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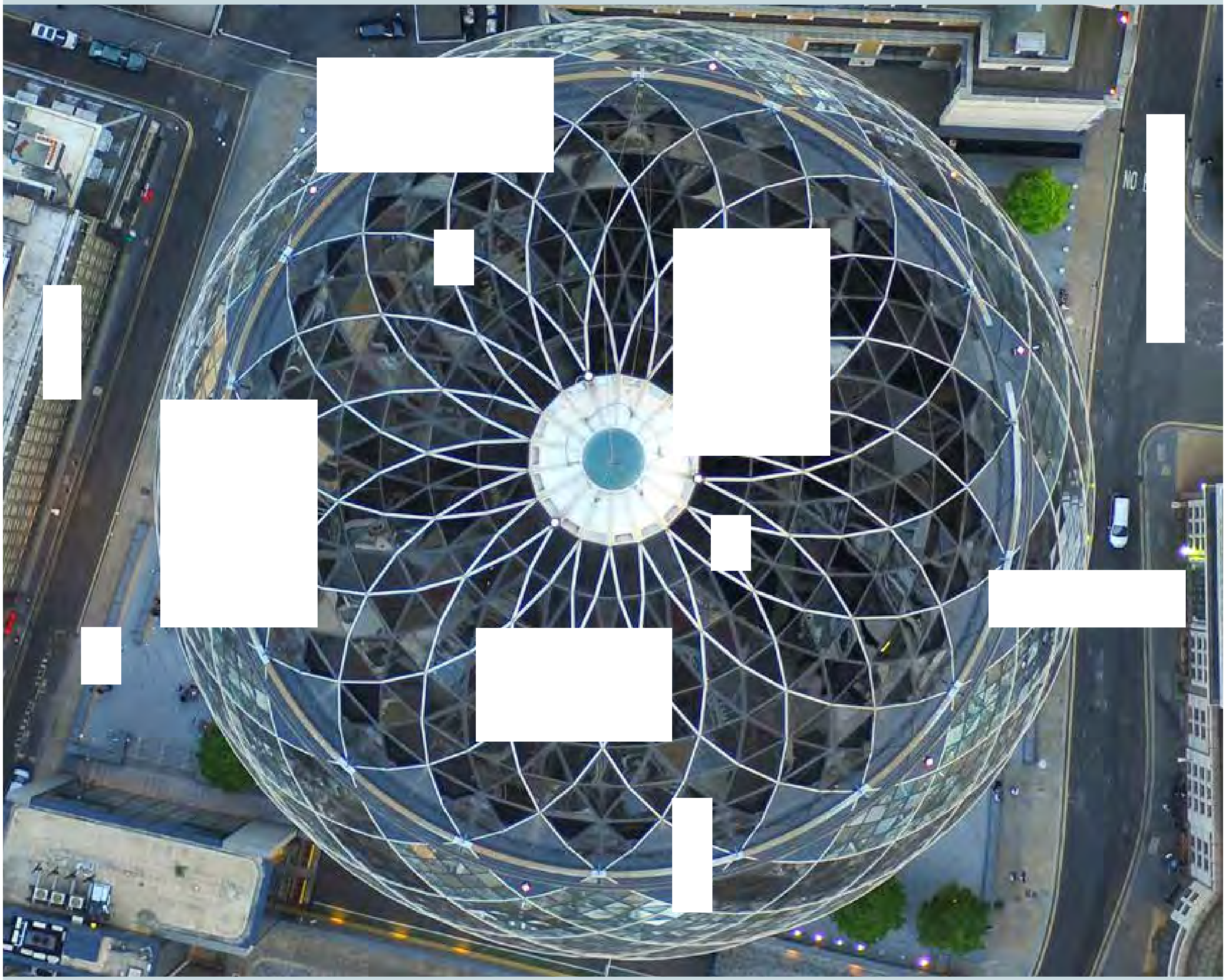

Under pressure to remain relevant, employers look to modernize the employee value proposition

