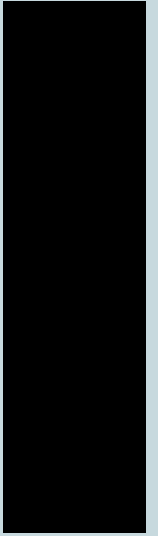
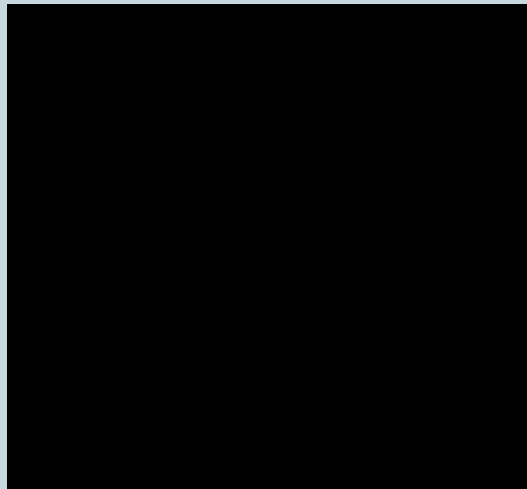
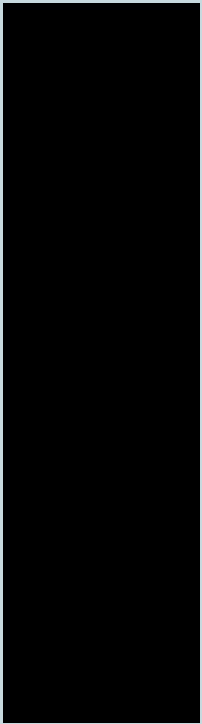


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Global findings report for the 2016 Global Talent Management and Rewards and Global Workforce Studies

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In the new world of work, employers and employees face pressures to remain relevant. The rapid rise of technology allows organizations to deconstruct and disperse work across a global virtual workplace, reshaping the workplace and redefining how and by whom work gets done. In some organizations, the traditional full-time employment model is giving way to contingent or alternative work arrangements typically associated with the gig economy. In addition, the accelerated pace of innovation, shifting demographics and increasing demands for transparency in many areas, including rewards, are contributing to profound shifts in today's workplace.

Employers are restless for change. To grow talent – and their business – they recognize that it's time to move beyond the default models, expectations and practices of the past. We see the outlines of a modernization agenda emerging as employers take a new agile approach to the development of talent and reward programs in order to position themselves for future growth.

However, employers may not yet fully understand the implications for their business of an ever-shifting workplace and new employment relationships. The pace at which organizations are able to deliver on this modernization agenda will become a key differentiator of organizational success and help determine the winners and losers in the competition for high-value talent.

For their part, many employees are uncertain of their place in a dynamic global economy. To remain relevant, they must understand emerging work options and develop collaboration, digital and global operating skills to help drive business value creation. In return, employees expect their employers to connect with them on a more meaningful level similar to how companies connect with their customers. For employers to meet this expectation they must provide not just a job but an experience that will offer rewards and work environments aligned with employees' changing needs and preferences.

Effective leaders and managers play critical roles in delivering a compelling employee value proposition (EVP) at the heart of the employee experience. Leadership, the top driver of sustainable engagement, is essential to success in today's ever-evolving business environment.

This report presents the key findings of two complementary research studies designed to capture both employee and employer perspectives on critical issues and trends in this new world of work.

- The 2016 Global Workforce Study measures the attitudes of a representative sample of over 31,000 employees around the globe to provide a detailed view into the expectations and concerns of employees.
- The 2016 Global Talent Management and Rewards Study captures the perspective of over 2,000 organizations – who collectively employ almost 21 million people worldwide – on key attraction, retention and engagement issues that are essential to the development of an effective employment deal and Total Rewards strategy.

The findings from this research will guide employers as they chart their own course in the high-stakes race to deliver human capital programs that attract, retain and engage talent critical to their future success.

Talent on the move puts value at risk

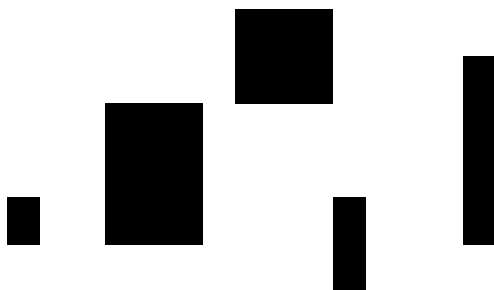
In today's shifting workplace, technology is disrupting jobs and labor markets. Almost 70% of respondents to a survey conducted by the World Economic Forum in partnership with Willis Towers Watson reported an increased use of digital media for work-related purposes over the prior three years.* Moreover, many of today's most sought-after specialties (e.g., cloud computing, mobile app design) did not even exist a decade ago. This disruption is causing a skilled worker deficit in certain areas (e.g., science, technology, engineering and mathematics [STEM] fields) and a low-skilled worker surplus in others (e.g., office support/administration, manufacturing/production). Moreover, half of organizations are either moving or plan to move away from middle-skilled jobs in favor of jobs that will require more skills – many of which are already in short supply – or jobs that will require fewer skills, possibly shrinking or eliminating the surplus of low-skilled workers.

To navigate this landscape, employers must actively monitor labor market conditions and take actions to stay ahead of changing employee expectations.

Labor activity continues to pick up

Hiring activity is accelerating globally, notwithstanding some regional experiences. Nearly half of organizations in both mature and emerging economies report that hiring has increased in the last year (with only 19% reporting a decrease in hiring activity).

Turnover is also rising globally and remains a challenge. More firms report that turnover has increased (35%) rather than decreased (19%) in the past 12 months. Thirty-seven percent of organizations in emerging economies report an increase in turnover, as do 33% of those in mature economies.



*Implications of Digital Media Survey, 2015, World Economic Forum

Employers in emerging markets find it difficult to attract employees with...



Attraction and retention challenges persist

Organizations continue to experience attraction and retention challenges globally. In particular, employers everywhere are finding it difficult to get and keep top talent.

- **Mature economies.** Mature economies are experiencing attraction and retention challenges at levels slightly higher than those seen in 2014. Twenty-eight percent of organizations report difficulties attracting employees, a five-percentage-point increase over two years. Moreover, over half of employers find it difficult to attract talent in key segments: critical-skill employees (55%), high-potential employees (54%) and top-performing employees (56%).
Twenty percent of employers in mature economies say it's difficult to keep employees, while 16% held this view in 2014. These companies are experiencing the most challenges in retaining high-potential employees (47%) and top performers (44%).
- **Emerging economies.** In emerging economies there's no significant relief in sight, with 44% of employers reporting difficulties attracting employees. The challenges of attracting top talent remain at levels similar to those reported in 2014. Sixty-six percent report difficulties attracting employees with critical skills and over three-quarters indicate that they are experiencing challenges attracting high-potential (77%) and top-performing (76%) employees.

Retention remains a challenge in emerging economies with 41% of organizations reporting difficulties keeping employees in general. Organizations in these economies also face continuing problems attracting top talent, although generally not to the same extent as in 2014. Fifty-nine percent say that it's difficult to keep critical-skill talent. Even more organizations say the same for high-potential (70%) and top-performing (65%) employees.

Understanding what employees value

Even as changes are reshaping the workplace, employees globally remain focused on the fundamentals when deciding to join or leave an organization. Employees are looking to work for organizations that offer fair and competitive base pay, opportunities for advancement and job security. While employers generally understand these priorities, their views diverge from those of employees in a few key areas.

When it comes to attracting employees, companies understand the importance of competitive base pay, career advancement opportunities and challenging work. But they overestimate the importance of their mission and values, and don't place enough emphasis on job security (Figure 1).

Employers recognize the value that employees place on competitive base pay and career advancement opportunities when deciding to stay with or leave an organization (Figure 2). However, they overlook the importance of the physical work environment and job security.

Employees are looking to work for organizations that offer fair and competitive base pay, opportunities for advancement and job security.

There's a clear disconnect between employers and employees regarding the value of job security as both an attraction and retention driver. But to compete for employees who value job security, it's essential to understand what these employees are actually seeking. Only about one in four (26%) employees who express a desire for job security are worried about losing their job (Figure 3). For other employees, job security is a proxy for financial concerns, their own ability to handle changes or an expression of employees' support for the current direction of their organization. Organizations can address employee needs in these areas without unrealistic promises of guaranteed jobs and within the framework of the modernization agenda.

