing an organization's culture

Causes of stress: main disconnects between employer and employee views



	Global	US	Canada	Europe	Latin America	Asia Pacific
Lack of work/life balance	#1 ≠ #5	#1 ≠ #6	#1 ≠ #8	#1 ≠ #6	#1 ≠ #5	#1 ≠ #4
Inadequate staffing	#2 = #2	#2 ≠ #1	#3 ≠ #1	#2 ≠ #1	#2 ≠ #3	#2 = #2
Technologies that expand day	#3 ≠ #13	#3 ≠ #12	#4 ≠ #12	#3 ≠ #14	#6 ≠ #11	#4 ≠ #11
Company culture	#10 ≠ #3	#12 ≠ #3	#10 ≠ #3	#9 ≠ #4	#11 ≠ #9	#8 ≠ #3
Low pay	#11 ≠ #1	#11 ≠ #2	#12 ≠ #2	#12 ≠ #2	#10 ≠ #1	#10 ≠ #1

Source: 2015/2016 Global [Staying@Work](#) Survey and 2015/2016 Global Benefits Attitudes Survey
 GBAS sample: US and Canada full-time employees with an employer health plan. Rest all employees.

Note: Rankings based on options 3/4/5 on a 5-point Likert scale

So what does it take to build a culture of health and well-being?

- 1 The employer role:** Move from 'pull' (encouragement) to 'push' (driving change) gradually – build employee permission.
- 2 Trust:** There is a strong connection between health engagement and the broader employment deal. Address concerns on privacy of personal information.
- 3 Social connections:** Leverage worksite and support interactions and competitions around health. Important for managers to be effective advocates of employer programs.
- 4 New technology:** Use technology, peer groups and personal communication to motivate action.



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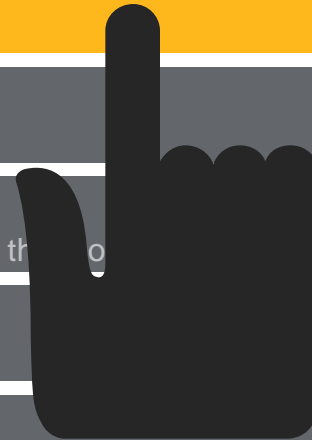
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Performance management and “going ratingless” are in the spotlight

What are companies actually doing?

- Few employers have gone or are considering going ratingless
- Most are focusing on having more and better performance management conversations



Is your organization planning to make any of the following changes to your performance management process?	Already taken action		Planning to take action		Considering taking action		Neither planning nor considering taking action	
	U.S. middle market	Global	U.S. middle market	Global	U.S. middle market	Global	U.S. middle market	Global
Focus on increasing frequency and improving quality of performance conversations/dialogue between manager and employee	37%	33%	25%	23%	19%	24%	20%	19%
Using performance management to evaluate/measure future potential	22%	28%	23%	20%	29%	25%	26%	27%
Implementing new enabling technology (e.g., to support crowdsourcing or enable mobile platforms)	15%	15%	20%	16%	22%	21%	43%	48%
Eliminating performance ratings/scores entirely	10%	8%	6%	3%	18%	15%	66%	74%
Eliminating performance ratings/scores for performance management but keeping for compensation purposes	7%	5%	4%	4%	17%	14%	73%	77%

Employees continue to say that performance management — as they experience it — is not very helpful

The extent to which you agree with the following statement:	Employee View	
	U.S. middle market	Global
People are held accountable for their performance at my organization	50%	56%
The people who evaluate me have clear visibility of my performance on the job	65%	56%
My performance was accurately evaluated in my most recent performance review	56%	52%
My organization does a good job explaining our performance management process	53%	50%
My performance reviews have helped me improve my performance	49%	48%
High-performing employees in my organization are rewarded for their performance	47%	46%
There is a clear link between my job performance and my pay	44%	45%

This represents a lost opportunity to address a top driver of sustainable engagement: **clear goals and objectives**