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

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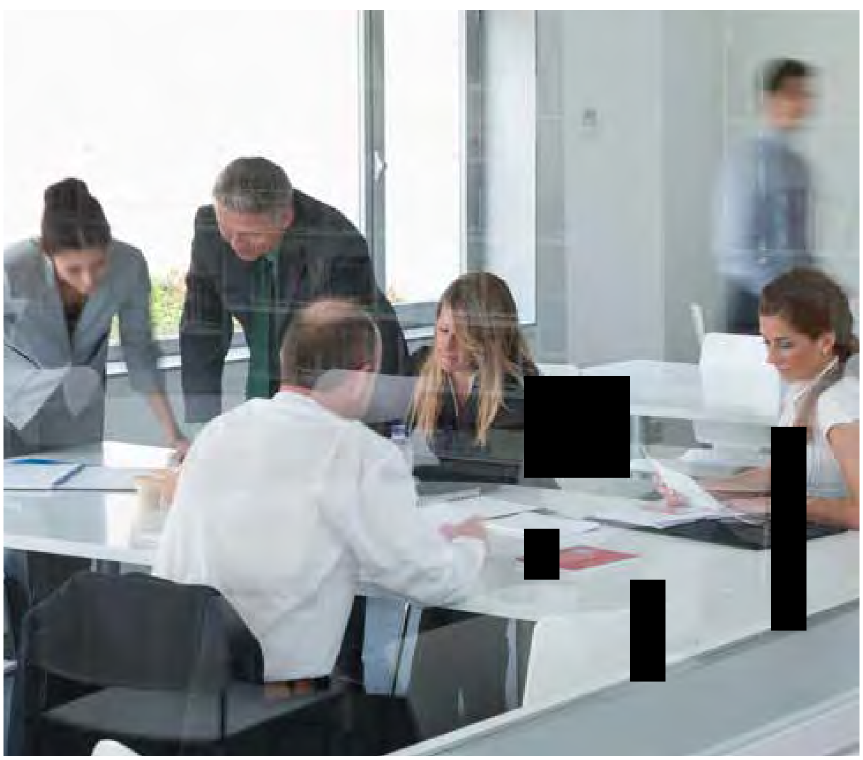


In the new world of work, employers and employees face pressures to remain relevant. The rapid rise of technology allows organizations to deconstruct and disperse work across a global virtual workplace, reshaping the workplace and redefining how and by whom work gets done. In some organizations, the 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.

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.

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

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
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).*

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

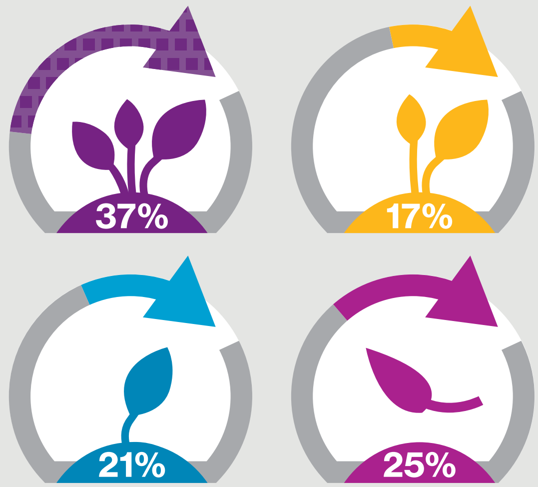
Overall, the combination of increased hiring activity, gaps in employer understanding of retention drivers and low levels of sustainable engagement creates considerable turnover risk.

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.

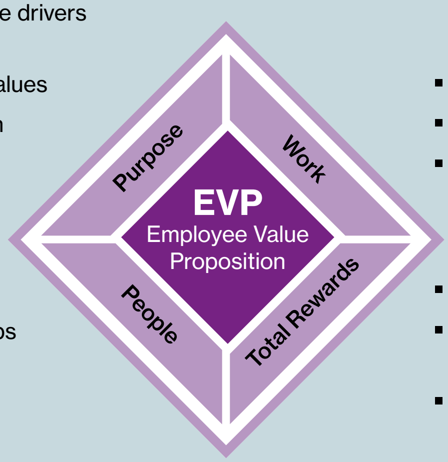
It's critical for employers to understand this broad set of solutions and how they can be best combined to form a comprehensive listening strategy. For a more in-depth discussion, please see "From survey event to listening strategy: capture the value of employee opinion."

