

MERCER GLOBAL HR CONFERENCES

Asia HR Conference

NEW REWARD MODELS IN AN
AGILE WORK ENVIRONMENT

SEPTEMBER 18-19

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Career Business Leader International Region, Mercer



MAKE TOMORROW, TODAY



LIVING IN AN ERA OF DISRUPTION

MACRO TRENDS IMPACTING THE FUTURE OF REWARDS



RESHAPING ORGANIZATIONS STRUCTURES

More than 90% of executives are planning organizational redesigns



Demanding **AGILITY** in reward systems



DIGITALIZATION AND AI

Technology is enabling the digitalization of reward programs, delivering better experiences at lower costs



Changing **CAPABILITY** needs from rewards



WORKPLACE FOR ME

“Digital natives” are entering the workforce, demanding the consumer grade experiences



FLEXIBLE & PERSONALIZED reward solutions



EXTERNAL SCRUTINY

Activist investors, media and regulators are putting increasing focus on pay equity



TRANSPARENCY in rewards decision making

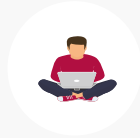
THE EMPLOYMENT DEAL NEEDS TO SIGNIFICANTLY CHANGE

ONLY 2 IN 5 EMPLOYEES BELIEVE THEIR COMPANY HAS A COMPELLING AND DIFFERENTIATED VALUE PROPOSITION*



CHANGING DEMOGRAPHICS

How can we ensure our proposition resonates with five generations



WORKPLACE FOR ME

How can we meet individuals evolving health, wealth and career needs?



FLEXIBLE WORKING

How do we create a culture that enables people to contribute under flexible work arrangements?



GIG ECONOMY

What can we do to embrace the rise of the free agent?

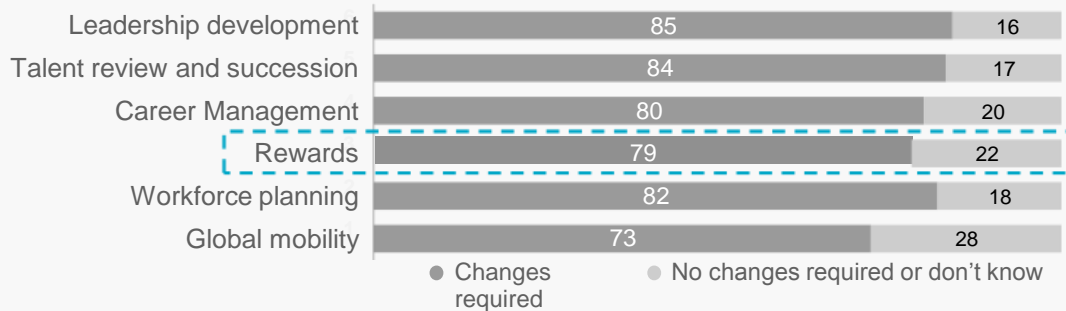
How can we translate our EVP into a Talent Experience Proposition?

* Mercer Global Talent Trends Study

RECENT STUDIES CONFIRM THAT HR IS MOVING COMPANIES HAVE RECOGNIZED THAT A CHANGE IS NEEDED IN HOW EMPLOYEES ARE REWARDED

Change plans of HR organizations

% of companies require changes in HR



Deep-Dive: Rewards



All values in % may not total 100 due to rounding.