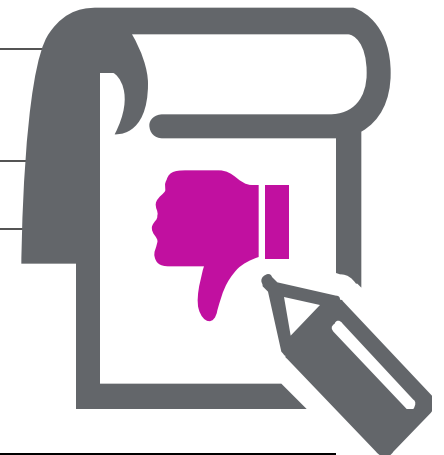
While more favorable, employers are not enthusiastic about their performance management process

The performance management process at your organization is effective at:	Employer View	
	U.S. middle market	Global
Aligning individual performance objectives with strategic business priorities	66%	76%
Identifying high, average and low performers	62%	74%
Reinforcing key organization-wide values and desired behaviors	65%	73%
Providing a mechanism for differentiating rewards	57%	70%
Driving high performance across the workforce	55%	67%
Informing development needs and plans	62%	64%
Providing a mechanism for determining talent program eligibility	48%	60%
Encouraging employees to set stretch goals	46%	60%
Creating a positive employee experience	44%	51%
Clarifying accountability of specific roles	41%	47%

Just 41% of employers indicate that their performance management process is **effective at clarifying accountability** for specific roles

Employers' views on managers' effectiveness at performance management are not very favorable

Managers are effective in the following aspects of performance management:	U.S. middle market	Global
Differentiating performance between high and low performers	37%	53%
Fairly reflecting overall performance in the employee's final performance rating	40%	50%
Working with employees to set appropriate performance goals for individual performance	32%	49%
Fairly reflecting performance in pay decisions	31%	49%
Identifying development opportunities	28%	39%
Giving employees regular coaching and feedback on their performance	23%	35%
Conducting career development discussion	19%	30%
Driving the right degree of risk taking to enable innovation	19%	22%