Figure 1. Top global drivers of attraction

	 Attraction drivers – employer view	 Attraction drivers – employee view
1	Career advancement opportunities	Base pay/Salary
2	Base pay/Salary	Job security
3	Reputation of the organization as a great place to work	Career advancement opportunities
4	Challenging work	Challenging work
5	Job security	Opportunities to learn new skills
6	Organization's mission, vision and values	Reputation of the organization as a great place to work
7	Opportunities to learn new skills	Health care and wellness benefits

Figure 2. Top global drivers of retention


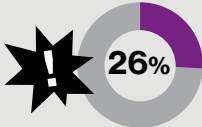
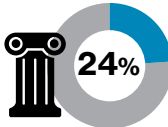
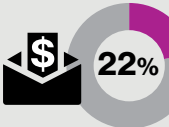
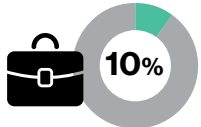
	 Retention drivers – employer view	 Retention drivers – employee view
1	Career advancement opportunities	Base pay/Salary
2	Base pay/Salary	Career advancement opportunities
3	Relationship with supervisor/manager	Physical work environment
4	Ability to manage work-related stress	Job security
5	Opportunities to learn new skills	Ability to manage work-related stress
6	Flexible work arrangements	Relationship with supervisor/manager
7	Short-term incentives (e.g., annual bonus)	Trust/Confidence in senior leadership

Figure 3. **Job security and the modernization agenda are not irreconcilable**

Job security is a top driver of attraction and retention but can mean different things to different people.

Group	Fearful	Stable and steady	Financially concerned	Making a career of it	In a good place
	 26%	 24%	 22%	 10%	 19%
Key characteristic	Don't want to lose my job	Don't want my job to change	Don't want to lose my paycheck	In it for the long haul	I'm happy, for now
Employers can offer	Career security through training to remain relevant in the new market	Integrated performance management to help employees to adapt to changing workplace needs Alternative work arrangements to allow employees to do same tasks for more than one employer	Total Rewards programs redesigned to help employees with concerns about budgeting and financial planning	Leadership and managers who support an innovative culture Greater use of pay programs with emphasis on long-term payoffs (career management, long-term incentive pensions)	Pay for performance and skills Training for highly valued skills to remain relevant in marketplace

Note: Percentages represent those who selected job security as a driver of retention and who fall into this group.

In addition, the importance of the physical work environment for retention likely reflects the growing diversification of office arrangements in many organizations, such as open-space plans, hoteling, and more collaborative work spaces and supporting technologies. Understanding how to optimize employee work environments to provide a compelling experience is an emerging trend in the ongoing challenge to retain talent.

In addition to attracting and retaining employees, companies must focus on engaging employees in order to achieve better financial results.

Because today's employees are geographically dispersed, working longer with fewer resources, sustainable engagement requires enablement and energy in addition to traditional engagement in order to achieve maximum impact on retention and performance. Our sustainable engagement model includes the following three key components:

1. *Traditional engagement*, which refers to a willingness to give discretionary effort

Figure 4. **Top global drivers of sustainable engagement**

Sustainable engagement drivers	
1	Senior leadership
2	Clear goals and objectives
3	Supervision
4	Image and integrity
5	Workload and flexibility

2. *Enablement*, which depends on a local work environment that supports productivity and performance
3. *Energy*, which results from a healthful work environment – one that supports employees' physical, social and emotional well-being

As in 2014, the foremost driver of sustainable engagement globally is leadership (*Figure 4*).

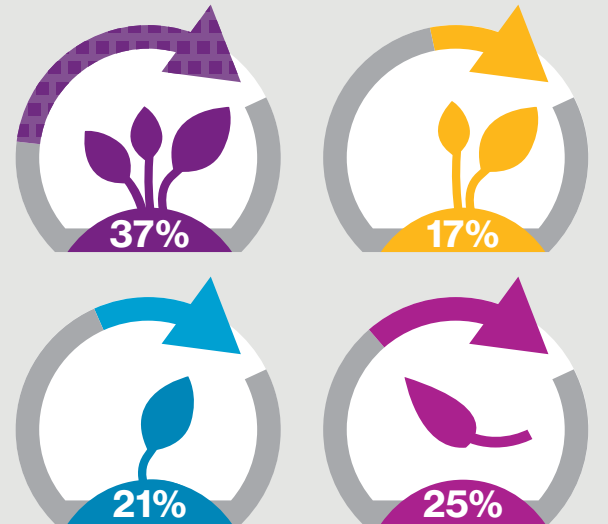
Overall, the combination of increased hiring activity, gaps in employer understanding of retention drivers and low levels of sustainable engagement creates considerable turnover risk.

How did employees score on sustainable engagement? There is considerable room for improvement as only slightly more than a third (37%) of employees globally are highly engaged, meaning they scored high on all three aspects (Figure 5). A quarter of employees globally are disengaged in 2016.

Value at risk

Overall, the combination of increased hiring activity, gaps in employer understanding of retention drivers and low levels of sustainable engagement creates considerable turnover risk. In fact, fewer than half of workers (41%) globally say they intend to stay with their employer over the next two years by choice. Roughly a third of all professionals below the senior manager level are “soft stays” who will remain with their current employer because they do not believe they can find comparable options in other organizations (Figure 6).

Figure 5. Sustainable engagement segments



- **Highly engaged:** those who score high on all three aspects of sustainable engagement
- **Unsupported:** those who are traditionally engaged but lack enablement and/or energy
- **Detached:** those who feel enabled and/or energized but lack a sense of traditional engagement
- **Disengaged:** those who score low on all three aspects of sustainable engagement

Figure 6. A significant percentage of the workforce is at risk of leaving their organization within the next two years

	Stayers	Soft stays	At risk	Leavers
Senior manager/Executive	42%	26%	18%	14%
Director/Manager/Middle manager	44%	32%	9%	15%
First-line supervisor/Team leader	43%	33%	7%	17%
Professional, nonmanagerial (including specialist/technician)	42%	32%	7%	19%
Administrative/Clerical (including sales associates and service workers)	38%	35%	7%	21%
Laborer/Manual worker (not a manager/supervisor)	40%	34%	5%	21%

Stayers – employees who prefer to remain with their current employer

Soft stays – employees who intend to remain with their current employer because they do not feel that they can find a comparable job elsewhere; however, if they could find another option they would take it

At risk – employees who prefer to remain with their current employer even if there is a comparable opportunity elsewhere but are likely to leave in the next two years

Leavers – employees who intend to leave their current employer within the next two years

New employees also represent a productivity drag on managers and other team members, adding significantly to the cost of turnover.

Actual and potential turnover among employees globally puts considerable value at risk in terms of productivity. Typically, it takes between five and nine months for employees to achieve full productivity depending on job level. Beyond this direct effect from their own reduced level of productivity during this period, new employees also represent a productivity drag on managers and other team members, adding significantly to the cost of turnover.

It's also possible to estimate the financial cost of employees at risk of turnover (Figure 7). For example, at the senior manager/executive level, the cost of turnover equals 74% of annual compensation. Given that 31% of senior-level managers are at risk of turnover, the total value at risk due to senior managers' turnover is 23% of the total annual compensation. This value varies by job level and by organization – companies farther along on the modernization journey exhibit characteristics that can lower these costs – yet in every case represents a significant level of productivity and financial value at risk.



Figure 7. The cost of turnover puts significant value at risk



Job level	Financial cost of turnover (% of annual compensation)*	% of employees at high risk of turnover**	Financial cost at risk***
Senior manager/Executive	74%	31%	23%
Professional	59%	25%	15%
Sales and customer/Client management	59%	27%	16%
Business support	48%	27%	13%

*Financial cost of turnover (FCOT) measured in our proprietary benchmark database

**% at risk of turnover taken from 2016 Global Workforce Study results

***Financial cost at risk=FCOT × % at risk of turnover

The value of delivering a relevant EVP

To address engagement and turnover issues as well as accompanying productivity risks, it's critical for employers to understand employee expectations and preferences (see sidebar to the right).

Employees are looking for employers to connect with them on a meaningful and personal level similar to how companies connect with their customers and clients. Fifty-six percent of employees report that their employer should understand them as well as they are expected to understand their customers. However, only 39% report that their employers are meeting this expectation. This percentage represents a slight decline from 2014 when 43% of employees held this view.

This employee experience is part of the value exchange at the heart of the EVP (see sidebar below). The employee experience includes employees' interactions with the company, colleagues and customers; the work environment, and Total Rewards – which together, drive employee engagement. In return for delivering a meaningful and relevant employee experience, employers expect that employees will adopt the mindset and behaviors necessary to optimize their contribution to the organization's success.



Keeping up with employees' changing expectations

How do organizations stay up to date with the shifting needs and preferences of their employees? Companies across all industries globally are developing more agile employee listening strategies that go beyond exclusive reliance on the traditional employee survey. Today, advancements in technology make possible quarterly, monthly and even daily polls along with always-on tools, exit/onboarding surveys and a range of qualitative/unstructured alternatives – for example, online collaboration platforms and social media sites.