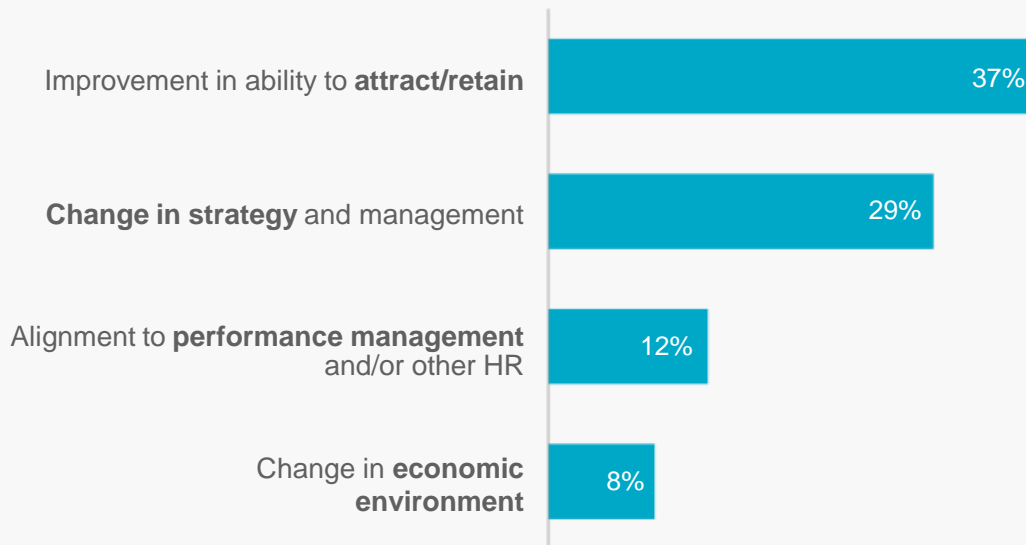
Source: Mercer Research, Mercer "Future Proofing HR"

Comments

- Different economic conditions, talent expectations and availability demand for changes within HR, with at least 70% seeing changes required in their talent processes
- Over 55% of organizations already have a change plan determined and 28% are ready to implement these plans within the next 12 months

TOTAL REWARDS STRATEGIES ARE BEING MAINLY REVISED TO BETTER ATTRACT AND RETAIN TALENT

Change plans of Rewards



Comments

- As high quality talent becomes scarce, the ability to better attract and retain talent has become the key reason for companies to revise their Reward system
- With digitalization high on the agenda, 29% of companies are planning change to better support their new company strategy and management
- With the increased elimination of performance ratings, 12% of firms need to find a better way to align performance management and compensation & benefits

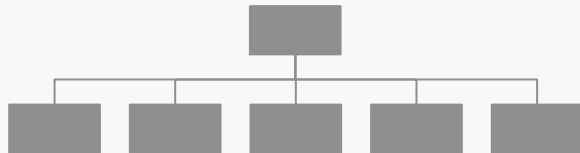
Source: Mercer Research, Mercer "Future Proofing HR"

THE FOUNDATIONS OF HOW WE APPROACH REWARDS IS UNDER REVIEW

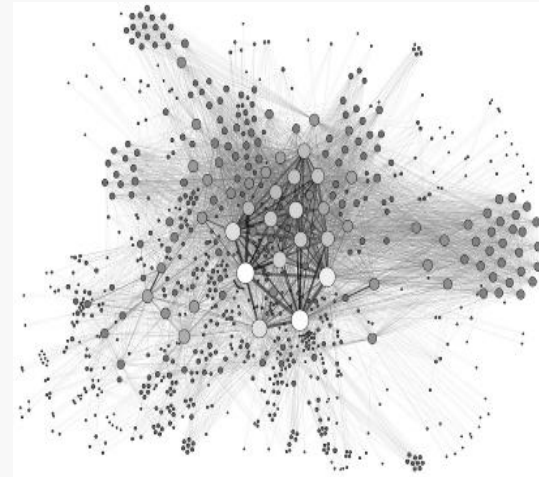
JOBS

vs

SKILLS



vs



FOUR FUNDAMENTAL CHANGES TO HOW WE DELIVER REWARDS

Technical first



Business first

Lag: Benchmarking



Lead: analytics and AI

Value jobs



Value

Standardized



Personalized

REWARD FUNCTION EFFECTIVENESS ORGANIZATIONS ARE RESHAPING THEIR OPERATING MODELS TO ALIGN WITH EMERGING THEMES

GOVERNANCE

How will we distribute decision making responsibility and manage risks through authority and accountability checks?

STRATEGY



TECHNOLOGY



ROLES



PROGRAMS & POLICY

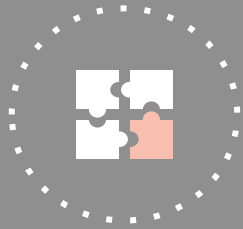


SERVICE DELIVERY

What activities are done in the Rewards function, versus through technology, partnership with other functions, or automation?