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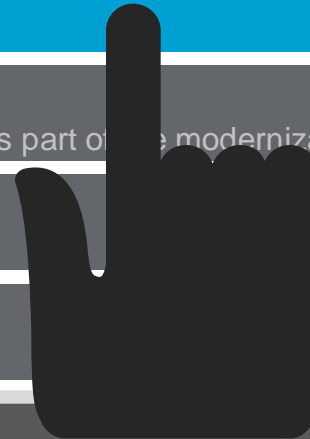
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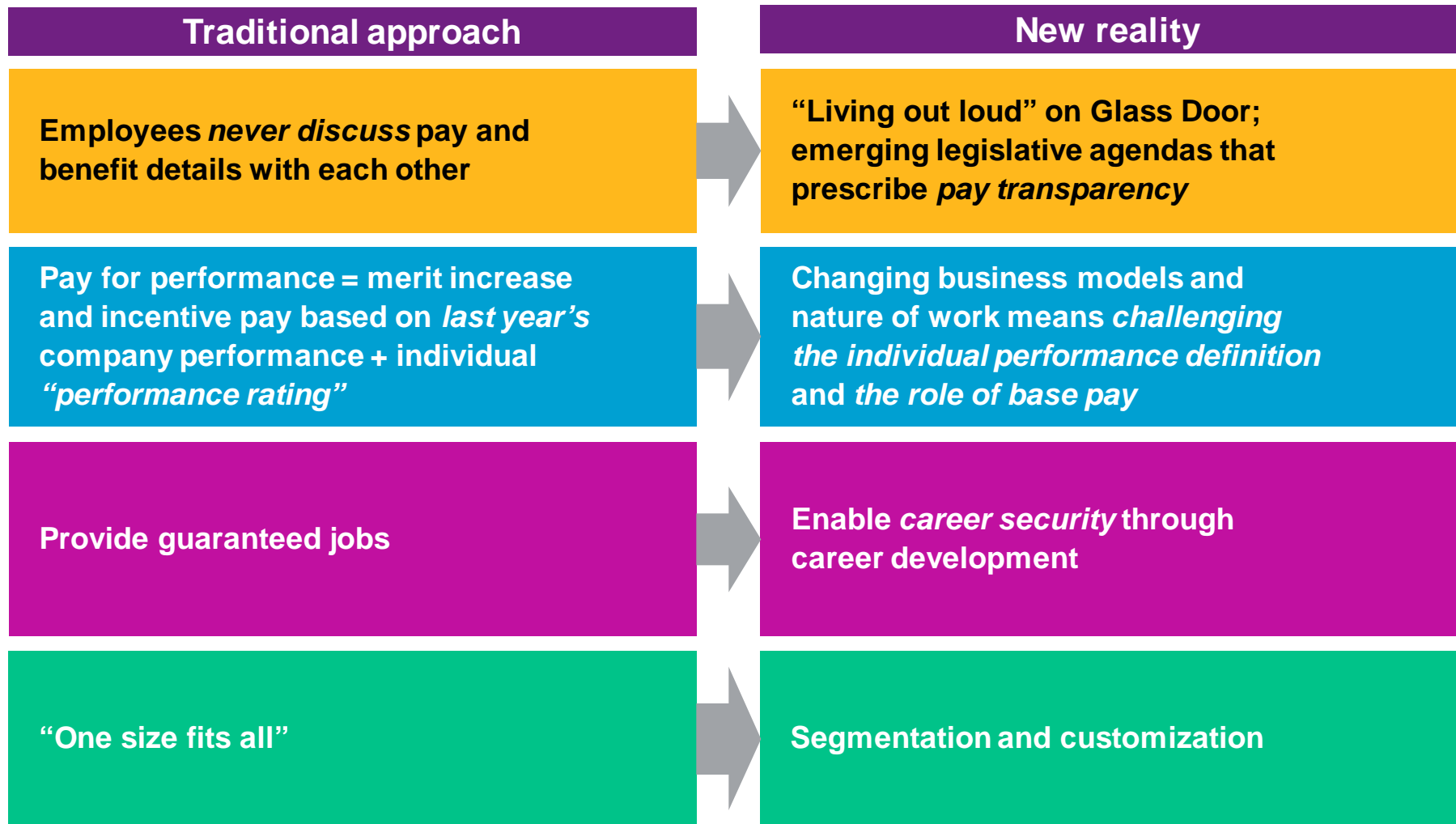
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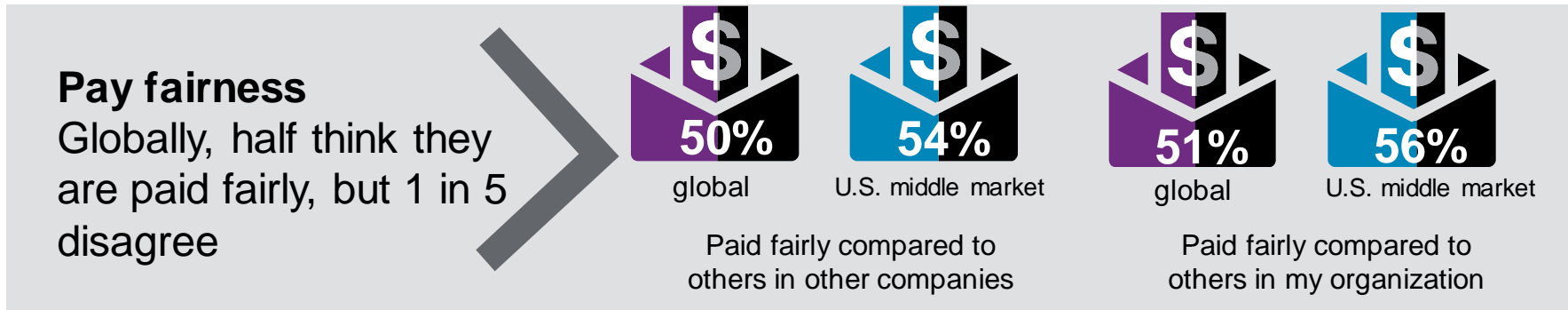
Additional Information