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

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

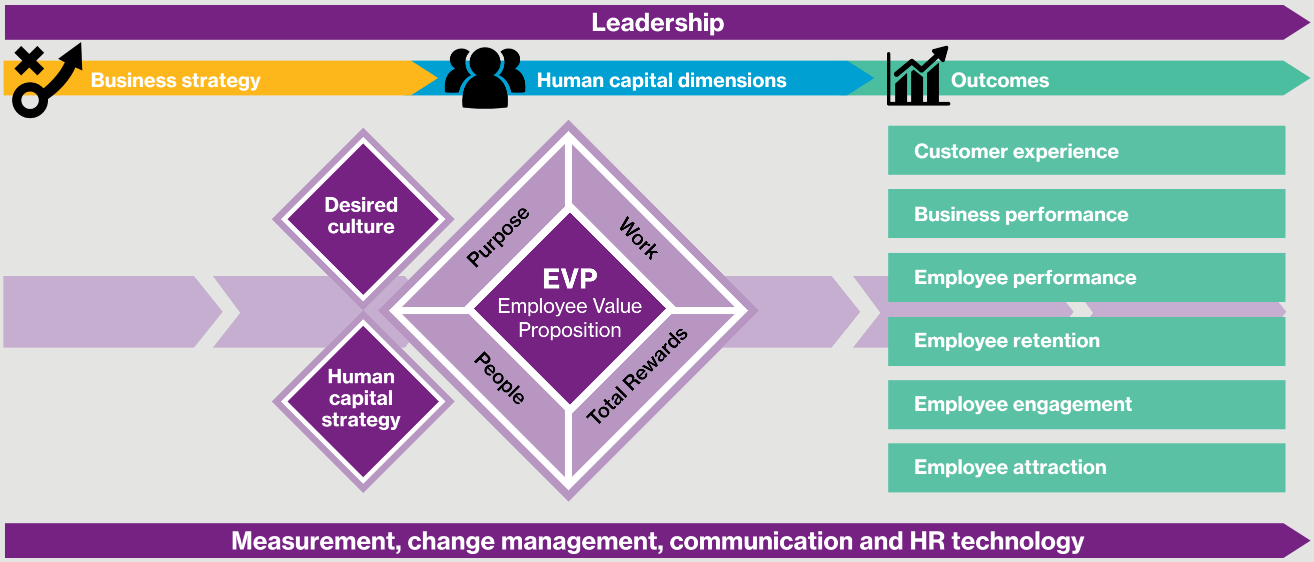


- Leadership
- Manager/employee relationships
- Peer relationships

- 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.

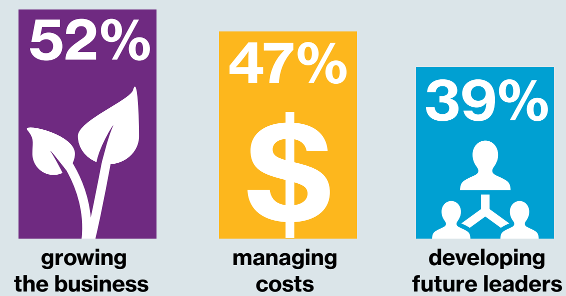
Less than half of employees report that the senior leadership in their organization has a sincere interest in employee well-being (44%) or that they have trust and confidence in the job being done by the senior leadership of their organization (48%). Only half report that they believe the information 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.

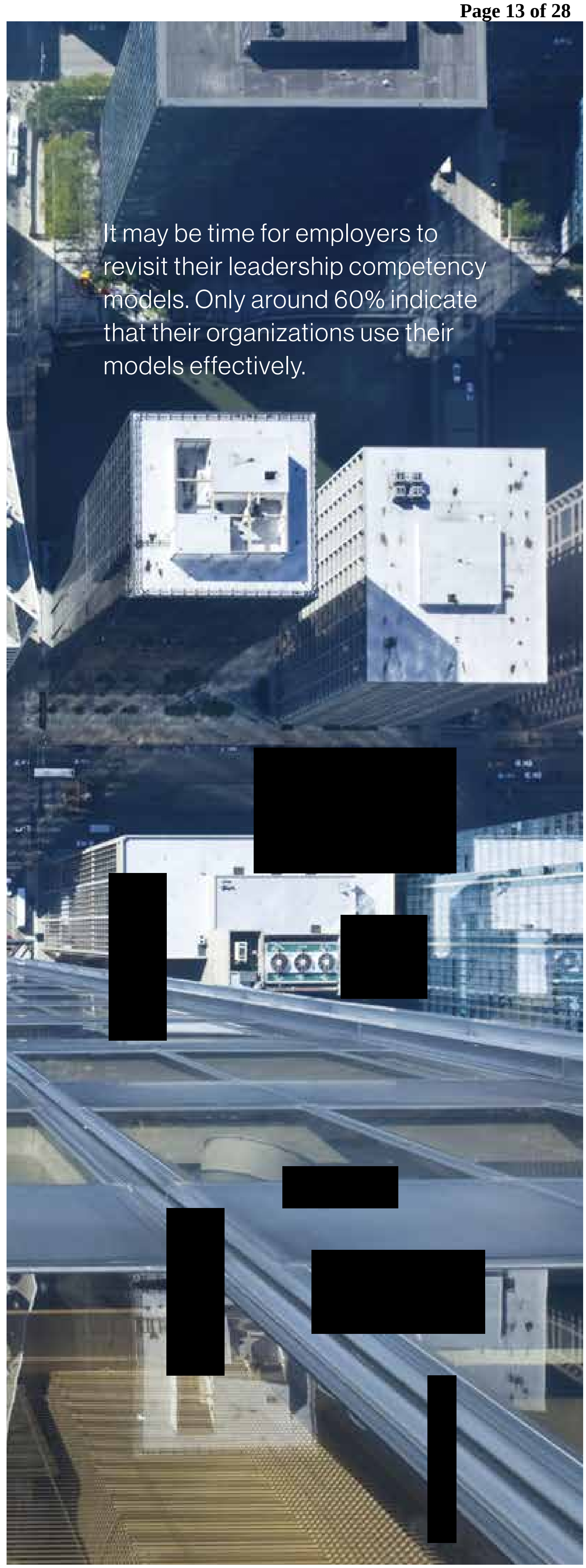
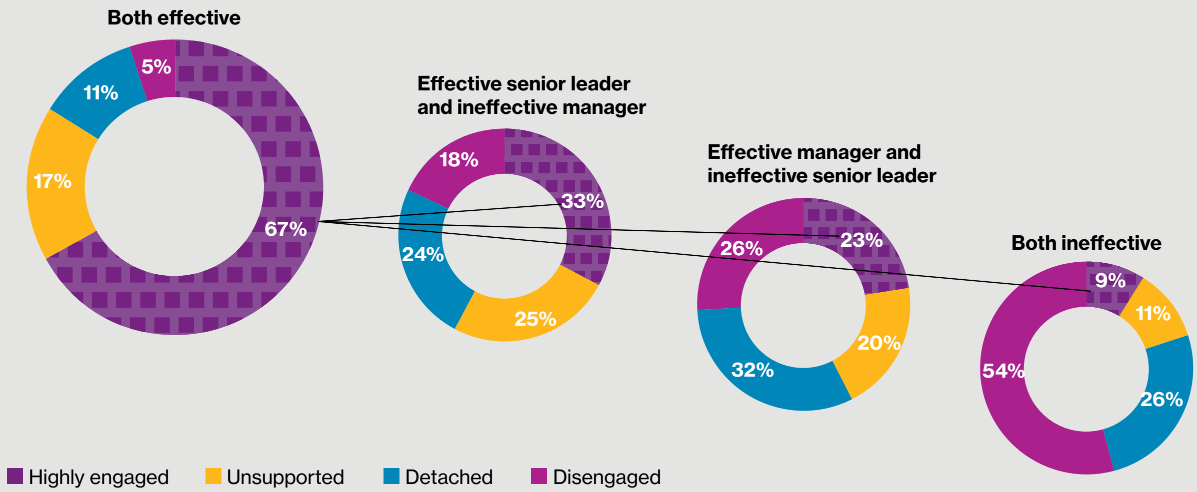