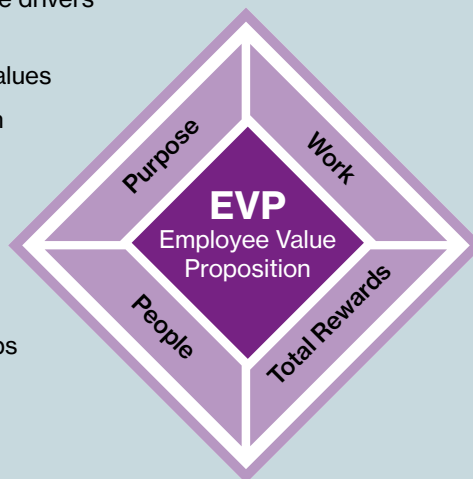
It's critical for employers to understand this broad set of solutions and how they can be best combined to form a comprehensive listening strategy. For a more in-depth discussion, please see ["From survey event to listening strategy: capture the value of employee opinion."](#)

Ensure the EVP articulates what the company delivers and expects in return

Structure the EVP to address employee drivers

- Company mission, vision and values
- Company image and reputation

- Leadership
- Manager/employee relationships
- Peer relationships

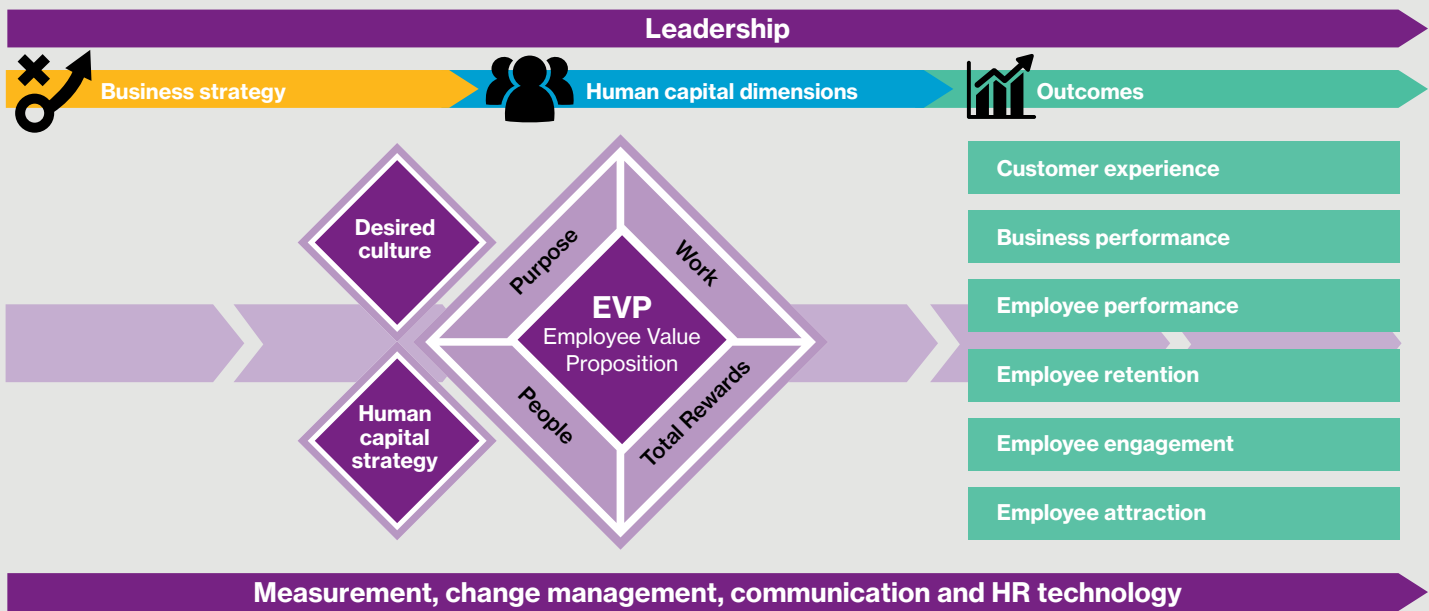


- Job content
- Work environment
- Tools and resources to do work

- Foundational rewards
- Performance-based rewards and recognition
- Career and environmental rewards

Figure 8. **Modernizing your EVP should be accomplished in the context of an overarching human capital framework**

Organizations that align their human capital dimensions to business strategy achieve better outcomes



Only a quarter of employees report that their organizations have matured to the stage of best practice companies with highly evolved EVPs that are aligned with what they stand for in the marketplace and differentiated from those of other companies with whom they compete for talent. Employees of these EVP best practice companies tend to be among the most highly engaged.

To provide a framework for thinking about the elements that contribute to a modern EVP and accompanying talent and reward programs, we have developed the Willis Towers Watson Human Capital Framework (Figure 8). This framework helps leaders make decisions about the strategy, design and delivery of their programs from an integrated, holistic perspective. And it emphasizes the critical role that leaders play in ensuring human capital dimensions align with and support achievement of the company's business strategy.

The value of getting the EVP right

To win in the new world of work, employers need to redefine their approach to developing an EVP that they can offer to current employees as well as potential job candidates (the candidate value proposition or CVP). Organizations stand to capture considerable value by getting the EVP right and connecting with their employees in a meaningful way. EVP best practice companies report:

- **Better understanding of their employees.** Seventy-eight percent of EVP best practice companies report that their organization understands employees as well as employees

should understand their customers (compared with 46% of companies overall).

- **Higher levels of financial performance and sustainable engagement.** Best practice organizations with highly evolved EVPs are almost twice as likely (1.9 times) to report financial performance substantially above that of their peers and almost three times as likely (2.7 times) to say that their employees are highly engaged as organizations without a formal EVP.
- **Fewer attraction and retention difficulties.** Best practice organizations with highly evolved EVPs in mature economies report less difficulty attracting and retaining employees in general as well as top performers and employees with critical skills. Their counterparts in emerging economies report fewer difficulties getting and keeping employees for some employee groups, including top performers.

Overall, a strong EVP drives engagement, and highly engaged employees are less likely to leave their employers. In fact, 72% of highly engaged employees report that they would like to continue working for their current employer until they retire, as opposed to only 26% of the disengaged.

The investment organizations make in developing a relevant EVP and accompanying employee experience clearly delivers strong returns.

The critical role of effective leaders

An organization's leaders are ultimately accountable for both establishing and delivering on the company's EVP. Senior leaders and managers play critical roles in ensuring that the employee experience at the heart of the EVP enables the organization to connect with its employees in a meaningful way. So how do employers and employees rate their senior leaders and managers?

Senior leadership

Employees not ready to follow

Employees give their senior leaders low marks. Roughly half or fewer say that senior leaders at their organization are doing a good or very good job of growing the business (52%), managing costs (47%) or developing future leaders (39%). Among the next generation of leaders, just 46% say that senior managers are doing a good or very good job of developing future leaders.

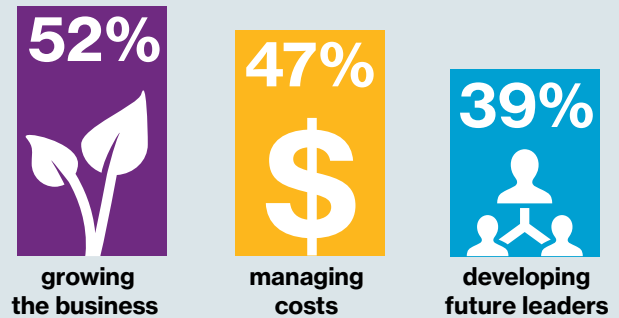
Less than half of employees report that the senior leadership in their organization has a sincere interest in employee well-being (44%) or that they have trust and confidence in the job being done by the senior leadership of their organization (48%). Only half report that they believe the information they receive from senior leadership. We conclude that many employees are not ready to follow their current leaders and do not have great confidence in the next generation of leaders.

It is essential for organizations to address shortfalls in key aspects of leadership in order to craft a meaningful EVP and relevant employee experience.

The value at stake

Employees' perception of their senior leaders is a key influencer in their decision to stay with or leave an organization. Leadership is the top driver of sustainable engagement in mature and emerging economies alike. Employees with positive perceptions of their leaders are much more likely to be highly engaged.

Employees say that **senior leaders** at their organization are doing a **good** or **very good** job of...



Time to reassess leadership competencies

Over half of employers indicate that their organizations develop leaders who will be able to meet changing business needs (64%) and hold leadership accountable for building the next generation of talent (53%). Yet given the low ratings from employees, it could be that organizations are overstating the effectiveness of their programs because they are more focused on meeting process objectives rather than the more difficult challenge of measuring results.