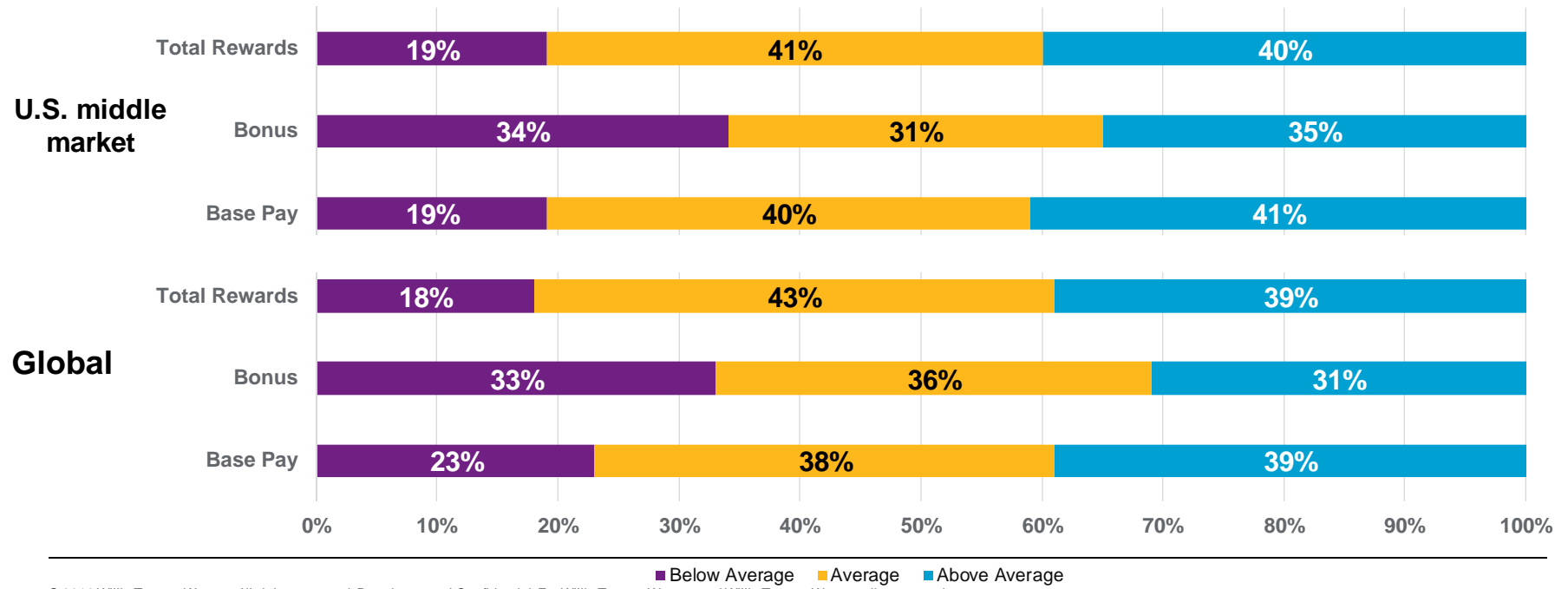
Modernizing Total Rewards means challenging conventional thinking



Employee perceptions of internal equity and market competitiveness are mixed



Overall, how do you think the value of each of the following compares to that offered for similar positions in other organizations?



Employers promise pay for performance differentiation, but fail to deliver

40% globally **18%** U.S. middle market
Of employers think that base salary increases drive performance

Only **50%** globally **36%** U.S. middle market
think that short term incentives do

Perceptions of **differentiation effectiveness** are mixed

	Employer view		Manager view	
	U.S. middle market	Global	U.S. middle market*	Global
Our base salary increases are effective at driving higher individual performance	18%	40%	34%	48%
Our base salary increases are effective at differentiating pay based on individual performance	40%	55%	41%	49%
Our short-term incentive programs are effective at driving higher individual performance	36%	50%	34%	52%
Our short-term incentive programs are effective at differentiating pay based on individual performance	37%	52%	40%	52%
Our formal performance ratings are effective at driving higher levels of performance among my direct reports	n/a	n/a	42%	50%
Our performance management system is effective at differentiating performance among my direct reports	n/a	n/a	43%	53%

* Based on limited samples

On merit increase decisions, HR puts most emphasis on final rating, demonstration of skills and achievement of goals; managers take a more holistic view

