WOOING TALENT WITH TOTAL REWARDS

Godelieve Kroonenberg
Mercer
We are a global consulting leader in talent, health, retirement, and investments.

- $3.9 billion in revenue.
- 65-year history.
- Four business segments.
- Offices in more than 40 countries.
- 19,000+ colleagues.
Total Rewards
An evolution from compensation to total employment experience

Broader definition of rewards

Past
Compensation
• Benchmarking
• Competitive agenda
• Cost

How much to pay?

Present
Total rewards
• ROI
• Differentiation
• Performance

How to reward wisely?

Future
EVP
• Development
• Work Life
• Pride / Purpose

How to engage and motivate?
We All Have Rewards Programs
So why Total Rewards?

• Brings together
  – All rewards elements of employee value proposition, and
  – How they support desired employment experience

• Define business purpose and success metrics
  – For rewards overall, and
  – Each reward component in isolation

• Managing costs and driving results

• Establish sound and comprehensive rewards governance principles in order to…….

  Optimize business performance resulting from one of organization’s most significant investments
What is included in Total Rewards?

**Employer perspective …**

**Money**
- Pay
  - Base pay
  - Guaranteed “bonuses”
  - Short-term incentives
  - Long-term incentives
  - Allowances
  - Financial recognition programs
  - Deferred compensation
- Benefits
  - Retirement
  - Savings
  - Medical/Dental/Vision/Prescription Drug, etc.
  - Life insurance
  - Short- and long-term disability
  - Accident coverage

**Careers**
- Performance and accountability
- Career opportunity and pathing
- Mobility
- Leadership
- Experiential rewards
- Talent development

**Work/Life**
- Time off
- Wellness programs
- Dependent care
- Workplace flexibility
- Non-financial and status recognition
- Commuter programs
- Workplace facilities and perquisites

**Employee perspective …**

**My value today**
- My financial security and protection

**My future value**

**My quality of life**

**Money Careers Work/Life**
- Pay Benefits
  - Base pay
  - Guaranteed “bonuses”
  - Short-term incentives
  - Long-term incentives
  - Allowances
  - Financial recognition programs
  - Deferred compensation
- Retirement
- Savings
- Medical/Dental/Vision/Prescription Drug, etc.
- Life insurance
- Short- and long-term disability
- Accident coverage
- Performance and accountability
- Career opportunity and pathing
- Mobility
- Leadership
- Experiential rewards
- Talent development
- Time off
- Wellness programs
- Dependent care
- Workplace flexibility
- Non-financial and status recognition
- Commuter programs
- Workplace facilities and perquisites
And how do we make decisions?
Understand and integrate four perspectives

<table>
<thead>
<tr>
<th>Employer</th>
<th>Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Determine workforce needs in terms of structure, behavior, capabilities, and performance</td>
<td>- Create compelling place to work and differentiate the organization from its competitors</td>
</tr>
<tr>
<td>- Design and deliver rewards programs to secure workforce outcomes</td>
<td>- Understand value employees place on current package and potential future total rewards elements</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>External</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Consider labor and rewards environments where you compete for talent</td>
<td>- Rewards programs to support the desired strategy at affordable, sustainable cost</td>
</tr>
<tr>
<td>- Determine how these environments influence or constrain rewards practices you wish to adopt</td>
<td>- Assess costs within context of employee preferences and desired rewards strategy</td>
</tr>
</tbody>
</table>
That looks pretty simple…. What goes wrong?

- Guessing instead of establishing facts
  - Employer, employee, external and cost

- Not getting executive sponsorship

- Not involving line management
  - Making it HR rather than business issue

- Setting attraction, retention, motivation and engagement of talent as success measure
  - Instead of specific measures for each component of rewards

- Thinking design is end game; nothing achieved until strategy is implemented

- Communication, communication, communication…..
Rewards design to support business strategy

Workforce segmentation

• Business model differentiation
  – Recognize business maturity/cycles
  – Varying performance metrics

• All job families and levels, differentiated by
  – Performance drivers
  – Performance enablers

• Geographic integration to enable
  – Collaboration across boundaries
  – Global talent management
Workforce segmentation using four key factors
Driven by profit model

[Diagram showing Business life cycle and Business design]

- **Business life cycle**
  - Value creation graph with phases:
    - Emerging market
    - Rapid growth
    - Flat market
    - Declining market
  - Business units: Is there much opportunity to make profit?

- **Business design**
  - Customer selection
  - Organisational performance system
  - Value capture/Profit model
  - Strategic control
  - Scope
  - Who will make the profit and how?