It may be time for employers to revisit their leadership competency models. Only around 60% indicate that their organizations use their models effectively.

What competencies should organizations be prioritizing in their models in order to develop effective leaders? Given that leadership continues to be the number one driver of sustainable engagement, employers can start by focusing on the competencies that support the drivers of employee engagement.

Our research shows that highly engaged employees are likely to give high scores to the following statements related to leadership competencies:

- I have trust and confidence in the job being done by the senior leadership of my organization.
- Senior leadership behaves consistently with the organization's core values.
- I believe the information I receive from senior leadership.
- Senior management is effective at growing the business.
- Senior management is effective at managing costs.
- Senior management is effective at developing future leaders.

Companies need to identify the drivers of sustainable engagement in their organizations, focus on defining the competencies that support those drivers and then hold leaders accountable for demonstrating the competencies that underpin effective leadership.

Make it relevant!

To develop more effective leaders: 1) build awareness within your organization of the importance of an effective leadership in delivering the EVP and driving higher levels of engagement; 2) revise your leadership competency model to focus on the skills and behaviors that affect an employee's intent to stay and his or her productivity; 3) use leadership assessment tools to identify who will make the best leaders and focus on the competencies that drive sustainable engagement.

It may be time for employers to revisit their leadership competency models. Only around 60% indicate that their organizations use their models effectively.

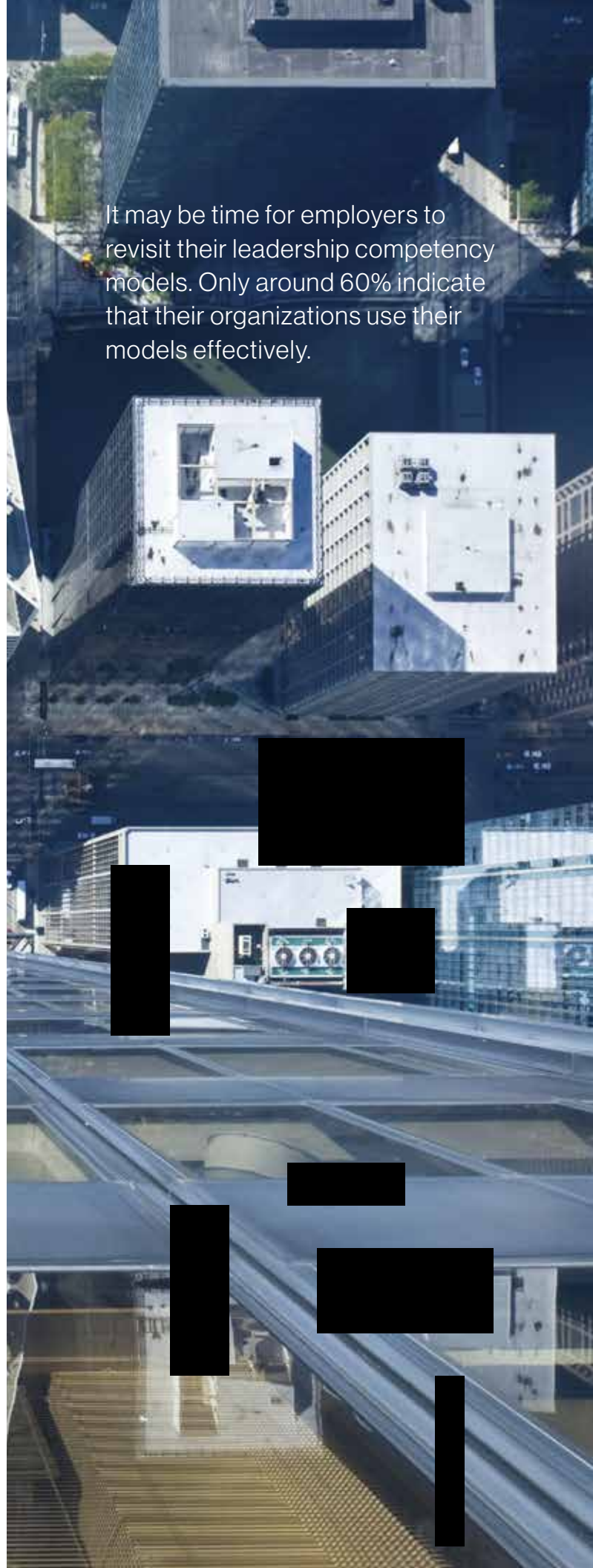
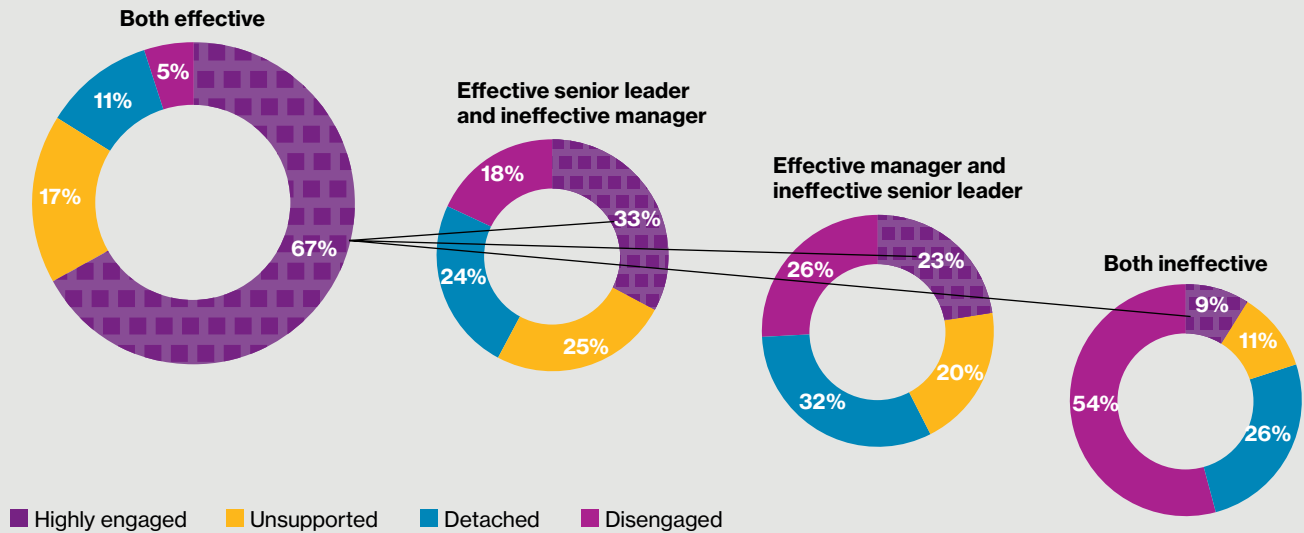


Figure 9. **The bottom line: Employees with effective senior leaders and managers are much more likely to be highly engaged**



Source: Willis Towers Watson 2016 Global Workforce Study – Global
 Note: Proportions may not sum up to 100% due to rounding.

Managers

Employees view managers more favorably than HR

Employees have a generally favorable view of their immediate manager and give him or her higher ratings than the HR organization does. While employees recognize their manager’s shortcomings in specific areas such as performance management and career advancement, this does not seem to affect their overall perception of their manager’s effectiveness. In fact, 63% say their immediate manager is effective at his or her job.

However, only 45% say that the people manager role in their organization is respected. Why? Fewer than half (46%) think their manager has enough time to handle the people aspects of the job. And employees think that managers lack skills and tools in critical areas such as performance management.

The value at stake

An employee’s relationship with his or her immediate manager is a key driver of retention and sustainable engagement.

Both supervision and leadership are drivers of sustainable engagement. However, the employees who perceive both their manager and senior leaders as effective are the most likely to be highly engaged (Figure 9). Just 9% of employees who do not think either their manager or senior leaders are effective within their organization are highly engaged. When one of them is effective that number rises by 14% (if their manager is effective) or 24% (if the senior leaders are effective). But when both are effective, the percentage of employees who are highly engaged rises to 67%.

Make it relevant!

To improve the effectiveness of your managers, ensure they: 1) have the time to do their job well, 2) listen to and treat their employees with respect, 3) have the right tools and training in areas ranging from performance management to career development, 4) offer dual career tracks to help ensure the employees you promote to managerial positions are those best suited for the role versus employees seeking management positions solely for the opportunity to enhance their compensation, 5) use formal assessments to identify the best candidates for the manager role, and 6) make sure leaders and managers are aligned so that employees see both of them working together effectively.

How can employers enhance their EVP to remain relevant?

Step 1: Start with effective recruiting, onboarding and staffing.

Eighty-three percent of best practice organizations with a highly evolved EVP support the full employee life cycle, including recruiting and onboarding, while only 9% of organizations without a formal EVP do so.