Figure 9. **The bottom line: Employees with effective senior leaders and managers are much more likely to be highly engaged**



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:

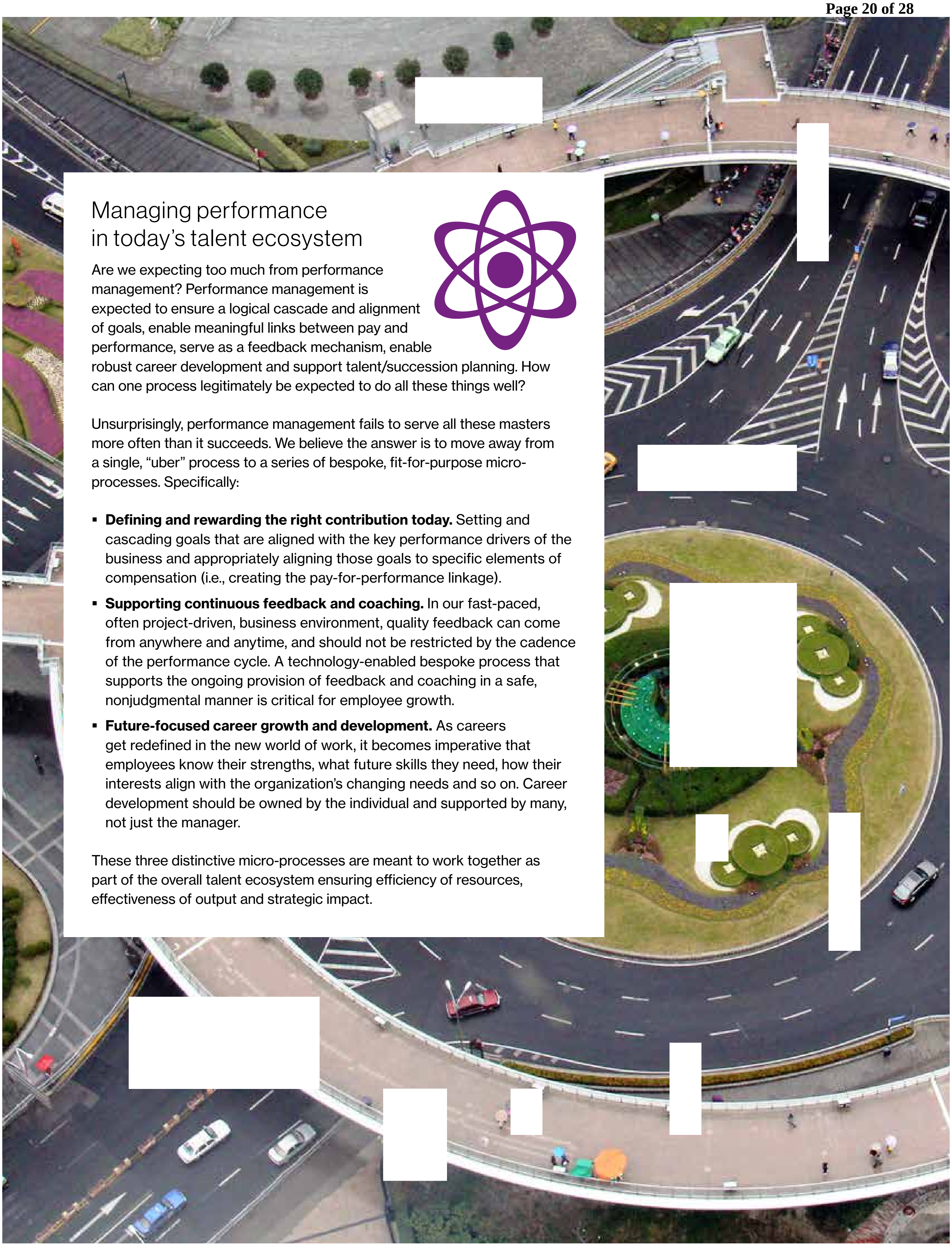
- **Coaching and feedback.** Only 35% of employers say their managers are effective at giving employees regular coaching and feedback on their performance. To improve this situation, a majority of employers have already taken action (33%), or are planning (23%) or considering taking action (24%) to increase 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**