[Diagram showing Geographic impact and Brand impact]

- **Geographic impact**
  - Global vs. local focus
  - How strong are you in that market?

- **Brand impact**
  - Asset vs. liability
  - How strong is your brand in that industry sector?
Allocate based on value
Segments change over time

**Performance drivers**
employees who create value for the organisation

**Performance enablers**
employees who support value creation

**Legacy drivers**
employees who historically created value for the organisation, but no longer do
Having identified your key talent
Understand what motivates and engages them

• Not about pleasing all employees
  – Concentrate on key ones

• Do not guess, ask them!

• But research on preferences based on
  – Gender
  – Marital status
  – Generation
  – Culture
  – Your industry
Can point you in right direction
Multiple generations Seeking the best ROI

20–35
- Values their own contribution.
- Requires new approaches to recruitment.
- Values informal workplaces, volunteer opportunities, and flexibility.
- Wants advancement opportunities, recognition, mentors.
- Seeks further education outside.
- Understands social networks and technology.
- Is saving for a home.

35–49
- Wants company to value their contribution.
- Balances work and life.
- Wants flexible work hours.
- Wants advancement, leadership opportunities.
- Is saving for child’s education.
- Plans for retirement.

49–59
- Works hard to be valued.
- Is saving for child’s education.
- Plans for retirement.
- Deals with the stress of work-life balance.
- Cares for an older parent.

60+
- Wants expertise/experience to be valued.
- Plans for retirement/is retiring.
- Has company-sponsored health care options for retirement.
- Wants access to “flexible” job opportunities.
- Requires dependent care (about 1/3 of this group).
- Needs reduced physical demands.
Look at the external environment
Understand what is happening in the marketplace

• The labour market
  – Differs by location
  – Availability of skills you need
  – Supply/demand

• Market data
  – Your peer group?
  – Different for segments of workforce?

• Position relative to market?
### Dynamics of emerging markets

#### Pay differential by country

**Source:** 2011 Pharma surveys

<table>
<thead>
<tr>
<th>Country</th>
<th>Ratio (Multiples of Salary)</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>3.4</td>
</tr>
<tr>
<td>Japan</td>
<td>4.5</td>
</tr>
<tr>
<td>United States</td>
<td>5.2</td>
</tr>
<tr>
<td>Singapore</td>
<td>5.9</td>
</tr>
<tr>
<td>Brazil</td>
<td>10.3</td>
</tr>
<tr>
<td>Thailand</td>
<td>11.2</td>
</tr>
<tr>
<td>China</td>
<td>14.1</td>
</tr>
<tr>
<td>Vietnam</td>
<td>17.6</td>
</tr>
<tr>
<td>India</td>
<td>20.8</td>
</tr>
<tr>
<td>Indonesia</td>
<td>28.4</td>
</tr>
</tbody>
</table>

**Annual Base Salary**

**Fresh Graduate vs Heads of Function**
Implications of this for salary progression
Large percentage increases in developing markets

**Multiple from graduate pay to head of function**

<table>
<thead>
<tr>
<th>Year</th>
<th>Developed Salary</th>
<th>Increase %</th>
<th>Developing Salary</th>
<th>Increase %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>50,000</td>
<td>6%</td>
<td>12,000</td>
<td>20%</td>
</tr>
<tr>
<td>2</td>
<td>53,000</td>
<td>6%</td>
<td>14,400</td>
<td>20%</td>
</tr>
<tr>
<td>3</td>
<td>56,180</td>
<td>18%</td>
<td>17,280</td>
<td>50%</td>
</tr>
<tr>
<td>4</td>
<td>66,292</td>
<td>6%</td>
<td>25,920</td>
<td>10%</td>
</tr>
<tr>
<td>5</td>
<td>70,270</td>
<td>6%</td>
<td>28,512</td>
<td>10%</td>
</tr>
<tr>
<td>6</td>
<td>74,486</td>
<td>6%</td>
<td>31,363</td>
<td>10%</td>
</tr>
<tr>
<td>7</td>
<td>78,955</td>
<td>18%</td>
<td>34,500</td>
<td>35%</td>
</tr>
<tr>
<td>8</td>
<td>93,167</td>
<td>6%</td>
<td>46,574</td>
<td>10%</td>
</tr>
<tr>
<td>9</td>
<td>98,757</td>
<td>6%</td>
<td>51,232</td>
<td>10%</td>
</tr>
<tr>
<td>10</td>
<td>104,683</td>
<td>6%</td>
<td>56,355</td>
<td>10%</td>
</tr>
<tr>
<td>11</td>
<td>110,964</td>
<td>18%</td>
<td>61,990</td>
<td>35%</td>
</tr>
<tr>
<td>12</td>
<td>130,937</td>
<td>6%</td>
<td>83,687</td>
<td>10%</td>
</tr>
<tr>
<td>13</td>
<td>138,793</td>
<td>6%</td>
<td>92,056</td>
<td>10%</td>
</tr>
<tr>
<td>14</td>
<td>147,121</td>
<td>6%</td>
<td>101,261</td>
<td>10%</td>
</tr>
<tr>
<td>15</td>
<td>155,948</td>
<td>18%</td>
<td>111,388</td>
<td>35%</td>
</tr>
<tr>
<td>16</td>
<td>184,019</td>
<td>6%</td>
<td>150,373</td>
<td></td>
</tr>
</tbody>
</table>