HR software – specifically for talent assessment and onboarding – can help organizations ensure they recruit the right candidates and that new hires become fully productive faster. The vast majority of employers (70%) say that they currently have recruiting and onboarding software in place, and 20% plan to acquire this software in the next year or two.

However, employers can improve their use of software and online resources overall.

- **Develop a skills inventory.** Only 33% of employers say they maintain an inventory of employee skills to help match people to roles and assignments. An inventory of employee skills and identification of skill gaps can help employers ensure they recruit, hire and staff the right talent.
- **Use social media for brand building.** While employers are using social media to find candidates by posting jobs to sites such as LinkedIn, fewer than half (46%) report that they post content (other than job ads) to build the employer brand. By posting content about their brand on social media, organizations can raise the visibility of their culture and employee experience among high-value candidates.

Step 2: Focus on core practices and what matters most to employees.

The drivers of attraction, retention and sustainable engagement should be top of mind as employers look to modernize and improve their EVP. Our survey findings reveal employee and employer perspectives on the following key drivers and evolving best practices.

Base pay

Various factors contribute to the underlying pressure on base pay.

- Many employees are dealing with financial concerns that can distract from work and negatively affect productivity. Almost half of employees (49%) say that they often worry about their current financial state, and 53% report that they often worry about their future financial state.
- There's a growing expectation of openness and transparency regarding pay and pay equity issues. Legislative or disclosure changes in many countries, including the U.K. and U.S., are likely to increase the need for pay transparency.
- It's becoming easier for employees to gather salary information from online sources. Many employees have taken advantage of the opportunity to research online what people with jobs similar to theirs get paid at other firms (one in six in the last month).
- Despite the high prevalence of eligibility for other forms of rewards, for most employees, base pay remains the largest slice of the Total Rewards pie and is critical to meeting their fundamental financial needs.

50% of employees think they are paid fairly, but **one in five** disagrees.



How do employees view current base pay practices? Employees tend to think they are paid fairly relative to people holding similar jobs in other organizations – *however, the numbers are weak.*

- Half (50%) think they are paid fairly, but one in five disagrees.
- Only three out of five employees (62%) indicate that they understand how base pay is determined.
- Employees don't have a good understanding of relative pay. Only about half say they understand how their total compensation compares with that of the typical employee in their organization (47%) and with the typical employee in other companies like theirs who holds a similar job (44%).

Employers tend to hold managers at least partly responsible for the low effectiveness of base pay, with only 51% saying that their managers execute base pay well. And almost one in five (18%) disagrees with the statement that managers are effective at fairly reflecting performance in pay decisions, indicating a need for improved pay equity.

Employers also seem to recognize that program design could be an issue. Over 50% have already taken action, or are planning or considering taking action to change the criteria for base pay increases. But are they paying sufficient attention to the right factors?

The value at stake

Base pay continues to be the top driver of attraction and retention for employees in both mature and emerging economies. In addition, the perception of fairness in base pay is linked to an employee's engagement, which, in turn, drives productivity and financial performance.

Over half of employees who say they are paid fairly compared with people in other companies with similar jobs and compared with people in their organization with similar jobs are highly engaged.

Managers take a broader view of merit pay criteria

Our 2015 Talent Management and Rewards Pulse Surveys revealed HR's perception that managers are taking a more holistic and forward-looking perspective on the factors used to make merit increase decisions than is called for in their company's plan design. In this year's research, managers confirmed that they are equally likely to give weight to employee potential, skills required for future success, achievement of team goals, internal equity and market competitiveness. However, manager and employer perspectives differ in the following areas:

- Almost 60% of managers say *perceived potential* affects merit increase decisions versus 41% of HR professionals who say it should.
- 63% of managers say *possession of skills critical to future success of the organization's business model* affects merit increase decisions versus 46% of HR professionals who say it should.

Employers may be underemphasizing the criteria critical to the future growth of the business and rewarding past performance instead.

- 66% of managers say *achievement of team goals* affects merit increase decisions versus 49% of HR professionals who say it should.
- Managers are also more concerned than HR professionals about *internal equity* (52% versus 42%) and *market competitiveness* (55% versus 48%) in making merit increase decisions.

Seventy-two percent of employers say that an employee's final year-end rating should be considered in making merit increase decisions in contrast to just 63% of managers who say it does affect their decisions. In fact, only half of managers report that formal performance ratings are effective at driving higher levels of performance among their direct reports.

A clear disconnect exists between how managers are currently making reward decisions, the program design, and the tools and processes provided by HR. Employers may be underemphasizing the criteria critical to the future growth of the business and rewarding past performance instead.

Employers need to address internal pay equity

Only 51% of employees believe they are paid fairly compared with others in their organization in similar roles; this isn't surprising given that only 60% of organizations have a formal process in place to ensure fairness in compensation distribution. Consequently, employers have significant room for improvement in this area.

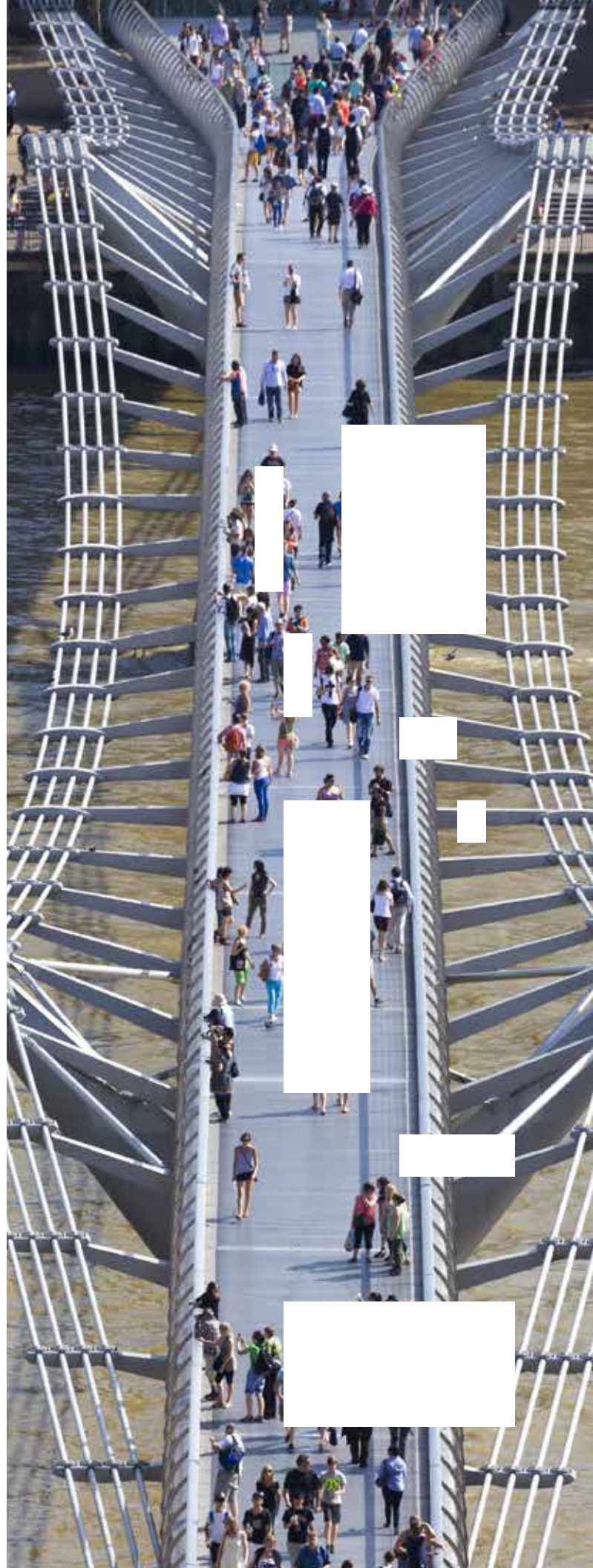
Make it relevant!

To modernize your base pay practices: 1) adopt a more holistic approach to making merit increase decisions that assesses not only an individual's past performance, but also future potential and ability to contribute to a team; 2) conduct a pay equity analysis and develop an action plan to address pay equity issues; and 3) improve communications in the area of rewards and base pay to increase transparency and enhance the perception of fairness. Using a multichannel approach, target communications about base pay policies to different workforce segments.