KEY SHIFTS AT WORK

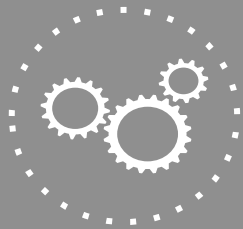
FOUR KEY THEMES IMPACTING TOTAL REWARDS



CAREER FRAMEWORKS



REWARD OFFERINGS



REWARD PROCESSES



TALENT EXPERIENCE

WORKFORCE STRUCTURE

THE FUTURE WORKFORCE WILL BE COMPOSED OF VARIOUS EMPLOYMENT MODELS



Impact on Talent Experience



Career Frameworks

- Shake traditional career frameworks



Reward Processes

- Flexible and agile
- Benchmark compensation in real-time



Reward Offerings

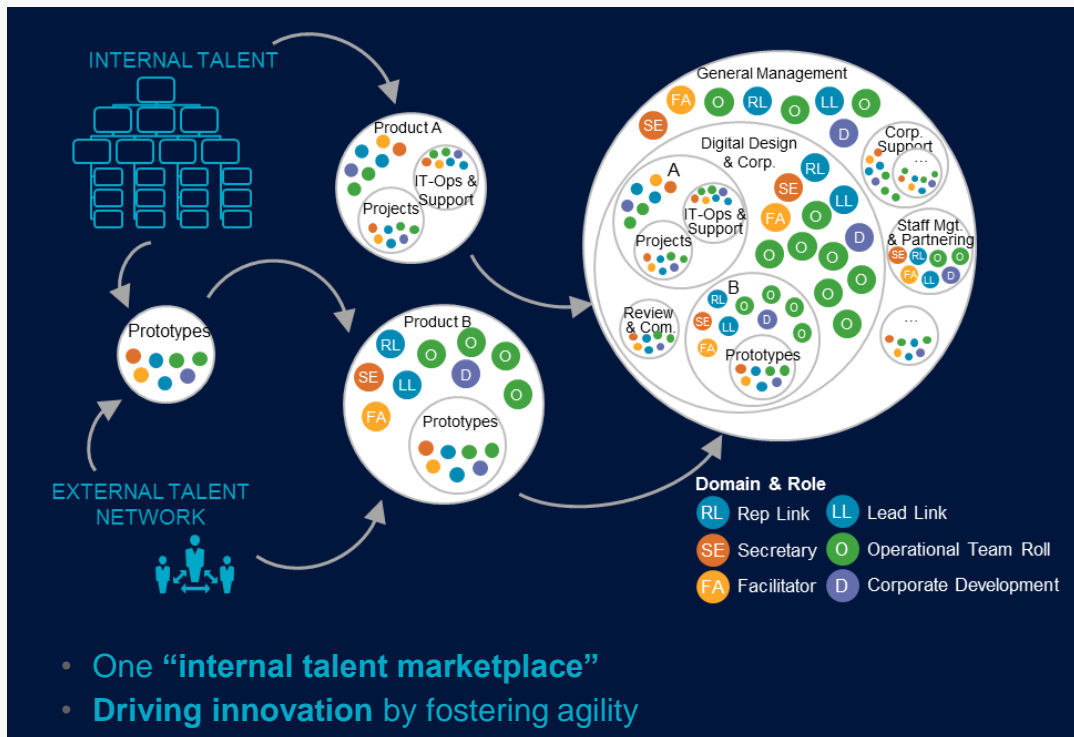
- New models
- Tailored to attract, retain and engage external talent



Talent Experience

- Experiences for all talents

ORGANIZATIONS CHANGE FROM A HIERARCHICAL STRUCTURE TOWARDS AN AGILE ORGANIZATION



Source: Mercer Research 2018, Oliver Wyman 2017

Impact on Talent Experience



Career Frameworks

- Organization-agnostic Job Architecture
- Flexible, yet robust Job Structure



Reward Processes

- Dynamic
- Focus on key events



Reward Offerings

- Diverse workforce needs
- Real-time, team-focused and event-based



Talent Experience

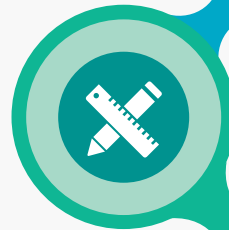
- Limited TR distinctive effects

INDIVIDUALS MOVING FROM THE TRADITIONAL EVP TO A TALENT EXPERIENCE PROPOSITION (TEP)