	HR's view				Manager's view	
	Factor should effect		Manager gives more weight than intended		Factor does effect their decision	
	U.S. middle market	Global	U.S. middle market	Global	U.S. middle market*	Global
Final rating in most current year-end performance review	68%	72%	42%	52%	64%	63%
Achievement of individual goals	60%	65%	38%	47%	61%	65%
Demonstration of knowledge and skills required in current role	57%	55%	34%	41%	66%	68%
Penetration in pay range for current role	45%	54%	25%	30%	48%	57%
Achievement of team goals	48%	49%	23%	29%	63%	66%
Concerns over market competitiveness	46%	48%	33%	37%	50%	55%
Possession of skills critical to the success of the future business model	27%	46%	30%	40%	61%	63%
Criticality of the role	26%	48%	40%	54%	49%	62%
Concerns over internal equity	30%	42%	42%	44%	41%	52%
Perceived potential	29%	41%	40%	41%	53%	59%
Demonstration of company values	35%	35%	23%	19%	48%	57%

* Based on limited samples

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Base pay, the number 1 driver of attraction and retention globally, gets mixed reviews while the world will get more complicated

Suggesting that old tools and approach to the annual merit cycle **may need to change**. As the **number one driver** of attraction and engagement, we need to **get base pay right** in the modern context



Half of employers

globally expect to pay more for certain skill sets in the next 3 years

Performance Rating	Salary Range Position			
	Below Minimum	Lower Third	Middle Third	Upper Third
Unsatisfactory performance	0.0% – 2.0%	0.0% – 1.0%	0.0%	0.0%
Performance needs improvement	2.0% – 4.0%	1.0% – 3.0%	0.0% – 2.0%	0.0% – 1.5%
Good performance	4.0% – 7.0%	3.5% – 6.0%	1.5% – 4.5%	1.0% – 3.0%
Excellent performance	7.0% – 11.0%	5.0% – 8.0%	3.5% – 6.0%	2.5% – 4.5%

Our managers execute our base pay program well

51% global 

42% U.S. middle market

After base pay, career management continues to be a top driver of attraction, retention and sustainable engagement globally

But effective career management remains elusive

44% of employees globally feel they need to leave to advance their career. This doesn't change for top performers (42%) or high potentials (45%)



Most employers provide traditional career paths, on-the-job training and internal job boards

Only a **third** of employers globally provide lateral or dual career paths, beyond-the-job training, employee self-service tools and integration within technology (e.g. HRIS)



	U.S. middle market	Global		
	All employees	All employees	Top performers	High potential
My company does a good job explaining how I can advance in my career	34%	42%	48%	59%
My immediate supervisor/manager helps me with career planning and decisions	25%	38%	47%	54%
My organization provides career planning tools and resources that are helpful to me (coaching, self-assessment, career paths, job rotation, competencies)	38%	44%	51%	60%
I have to leave my organization and join another organization in order to advance to a job at a higher level	46%	44%	42%	45%

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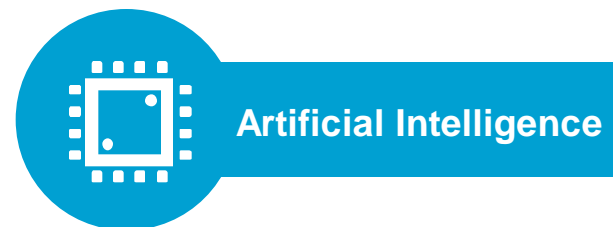
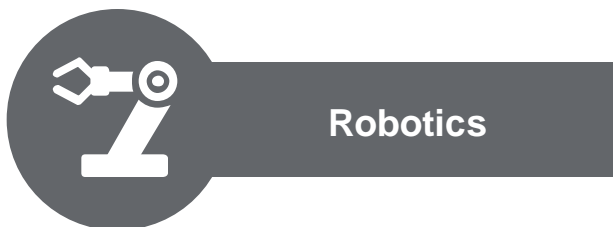
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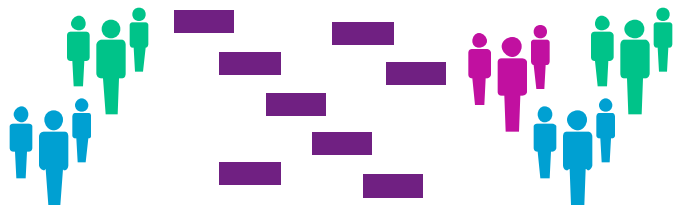
The Reality: The employment relationship is changing

The plurality of work options is here...