Pay for performance

To ensure that base pay and incentive compensation becomes a valuable component of the EVP, employers need to address shortfalls in key areas, especially those related to pay for performance:

- Only 40% of companies think base salary increases are effective at driving higher individual performance. Managers hold a similar view. Fewer than half (48%) say that annual base salary increases are effective at driving higher levels of performance among their direct reports. However, this figure increases to 51% among managers who spend seven or more hours per employee on performance management, compared with only 37% for managers who spend two hours or less per employee. The time managers invest in performance management activities appears to influence their perception of the effectiveness of base pay increases.
- Slightly more than half (55%) of employers report that base salary increases are effective at differentiating pay based on individual performance. And only 49% of managers say that annual base salary increases are effective at differentiating pay based on performance among their direct reports. This figure rises to 54% among managers who spend seven or more hours per employee on performance management, compared with 36% for those who spend two hours or less. Regardless, there is still significant room to improve the effectiveness of base pay salary increases when it comes to differentiating pay based on individual performance.
- Looking at bonuses, only one-half of companies (50%) and 52% of managers think that short-term incentive programs are effective at driving higher individual performance. And only 52% of both groups think that short-term incentive programs are effective at differentiating pay based on individual performance.
- As far as employees are concerned, less than half (45%) say there is a clear link between their performance and their pay; only 62% say they understand how their base pay is determined, and barely more than half (54%) understand how their bonus is determined.



These findings on the lack of pay-for-performance differentiation are supported by this year's data on the downside and upside of bonus awards based on performance. While employees who partially met expectations saw their bonus award cut in half relative to target, the very best performers (the roughly top 10% who far exceeded expectations) received bonuses that only exceeded target by 20%. Clearly, there is an opportunity to improve the execution of pay-for-performance promises.

The value at stake

Pay-for-performance programs customized for critical workforce segments provide a source of competitive advantage. These programs form a critical component of a highly evolved EVP, essential to attracting, retaining and engaging top talent.

Make it relevant!

To improve the effectiveness of your pay-for-performance program: 1) determine the performance dimensions (e.g., results, potential, behaviors, culture) to be rewarded by talent segment; 2) choose the right combination of reward vehicles (this may involve broadening the scope of reward programs to include components such as career management and paid time off); and 3) ensure all leaders and managers engage in an ongoing dialogue with employees on performance.

While employees who **partially met** expectations saw their **bonus award cut in half** relative to target, the very **best performers** (the roughly top 10% who far exceeded expectations) received bonuses that only **exceeded target by 20%**.



Performance management

Over two-thirds (67%) of employers say that the performance management process in their organization is effective at driving high performance across the workforce.

But employees disagree and give employers mediocre ratings on key aspects of performance management.

Program effectiveness

In many cases, performance management reviews have become simply a compliance exercise with little impact on future results, prompting employees to question the purpose of performance management.

Fewer than half (48%) of employees report that performance reviews have helped improve their performance. And barely one-half (52%) think their performance was accurately evaluated in their most recent review. As noted above, pay-for-performance elements fall short, with only 45% of employees saying there is a clear link between their work performance and pay. And fewer than half (46%) indicate that high performers are rewarded for their performance.

As already indicated, fairness is an issue for many employees. Only 55% of employers report that their organization has a formal process to ensure there is no bias or inconsistency in performance reviews. In the new world of work, where fairness and transparency are high priorities, this figure should be much closer to 100%.

Communication

For performance management to be effective, employees must understand the process. Yet only half (50%) say their organization does a good job of explaining the performance management process. Effective performance management relies on a continuous discussion-based process that involves providing feedback in a nonjudgmental way and having focused conversations on the type of performance – including fulfillment of accountabilities, possession of necessary skills and demonstration of desired behaviors – required to increase business impact.

Employees who find the performance management process effective are more likely to be highly engaged.

▪ **Manager's role**

For many employees, their poor perception of performance management is due to a lack of manager capacity and capability. Among employees not reporting that their performance reviews helped improve their performance, over a fifth say that their managers do not have the time (20%) or skills (23%) to do performance management well. And employees who did find their performance reviews helpful indicate that their manager having the necessary skills is the leading facilitator of performance management.

Poorly equipped, time-pressed managers are less likely to provide helpful feedback to their direct reports. Among employees who did not indicate that their performance reviews were effective in helping improve performance, over a third (34%) cite a lack of effective feedback as a barrier to their performance management experience. It's not surprising then that only 44% of employees report that their manager coaches them to improve their performance.

The value at stake

Employees who find the performance management process effective are more likely to be highly engaged. Over half of those (58%) who say that their performance review has helped them improve their performance are highly engaged versus 9% who are disengaged. Moreover, 55% of employees who indicate that their performance was accurately evaluated in their last review are highly engaged.

Employers take action to improve performance management

Only 51% of employers say that performance management is effective at creating a positive employee experience. But rather than scrapping the performance management process altogether, most employers are taking actions to improve their existing process.

Some of these actions target areas where employers perceive their managers to be ineffective:

- **Coaching and feedback.** Only 35% of employers say their managers are effective at giving employees regular coaching and feedback on their performance. To improve this situation, a majority of employers have already taken action (33%), or are planning (23%) or considering taking action (24%) to increase frequency and improve the quality of performance conversations/dialogues between manager and employee.
- **Use of software.** Employers give managers low scores on the use of software in the performance management process. For example, only 38% say managers are effective at utilizing software to facilitate continuous feedback. This may have contributed to employers' decision to implement new enabling technology such as mobile platforms that facilitate continuous feedback. Over half of employers have either taken action (15%), or are planning (16%) or considering taking action (21%) to implement new technology in this area.

Employers are also taking action to align themselves with managers' more forward-looking perspectives on performance management. Twenty-eight percent have already taken action, and 45% are planning (20%) or considering taking action (25%) to use performance management to evaluate future potential.

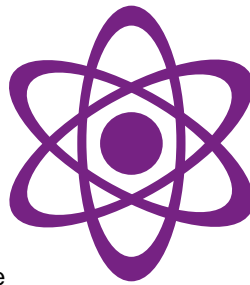
Ensure managers focus on high-value activities

To make the most of these efforts, employers need to ensure that managers spend their time on the activities that will most help improve performance.

Our findings reveal that in a typical year, 53% of managers report spending four hours or less per employee on performance management. Twenty-two percent spend five or six hours per employee. Among employees who did not agree that their performance reviews helped them improve their performance, 20% think their managers lack the time to devote to effective performance management. In many cases, managers are spending too much time on administrative activities. To improve performance management, organizations need to find ways to reduce the amount of time managers spend completing forms. Even among managers who spend less than two hours per direct report on performance management, managers are still more likely to report spending too much time on forms.

Managing performance in today's talent ecosystem

Are we expecting too much from performance management? Performance management is expected to ensure a logical cascade and alignment of goals, enable meaningful links between pay and performance, serve as a feedback mechanism, enable robust career development and support talent/succession planning. How can one process legitimately be expected to do all these things well?





Unsurprisingly, performance management fails to serve all these masters more often than it succeeds. We believe the answer is to move away from a single, “uber” process to a series of bespoke, fit-for-purpose micro-processes. Specifically:

- **Defining and rewarding the right contribution today.** Setting and cascading goals that are aligned with the key performance drivers of the business and appropriately aligning those goals to specific elements of compensation (i.e., creating the pay-for-performance linkage).
- **Supporting continuous feedback and coaching.** In our fast-paced, often project-driven, business environment, quality feedback can come from anywhere and anytime, and should not be restricted by the cadence of the performance cycle. A technology-enabled bespoke process that supports the ongoing provision of feedback and coaching in a safe, nonjudgmental manner is critical for employee growth.
- **Future-focused career growth and development.** As careers get redefined in the new world of work, it becomes imperative that employees know their strengths, what future skills they need, how their interests align with the organization's changing needs and so on. Career development should be owned by the individual and supported by many, not just the manager.

These three distinctive micro-processes are meant to work together as part of the overall talent ecosystem ensuring efficiency of resources, effectiveness of output and strategic impact.

Figure 10. Managers say they spend too much time filling in forms and participating in calibration sessions and not enough time on collecting feedback, setting goals and discussing individual performance

		Time spent per employee				
		2 hours or less	3 or 4 hours	5 or 6 hours	7 or 8 hours	9 or more hours
 <p>The amount of time spent completing forms</p>	Too little time	12%	4%	6%	6%	4%
	About right	67%	72%	69%	68%	64%
	Too much time	21%	23%	24%	26%	32%
	Net	9%	19%	18%	19%	27%
 <p>The amount of time spent in ongoing conversations with employees about their individual performance, helping employees set performance goals or objectives and collecting feedback from colleagues</p>	Too little time	38%	34%	30%	27%	27%

In regard to higher-value activities such as collecting feedback, having ongoing conversations with employees or helping employees set goals, the percentage of managers who say they spend too little time on these activities drops by 11 percentage points for those who spend seven or eight hours per direct report on performance management compared with those who spend fewer than two hours (Figure 10).

assessment (make certain that your managers' efforts are focused on coaching employees to achieve their fullest potential); 4) ensure that your managers have adequate training on how to effectively execute their performance management accountabilities, e.g., providing feedback and coaching; and 5) provide training for managers on the use of performance management software to help minimize time spent on completing forms.