**Multiple** 3.68  
**Multiple** 12.53
And of course………
Consider cost implications for your organization

- All rewards costs
- Various scenarios relative to profitability, revenue and other metrics
- Consider not only
  - Affordability today, but
  - Sustainability in 5 years time
- Consider all options
Understand employee value to cost relationships

Plan Costs Compared to What Employees Value

Cost/value scores are scaled so that they add up to 100.
How to leverage each element of Total Rewards?
And measure its success

**Compensation**
- Base pay
- Guaranteed “bonuses”
- Short term incentives
- Long term incentives
- Financial allowances
- Financial recognition programs
- Deferred compensation

**Benefits**
- Retirement
- Savings and other wealth creation programs
- Medical / Dental / Vision / Prescription Drug, etc.
- Life insurance
- Short and long term disability
- Accident coverage
- Job-related perquisites

**Development & Career**
- Performance management
- Learning and development
- Career opportunity and pathing
- Tuition reimbursement
- Mobility opportunities

**Work Lifestyle**
- Time off
- Wellness programs
- Dependent care
- Workplace flexibility
- Commuter programs
- Workplace facilities and perquisites
- Experiential rewards
- Non-financial and status recognition

---

**Critical to get right, but can be copied**

**Potential extra competitive advantage?**
**Example of Total Rewards Strategy**

**Compensation**

<table>
<thead>
<tr>
<th>Role of rewards element</th>
<th>Base Pay</th>
<th>Short term incentives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attract and retain quality employees</td>
<td>Encourage and reward individual employee performance</td>
<td></td>
</tr>
<tr>
<td>Competitive position</td>
<td>Median of peer group or upper quartile for critical positions</td>
<td>Above median of market practice in each business for good performers</td>
</tr>
<tr>
<td>Impact of positioning</td>
<td>Company has people required to execute business strategy</td>
<td>Performance culture is encouraged and rewarded</td>
</tr>
<tr>
<td>Design features</td>
<td>Significant differentiation based on achievement of objectives</td>
<td>Incentives tailored to suit requirements of different businesses</td>
</tr>
</tbody>
</table>
If retention and development of talent is your key challenge
Compensation for management needs to reflect this

- **Base Pay**
  - Individual performance record
- **Base Pay Increase**
  - Performance
- **Variable Pay**
  - Financial performance
- **Long-term Incentive**
  - Performance
- **Ability to lead others**
- **Development of leadership skills**
- **Retention and development of others**
- **Sustainable organization development**
## Base pay
### Measuring success

<table>
<thead>
<tr>
<th>Metric</th>
<th>Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offer acceptances</td>
<td># offers rejected because of base pay</td>
</tr>
<tr>
<td></td>
<td># “red circle” job offers and tenure</td>
</tr>
<tr>
<td>Employer turnover</td>
<td>%age overall</td>
</tr>
<tr>
<td></td>
<td>%age 6 to 24 months</td>
</tr>
<tr>
<td></td>
<td>%age Level 3 and above</td>
</tr>
<tr>
<td>Pay differentiation</td>
<td>Long term high performers’ median base salary at P60</td>
</tr>
<tr>
<td></td>
<td>Long term average performers’ median base salary at P40</td>
</tr>
</tbody>
</table>
### Example of Total Rewards Strategy
#### Allowances and Benefits

<table>
<thead>
<tr>
<th>Allowances</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Role of rewards element</strong></td>
<td>Reflect local market practices in relation to allowances</td>
</tr>
<tr>
<td><strong>Competitive position</strong></td>
<td>Median of the market</td>
</tr>
<tr>
<td><strong>Impact of positioning</strong></td>
<td>Allowance have neutral impact on attraction and retention</td>
</tr>
<tr>
<td><strong>Design features</strong></td>
<td>Where possible, allowances included in Base Pay</td>
</tr>
</tbody>
</table>
Invest in Cost Effective Innovative Benefits