Jobs will be changing within the Future of Work, resulting in a shift in skills and tasks



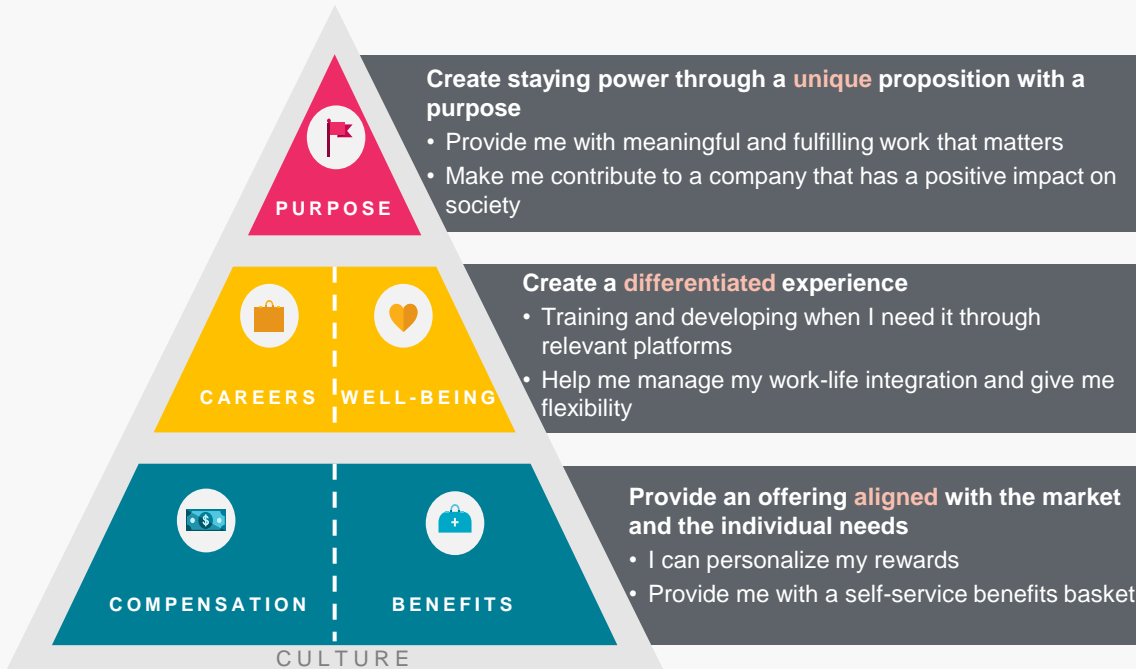
Jobs are being reconfigured and a broader skillset will become critical for success



The Future of Work will see changing aspirations and expectations of talents



INDIVIDUALS MOVING FROM THE TRADITIONAL EVP TO A TALENT EXPERIENCE PROPOSITION (TEP)