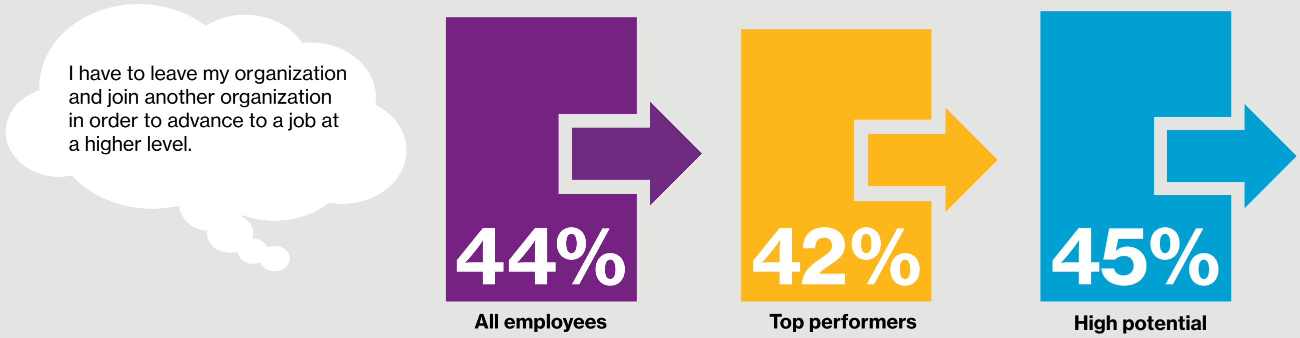
		Time spent per employee				
		2 hours or less	**3 or 4 hours**	**5 or 6 hours**	**7 or 8 hours**	**9 or more hours**
The amount of time spent completing forms	Too little time	**12%**	**4%**	**6%**	**6%**	**4%**
	About right	**67%**	**72%**	**69%**	**68%**	**64%**
	Too much time	**21%**	**23%**	**24%**	**26%**	**32%**
	Net	**9%**	**19%**	**18%**	**19%**	**27%**
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	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).*

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 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.

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.

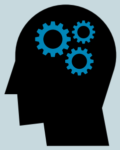
  In addition, senior leaders must ensure that managers have the aptitude as well as the training, resources and time necessary to fulfill their critical role in the organization. The manager is also a leader but affects employees in different ways than senior leaders or executives (see sidebar, page 23).

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.

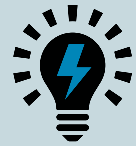
What makes an effective leader?

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

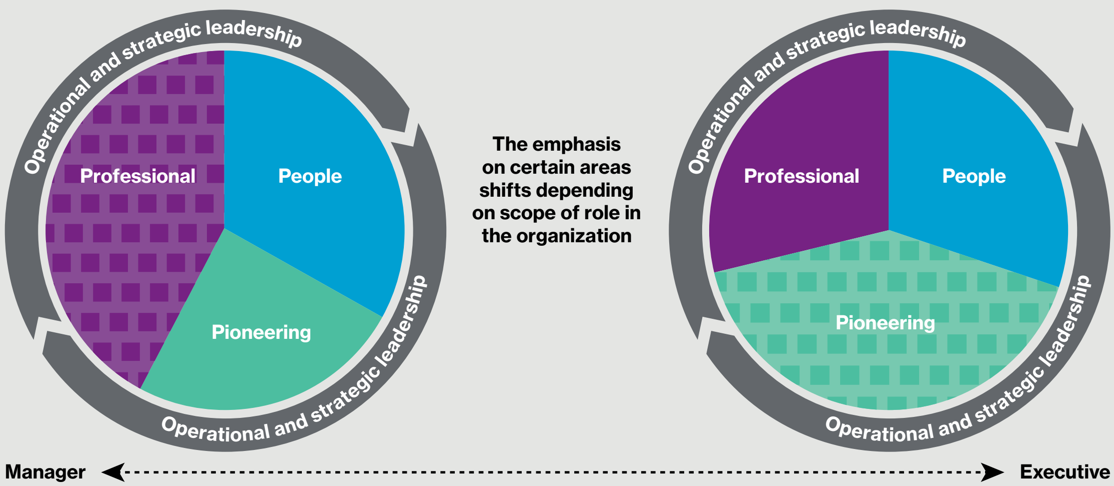


Pioneering
Enterprising and out-of-the-box thinking necessary to implement change and grow the business