Make it relevant!

To develop a performance management program that will deliver business impact: 1) establish cascading goals aligned with key business performance drivers and link goals to pay-for-performance programs; 2) consider future potential as well as past performance in your reviews – taking a longer-term, more holistic view of performance; 3) use a continuous discussion-based process instead of a static year-end

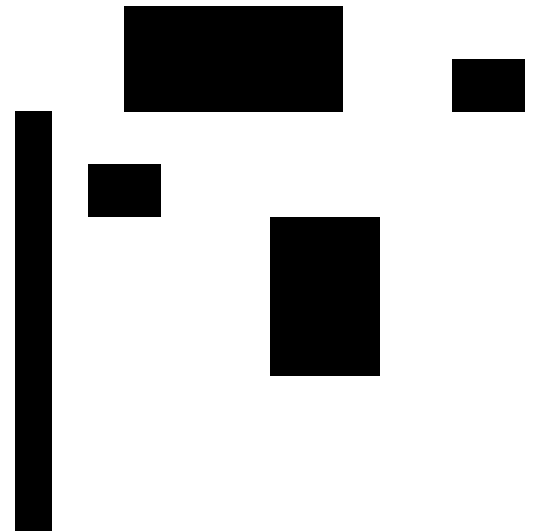
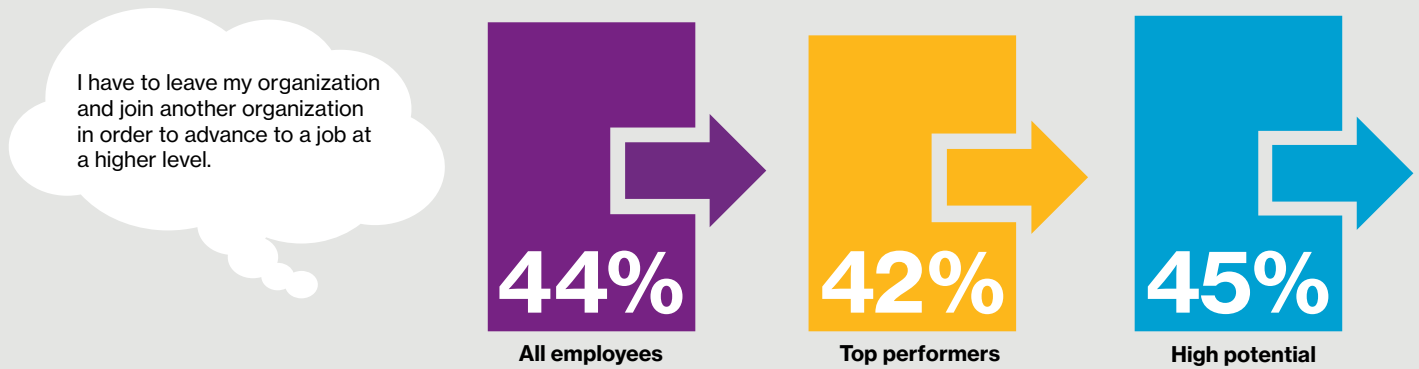


Figure 11. Close to one-half of high-potential employees think they need to leave their organizations in order to advance their careers



Career management

Employees give career management a thumbs down

Career advancement opportunities are among the top three drivers of attraction and retention globally. Yet over half of employees (54%) say that career advancement opportunities have remained the same over the past 12 months.

Only 43% of employees think that their organization does a good job of providing advancement opportunities. In fact, over 40% of employees think they need to leave their organization to advance their careers (Figure 11).

Employees cite two key barriers in this area: ineffective supervisors and poor use of technology.

- **Supervisors.** Eleven percent of employees report that they did not have a career development discussion with their immediate supervisor in the past year. And only 38% report that their immediate supervisor helps with career planning and decisions.
- **Technology.** Only 47% of employees indicate that their company makes effective use of technology to help them advance their careers.

The value at stake

Effective career management is a key driver of attraction, retention and engagement. Of employees who say that their organization does a good job of providing opportunities for advancement, 61% are highly engaged, while only 9% are disengaged. Of the employees who indicate that their organization provides career planning tools and resources that are helpful, three in five are highly engaged and a mere 9% are disengaged.

Employers understand issues but investment falls short

Overall, almost 70% of employers say their career development processes are effective at providing traditional career advancement opportunities to employees (e.g., vertical moves/promotions, lateral moves). But meaningful career management in the new world of work requires a focus on the employee experience and skills development versus jobs and levels.

Employers recognize their shortcomings in key areas:

- **Technology.** Only 37% indicate their organization is effective at using technology to provide employees access to career management tools and resources. Less than half (49%) report that their organization is effective at using technology to provide employees access to employee learning and development programs.
- **Managers.** Only 39% of employers say their managers are effective at identifying development opportunities. And a mere 30% report that their managers are effective at conducting career development discussions.
- **Nontraditional advancement opportunities.** Only half say their organization's career development processes are effective at positioning career growth and movement opportunities to enhance skills and gain new experiences (e.g., special assignments, across or outside the organization).

Moreover, employers are not adequately investing in essential areas. Few say that their components of career planning and growth include the following: 1) defined lateral career paths (37%), 2) emphasis on dual career paths for people managers (33%), and 3) integration with technology systems such as HRIS (human resource information systems) and employee portals (35%) and employee self-service tools (29%).

By increasing requirements for some jobs and lowering requirements for others, organizations are eliminating opportunities in the middle and reducing the possibilities for traditional career advancement within the organization.

In addition, going forward, technology will have a greater impact on how employers design jobs. Seventeen percent of employers say they are changing the way they design jobs so jobs can be done by employees with lower skills, and 33% expect to do so in the next three years. Twenty percent say they are changing the way they design jobs so jobs can be done by employees with more skills, and 30% expect to do so within three years. It is critical for organizations to monitor this trend to better understand how this might impact career advancement opportunities – for example, a greater focus on career experiences and job expansion over promotion through a series of levels. By increasing requirements for some jobs and lowering requirements for others, organizations are eliminating opportunities in the middle and reducing the possibilities for traditional career advancement within the organization.

Finally, it's important for employers to ensure that career management is integrated in other aspects of talent management and reward programs – for example, career discussions should be a key part of performance management, and training opportunities and mentoring programs should be an integral part of Total Rewards.

Make it relevant!

To modernize your approach to career management: 1) audit your baseline job architecture for relevance to the organization and alignment with your talent strategy; 2) ensure that your managers are trained to have effective career planning discussions (even in low-growth environments where it may be difficult to provide career opportunities for all, it's essential for managers to help employees understand and appreciate all of the opportunities that do exist); 3) invest in technology to provide managers and employees with career management tools and career development programs; 4) offer employees lateral career paths, dual career paths and nontraditional advancement opportunities such as special assignments, skill-building experiences and secondments; and 5) look for ways to design jobs that not only capture the changing nature of work but also can facilitate skill growth and career development for employees.



Modernization starts with a more relevant value exchange

Success in the new world of work requires a rethinking of the employer-employee relationship and the value exchange at the heart of the EVP.

While base pay may be the leading driver of attraction and retention, our findings show that a broader set of factors influences employees' decision to join and stay with a company. Employees are looking for more than a job – they expect a personalized work experience aligned with their values and preferences. The scope of the work experience encompasses all employee interactions with customers, nonemployee talent, other employees, and managers and leaders, and also includes the physical work environment and Total Rewards as well as supporting tools and resources.

By creating more relevant employee experiences, companies will be able to connect with employees on a deeper level. This requires adopting a mindset that prioritizes the following elements.

- **Senior leaders and managers.** Senior leaders are ultimately accountable for delivering the EVP and accompanying employee experience. To achieve this objective, they must prioritize building trust-based relationships with their employees and developing the next generation of leaders by focusing on the leadership competencies that both support business objectives and drive sustainable engagement within their organizations. In addition, senior leaders must ensure that managers have the aptitude as well as the training, resources and time necessary to fulfill their critical role in the organization. The manager is also a leader but affects employees in different ways than senior leaders or executives (see sidebar, page 23).

Employees are looking for more than a job — they expect a personalized work experience aligned with their values and preferences.