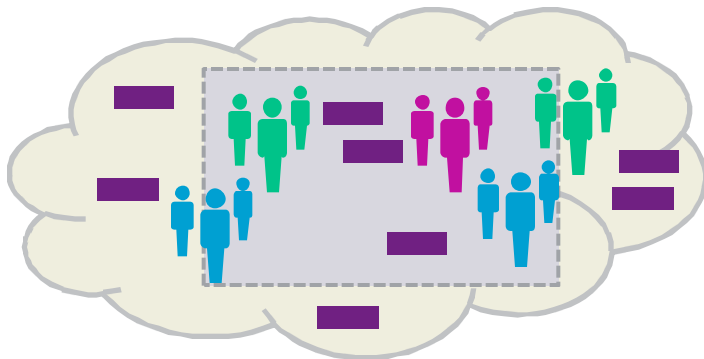


Resulting in fundamental shifts in how work and organizations are organized

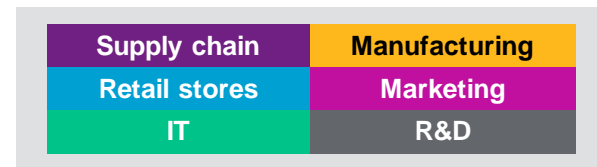
Our organization is a **place containing employees doing work.**



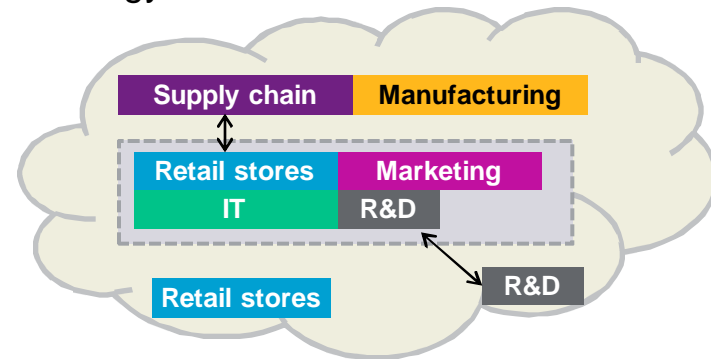
Our organization **organizes work and talent.**



Our organization is a **fixed set of functions** that work together to create value.



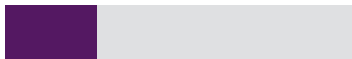
Our organization is a **malleable set of functions** and deciding which ones get done inside the organization is a big part of strategy.



The use of non-employee talent is increasing and having an impact on businesses

25%

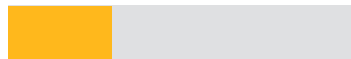
globally



Growth in share of non-employee talent expected over next three years

24%

globally



Of all managers say they manage at least one contingent worker on their team

46%

globally



Of all managers say they manage at least one contractor

54%

globally



Of companies report changing their workforce activities enabling them to use more non-employee talent due to technology now or in the next three years

12%

U.S. middle market

25%

U.S. middle market

38%

U.S. middle market

40%

U.S. middle market

Identify the tipping points

While jobs filled by employees will continue to be the dominant means for getting work done, companies are experiencing challenges in two key areas



High Value/Limited Supply: “Premier”

- Highly skilled work with challenges attracting & retaining and market supply (e.g., software development talent)
- By deconstructing jobs companies can change the talent curve creating supply for select activities and tasks



High Supply/Eroded Value: “Democratized”

- Technology is fragmenting traditional skilled work into tasks that can increasingly be performed by less skilled talent (e.g., accounting, manufacturing assembly)
- There are significant cost opportunities to be realized by thinking beyond employment

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Modernization will create a more equal value exchange

The employee-employer relationship in the new world of work

Key Leverage Points for Employers to Improve



Leadership – Instill trust and confidence/build trust-based relationships; role model the EVP, develop the next generation of leaders



Supervision – Make room for managers to have the time needed to provide effective people management



Transparency – Heighten transparency



Performance Management and Pay for Performance– Re-define performance management and differentiate



Flexibility – Create flexible career paths, embrace flexible work arrangements



Technology Enablement – Leverage digital media to drive engagement