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 https://www.willistowerswatson.com/en/insights/2016/09/employers-look-to-modernize-the-employee-value-proposition.

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

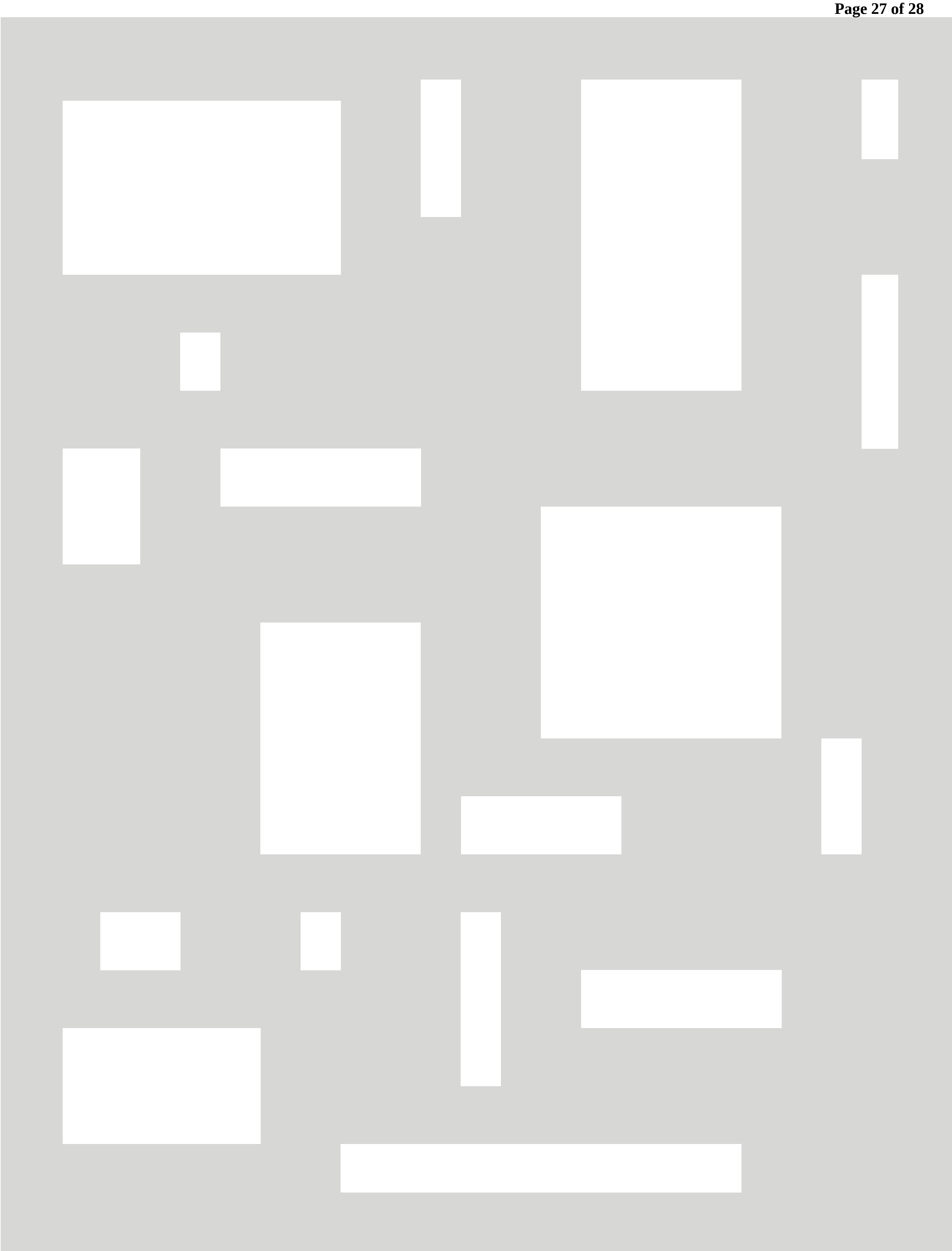
EMEA	GWS	TM&R
Belgium	✓	✓
France	✓	✓
Germany	✓	✓
Ireland	✓	✓
Italy	✓	✓
Netherlands	✓	✓
Saudia Arabia		
Spain	✓	✓
Sweden*		✓
Switzerland	✓	✓
Turkey	✓	✓
U.A.E.	✓	✓
U.K.	✓	✓

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.