Impact on Talent Experience



Career Frameworks

- Limited TR distinctive effects



Reward Processes

- Extended personalization



Reward Offerings

- Focus stronger on overall well-being of employees

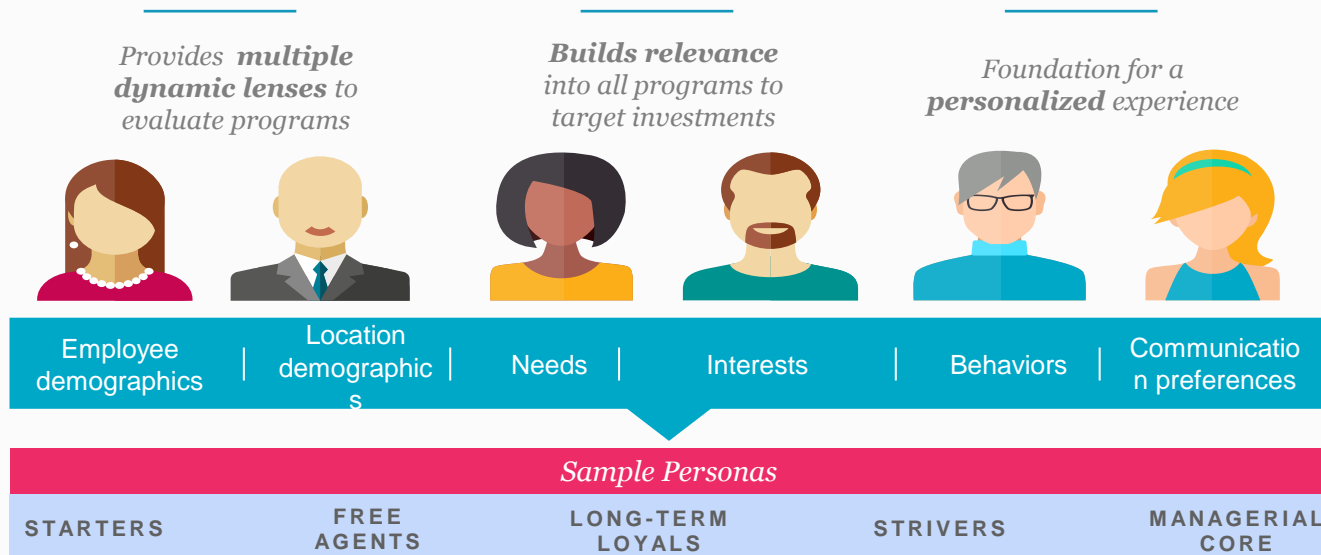


Talent Experience

- Talent Experience Proposition
- Rewards, culture and meaningful work for internal & external talent

HOW TO CREATE A COMPELLING EXPERIENCE?

TARGETED: BASED ON UNIQUE NEEDS AND DESIRES



CREATE A COMPELLING EXPERIENCE

STARTERS: PERSONAS IN ACTION



FAMILY SIZE



CAREER STAGE



CHARACTERISTICS

- Focuses on travelling and fun
- Enjoy flexibility in workplace
- Paying off student loan
- Keen on learning and development opportunities



TARGETED ACTIONS

- Opportunities to **work overseas** such as international assignments
- Flexible working hours** such as flexi time
- Offering to **pay for student loan**
- Offer **education subsidies** for MBA and relevant courses

CREATE A COMPELLING EXPERIENCE

SILVER WORKFORCE: PERSONAS IN ACTION



FAMILY SIZE



CAREER STAGE



CHARACTERISTICS

- Concerned about health
- Preparing for retirement
- Focuses on spending time with self and love ones



TARGETED ACTIONS

- **Self-awareness of health and well-being** through regular health check
- Offer **comprehensive and high medical and insurance coverage**
- Educate on retirement through offering **financial literacy lessons**
- **Flexible working arrangement** such as part time working arrangement

CREATE A COMPELLING EXPERIENCE

GIG WORKERS: PERSONAS IN ACTION



FAMILY SIZE



CAREER: FREELANCER

.CHARACTERISTICS...

- Often left out of office activities
- Does not qualify for statutory retirement and insurance benefit
- Often not entitled to the same amount of benefits that other employees are entitled to

TARGETED ACTIONS

Fostering networking opportunities through invitation to broader company activities, for example business and/or organization-wide town halls, company dinner and dance

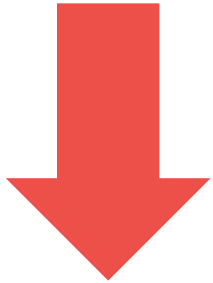
Cash allowance to compensate for **retirement & insurance**

Offering voluntary **health and wellness benefits** such as, providing access to on-site gym, financial literacy talks, wellness events and activities



ROLES ARE EVOLVING INCREASING EMPHASIS ON STRATEGIC PARTNERSHIP TO THE BUSINESS

TRANSACTIONAL ACTIVITIES DECLINING¹



- Market pricing using salary surveys
- Participating in salary surveys
- Administering pay processes
- Establishing or adjusting pay bands

STRATEGIC & ANALYTICAL ACTIVITIES¹



- Managing AI / Machine Learning Tools
- Predictive Modeling
- Manager training on pay conversations
- Transparency

Organizations are creating **reward business partners** to upskill managers and strategically partner with HR & the business