![Bar chart showing the percentage of companies offering various benefits in 2012 and 2013.](chart)

Companies providing X number of benefits:

1. 374 Companies (70%)
2. 265 Companies (50%)
3. 152 Companies (29%)
4. 80 Companies (15%)
5. 43 Companies (8%)

MERCER
## Benefits
### Measuring success

<table>
<thead>
<tr>
<th>Metric</th>
<th>Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff absence</td>
<td># days lost to sickness absence&lt;br&gt;Sickness absence better than industry norms</td>
</tr>
<tr>
<td>Employee perception</td>
<td>Employees perceive employer cares for their health&lt;br&gt;Employees perceive employer provides security&lt;br&gt;Employees perceive their benefits are equal to industry norms</td>
</tr>
<tr>
<td>Company reputation</td>
<td>Perceived as a caring employer</td>
</tr>
</tbody>
</table>
### Example of Total Rewards Strategy

#### Career Development

<table>
<thead>
<tr>
<th>Career Development</th>
<th>Performance management</th>
<th>Training and development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Role of rewards element</td>
<td>Employees know what performance levels is expected of them</td>
<td>Provides opportunity for employees to develop required skills and competencies</td>
</tr>
<tr>
<td>Competitive position</td>
<td>Clarity and quality of process is leading market practice</td>
<td>Above market practice</td>
</tr>
<tr>
<td>Impact of positioning</td>
<td>Employees are focused on what is important to company</td>
<td>Employees continuously develop and are able to take on new roles</td>
</tr>
<tr>
<td>Design features</td>
<td>Business scorecard approach rather than just financial measures</td>
<td>Resources focused on identified gaps in skills and competencies</td>
</tr>
</tbody>
</table>
Consider career development as part of total rewards
Employees value career advancement

Help employees fulfill their career aspirations within the company and they tend to stay longer...
## Career development
### Measuring success

<table>
<thead>
<tr>
<th>Metric</th>
<th>Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development and deployment of talent</td>
<td>%age roles with succession plans</td>
</tr>
<tr>
<td></td>
<td>%age roles filled by internal promotion</td>
</tr>
<tr>
<td></td>
<td>Analysts perception of senior talent</td>
</tr>
<tr>
<td>Turnover of high performing and top talent employees</td>
<td>%age employees leave each year</td>
</tr>
<tr>
<td>Employee perception</td>
<td>%age employees who agree</td>
</tr>
</tbody>
</table>
future trends
Mercer’s emergent thinking
Adding the “X Factor”

- Emotional connection compliments the contractual deal.
- The greater the emotional connection, the less dependence on contractual components.
A fresh look

How we work

What we like at work

When we work

How productive we are at work

How proud we are because we work here
A fresh look

When we work: we demand!

Cisco survey of 2,800 college students and young professionals worldwide

Checklist:

- Ability to tweet or update Facebook while on the clock.
- Allow work email on whatever device desired.
- Allow telecommuting on own schedule.

More than 60% say they have a RIGHT to work from home on a flexible schedule.
A fresh look

Employer Branding
Innovation
Creative
Fun

Management
Health and wellness
Team building

Then…. Now….
“If you want creative workers, give them enough time to play”
~John Cleese

How we work
What we like at work

Corporate Social Responsibility

How productive we are at work
How proud we are because we work here

How we feel when we work
How proud we are because we work here

Health and wellness

Fun
Cool
Corporate Social Responsibility
Techy
Creative
Innovation

When we work
A fresh look

How we work

Then....

Now....
A fresh look

Management skills

How productive we are at work

Team building

Health and wellness
A fresh look

What we like at work

“If you want creative workers, give them enough time to play”

~John Cleese
Last But Certainly Not Least
Communicate, Communicate, Communicate

**Targeted** messages

**Segmented** for different workforce segments with different needs and aspirations

**Engaging** by leveraging technology such as social media to increase effectiveness.
Total Rewards framework
Keeping in mind the guiding principles

Think holistically
Reward elements are interdependent

Draw on multiple perspectives
Use facts and analytical tools to make better rewards decisions

Consider outcomes before design
Improve workforce performance to drive productivity, budget, profits

Think holistically

Deliver
Employees value most what they understand best

Communicate to increase reward value

 Improve administration to maximize investments
Monitor business, HR outcomes, and service delivery through dashboards

Strengthen governance through consistency
Ensures appropriate deployment of Total Rewards strategy

Design
Remember…..
Best fit, not best practice!