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HEALTH WEALTH CAREER

MERCER TALENT TRENDS

2017 GLOBAL STUDY

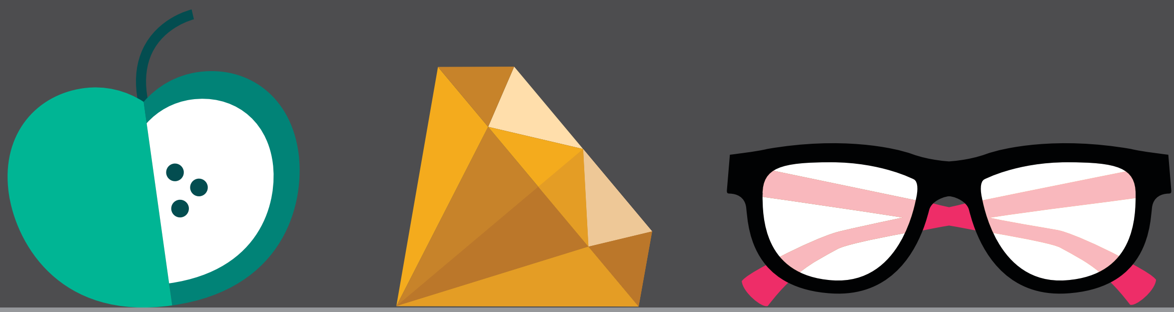
EMPOWERMENT IN A DISRUPTED WORLD

MAKE TOMORROW, TODAY

MERCER

THREE PERSPECTIVES ON

THE FUTURE OF WORK



HEALTH WEALTH CAREER

400+ business executives
1,700+ HR professionals
5,400+ employees
From **37** countries
and **20** industries

We asked about topics as diverse as:

- The biggest disrupters on the horizon
- What executives are planning in the next few years
- How HR thinks jobs will change
- Which skills are most in-demand and how best to develop them
- What employees want more/less of in the workplace

WHAT'S INSIDE

4 TRENDS TO WATCH IN 2017

- GROWTH BY DESIGN
- A SHIFT IN WHAT WE VALUE
- A WORKPLACE FOR ME
- THE QUEST FOR INSIGHT

LEAP FORWARD: ADVICE TO STAY AHEAD

- ATTRACT & RETAIN TOMORROW'S TALENT
- BUILD FOR AN UNKNOWN FUTURE
- CULTIVATE A THRIVING WORKFORCE

IMPLICATIONS FOR HR

- TOP TIPS TO WIN THE TALENT WAR
- PRIORITIES FOR THE HR FUNCTION OF TOMORROW

SETTING THE CONTEXT

2017 has kicked off with a bang, but the optimism shown in the markets has not appeased the lingering concerns from HR and employees following a year of uncertainty and volatility. Conflict in the Middle East continues unabated, the fate of the European Union is in question, and anti-establishment sentiment is at an all-time high. Across the world, disruptive events at the ballot box and on the streets have provided a wake-up call to political and business leaders.

Rising nationalism is straining global cooperation, and economic problems have resulted in stagnant growth, unemployment, and productivity challenges. Fiscal fragility in many emerging markets and the pressure on social protection systems is compounding the stress on individuals and families.

IN THIS CLIMATE, IT IS MORE IMPORTANT THAN EVER BEFORE FOR COMPANIES TO TAKE A LEADING ROLE IN CARING FOR THE HEALTH, WEALTH, AND CAREERS OF THEIR WORKFORCE.

The fourth industrial revolution is upon us and is fast becoming a workplace reality. Artificial intelligence, robotics, 3-D printing, drones, and wearables are rapidly integrating into the work environment. Technology is enabling us to stay connected and give real-time feedback more than ever before. At the same time, business models are adjusting to take advantage of contract or contingent workers — in part to address the talent scarcity challenge but also in response to what people say they want out of a job. These forces are changing the notion of what it means to be an "employee," which has far-reaching implications and demands a re-think of how we prepare for the future.

The critical trends that are reshaping the world of work are colliding with the changing demographic profile of employees and shifting expectations of the work experience. Despite an uncertain future, there is optimism in the air. The events of 2016 and early 2017 have set a course of change that brings the promise of more equity and transparency and more accountable decision making. An overarching theme of *Empowerment* permeates how business leaders, HR professionals, and employees are viewing the world of work, both today and in the future.