Source: 2018 World @ Work Compensation Function of the Future Study

ESTABLISHED COMPANIES MAKING THEIR REWARDS MORE AGILE COMPANIES REACTING WITH AN EVOLUTIONARY APPROACH TO THE TRENDS

Data driven segmentation



Market Data Analysis

- Microsoft examined **market data trends to identify critical roles** and areas where most vulnerable employees were
- **Action plans** were defined where the **company needed to invest** in order to attract, motivate, engage, and retain talent

US based
tech firm*

Cluster Analysis

- This tech company uses **employee data to create insights** based on a cluster and turnover analysis
- **Derivation of actual employee needs** for certain clusters and developing **cluster specific packages** and communications

Flexible Offerings (focus still on benefits)



Smart Benefits

- Visa offers its employees in Europe their **core benefits plus** a large **employee choice package** of up to 1/4 to 1/3 of their total rewards
- The employees can choose **cash or benefits** from following types: protect, live and save



Flex Credit System for Benefits

- Oracle provides its employees with **flexible allocation of credits (“flex points”)** across their benefits offerings
- Every employee has a **certain budget** of flex points to select **the suitable packages** (e.g. medical waiver credit, dental plan, life insurance and telehealth services)

Source: Mercer Research

ESTABLISHED COMPANIES MAKING THEIR REWARDS MORE AGILE COMPANIES REACTING WITH AN EVOLUTIONARY APPROACH TO THE TRENDS

Change in Variable Compensation Systems



Bonus without individual component

- Bosch introduced a **global remuneration system** to set a stronger focus on **longer-term targets**
- The **variable pay** is derived from **company and business units targets**



New profit participation

- Infineon converted the individual bonus share **into the basic salary** and the **new profit participation**
- The new bonus is derived from **Return on Capital Employed, Free Cash Flow** and the **business units result**

Source: Mercer Research

Improving Recognition and Workplaces



Online Recognition Point System

- KPMG runs in Canada a program which allows **employees** at any level to **participate and recognize peers** for a job well done
- **Rewards are points** that can be redeemed for **prizes** like Apple iPad or gift certificates



Workplace and Lifestyle as reward

- Leading tech companies focus on **competing through** holistically promoted **EVP**
- Providing their employees with perks that optimize their **employment experience** like unlimited sick leaves, baby cash, bonuses for living within a mile.

SMALLER FIRMS HEADING INTO DIFFERENT DIRECTIONS UTILIZING FLEXIBLE ENVIRONMENTS FOR INNOVATION

Emerging practices



Travel Budget

- Airbnb offers **new industry-specific benefits** to their staff that align with their philosophy
- Employees annually receive **\$2,000 in open travel budget** to use on trips to properties on their website



Holidays Bonus

- FullContact provides a reward of up to **\$7,500** to each employee **for taking time off work**
- Requirements are **using all vacation days and not writing emails/ taking phone calls** during that time

New total rewards cultures



Public compensation

- Buffer **publishes** the **compensation** through its buffer salary calculator on the website
- **Determinants for compensation** include base for the role, location, **family, journey, experience**

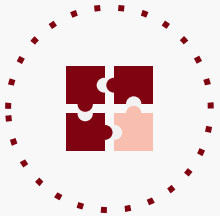


Workplace and Lifestyle as reward

- At elbdudler **colleagues collectively set their salaries** based on needs, market value, company benchmark and revenue
- All **salary decisions are public knowledge** within the company

Source: Mercer Research

NEW REWARD MODELS IN AGILE WORK ENVIRONMENT



CAREER FRAMEWORKS

- Shift away from the traditional job descriptions
- Changes in job evaluation and grading
- From a job-based framework to a skill-based framework
- Horizontal moves and flatter structures in career frameworks



REWARD OFFERINGS

- New compensation and reward models for all talent
- Focus on delivering above statutory benefits for contingent workforce
- Flexible work model – integrating life and work
- L&D to become key focus (of TR)



REWARD PROCESSES

- Rewards cycles changing to be agile and adjust quickly to market benchmarks
- Technology-enabled flexible reward processes
- Team-based reward processes



TALENT EXPERIENCE

- A holistic experience that addresses the individual needs of all talent
- Purpose-driven work that is aligned with social and ethical values
- Well-being of talent is to become core agenda for organizations



MARSH & MCLENNAN
COMPANIES