- **Transparency.** Transparency in all aspects of the work experience from base pay policies to performance reviews to career advancement opportunities promotes a sense of fairness and openness that is a growing employee expectation. Moreover, a lack of clear information about the organization and its policies may prompt some employees to turn to less reliable external sources of information.
- **Flexibility.** In an environment where employees have a wider range of work options, it's essential to offer alternative career paths (e.g., lateral or dual career paths) and nontraditional opportunities for skill development such as special assignments. Flexibility also involves providing employees with online training and development resources they can access as their schedule permits. In addition, it's critical for employers to be open to flexible work arrangements in terms of where and how work gets done.
- **Performance management.** Employers need to adopt a more holistic view of performance. It's essential for companies to define the type of performance (e.g., individual versus team) they are measuring and rewarding, and to determine how this might differ by employee segment. Individual performance goals should support strategic business priorities and link to specific elements of compensation, thus creating a pay-for-performance connection. Finally, to ensure the right performance is always top of mind, employers should engage in an ongoing performance dialogue with employees.
- **Pay for performance.** As the world of work, job definitions and expectations continues to evolve, companies need to leverage improved performance management processes to deliver on their pay-for-performance promise. It's time to rethink the basis for determining increases to base salaries and to improve the differentiation in bonus awards to reflect actual performance outcomes.

What makes an effective leader?

Three key aspects contribute to overall leadership effectiveness:



Professional

The expertise and technical knowledge critical to service and product delivery



People

The people-related skills needed to engage, promote collaboration and manage a wide range of teams



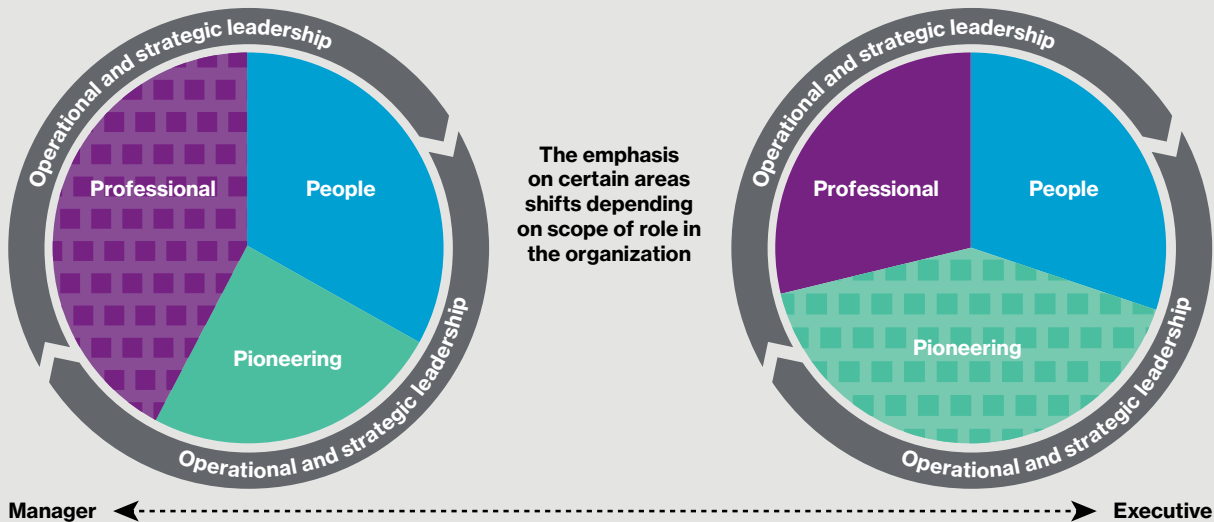
Pioneering

Enterprising and out-of-the-box thinking necessary to implement change and grow the business

Our research indicates that the emphasis on performance factors changes, depending on leadership level.

Managers tend to focus more on the **professional** side than on other levels of leadership. And the impacts they create are related more to operational activities.

Successful **executives** focus more on the **pioneering** factor – but they don't lose focus on professional or people; they are still bringing their domain expertise to bear, and industry leadership. Additionally, the people side of their role is still a key area of focus.



▪ **Technology enablement.** Technology enables organizations to transform how work gets done and, by extension, the employee experience. The increased use of digital media is changing employees' expectations about how they can connect and collaborate at work.* Smart companies are also investing in HR software in areas ranging from onboarding to talent and compensation management in order to improve the employee experience.

Employers stand to realize significant business value by creating work experiences enabling them to connect with employees in both traditional and alternative work

arrangements in a more relevant way. Not only will companies be better equipped to attract new employees, but also they will be better able to keep employees highly engaged and drive behaviors critical to achieving their desired business outcomes. This approach will reduce the value at risk as fewer employees will have one foot out the door.

In the new world of work, employers face a stark choice: modernize the value exchange that serves as the basis for their EVP or risk irrelevance. A strong EVP, including a meaningful employee experience, will go a long way toward reducing turnover, improving engagement levels and increasing productivity as well as financial performance.

*"Digital Media and Society: Implications in a Hyperconnected Era," World Economic Forum in Collaboration with Willis Towers Watson, January 2016. http://www3.weforum.org/docs/WEFUSA_DigitalMediaAndSociety_Report2016.pdf

About the studies

The **Willis Towers Watson Global Talent Management and Rewards Study** was fielded from April to June 2016 in 29 countries. It includes responses from over 2,000 participating organizations representing a workforce population of almost 21 million employees worldwide. The participants represent a wide range of industries and geographic regions.

The **Willis Towers Watson Global Workforce Study** covers more than 31,000 employees selected from research panels that represent the populations of full-time employees working in large and midsize organizations across a range of industries in 29 countries around the world. It was fielded during April and May 2016.

For more information, please visit willistowerswatson.com.

Final participation results

Global Workforce Study (GWS): More than 31,000 responses across 29 markets

Global Talent Management and Rewards Study (TM&R): A total of 2,004 organizations across 29 markets

North America	GWS	TM&R
Canada	✓	✓
U.S.	✓	✓

Latin America	GWS	TM&R
Argentina	✓	✓
Brazil	✓	✓
Chile	✓	✓
Mexico	✓	✓

TM&R includes one submission from Ecuador

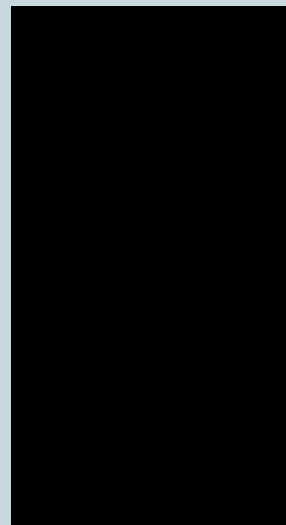
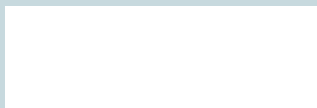
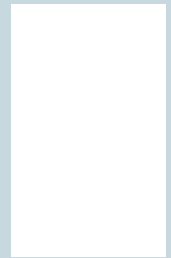
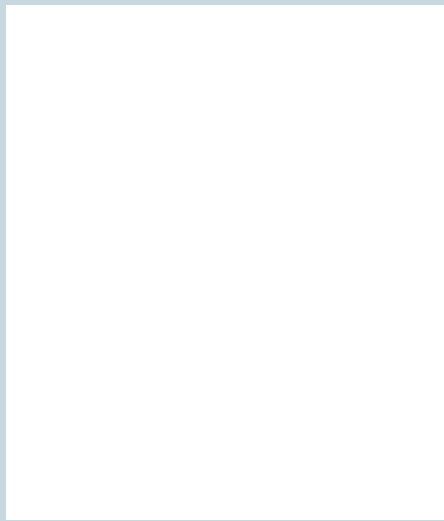
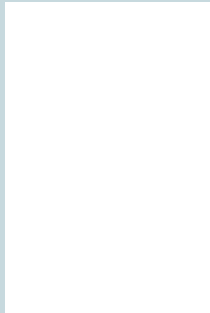
EMEA	GWS	TM&R
Belgium	✓	✓
France	✓	✓
Germany	✓	✓
Ireland	✓	✓
Italy	✓	✓
Netherlands	✓	✓
Saudia Arabia		
Spain	✓	✓
Sweden*		✓
Switzerland	✓	✓
Turkey	✓	✓
U.A.E.	✓	✓
U.K.	✓	✓

TM&R includes submissions from other EMEA countries, including Saudi Arabia (22)

APAC	GWS	TM&R
Australia	✓	
China	✓	✓
Hong Kong	✓	✓
India	✓	✓
Indonesia	✓	✓
Japan	✓	✓
Korea	✓	✓
Malaysia	✓	✓
Phillipines	✓	✓
Singapore	✓	✓
Taiwan	✓	✓
Thailand*		✓

TM&R includes submissions from Australia (1) and Myanmar (1)

*Did not field GWS; GWS fielded in all other countries listed, plus Australia and Saudia Arabia



About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 39,000 employees in more than 120 countries. We design and deliver solutions that manage risk, optimize benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas – the dynamic formula that drives business performance. Together, we unlock potential. Learn more at willistowerswatson.com.