C-SUITE CONCERNS: VIEW FROM THE TOP

TECHNOLOGY AT WORK

TALENT DRAIN

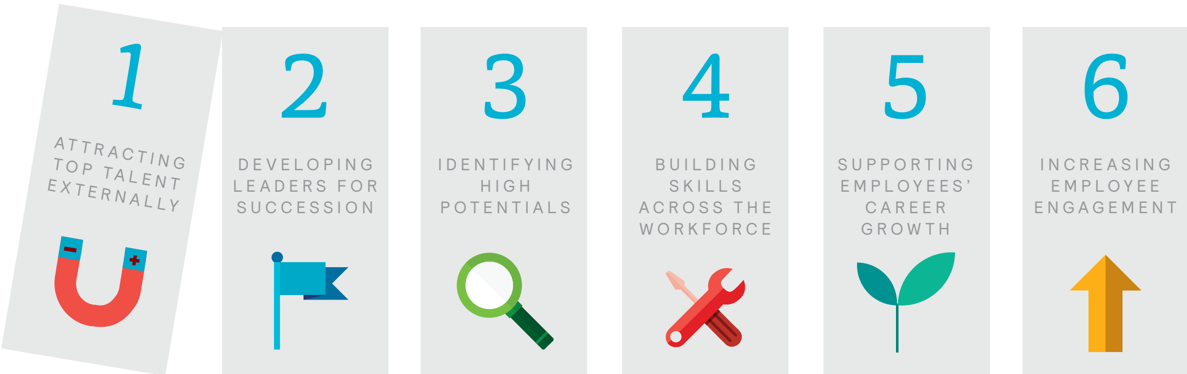
AGING WORKFORCE

GENERATION Z

92%
of employers expect an increase in competition for talent this year

The talent scarcity challenge is keeping everyone awake at night. The C-suite and HR agree that the competition for talent will continue to increase this year, but executives see this even more acutely — 43% of C-suite respondents expect the competition to be significant, compared to 34% of HR professionals.

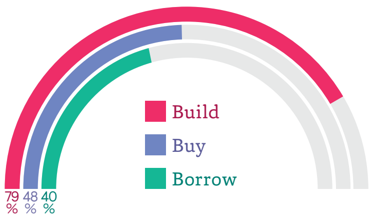
How are companies planning to respond? Just like in 2016, most are focused on a “Build” strategy to grow and promote their own talent from within — but nearly half are also increasing their recruitment from the external labor pool. Both strategies are reflected in the HR priorities for 2017:



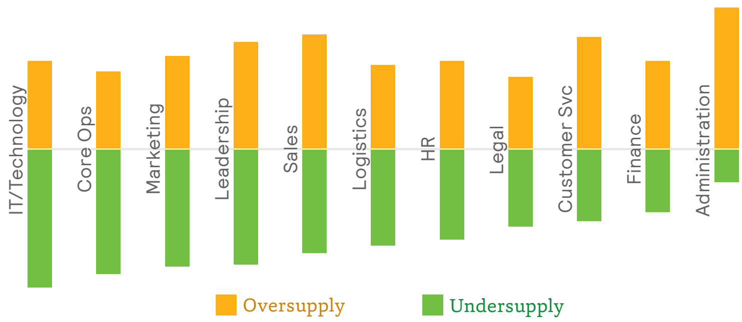
The disconnect between supply and demand affects all industries, geographies, and functions, but it is predicted to be especially acute in leadership, core operations, sales & marketing, and IT.

BUILD, BUY, BORROW

PLANNING TO INCREASE IN THE NEXT 12 MONTHS

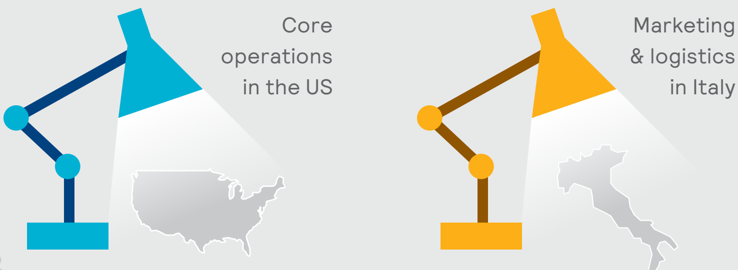


HR EXPECTS A DEARTH OF QUALITY TALENT DUE TO WORKPLACE DISRUPTION IN THE NEXT TWO YEARS



IN THE SPOTLIGHT (REPORTED OVERSUPPLY)

In areas with oversupply, competition for jobs will increase and there is potential for job displacement. However, for organizations that are able to move people to jobs, or jobs to people, this can be a great world-sourcing opportunity.



1. GROWTH BY DESIGN

DRIVING A BOLD CHANGE AGENDA

It's no longer about evolution – organizations are transforming structures and jobs with an eye towards the future. Ensuring that the People agenda is not lost amid the drive for change will be critical to sustainable growth.

REDESIGNING THE ORGANIZATION

Executives globally recognize that stasis is a formidable enemy of business growth. They acknowledge that existing structures often impede, rather than accelerate, change and that the heavily layered organization of yesteryear has proved a hindrance to the agility needed in today's competitive markets. Thus, they are driving an aggressive change agenda — 93% of business executives plan to make a design change in their company within the next two years. This trend is consistent across all geographies and industries.

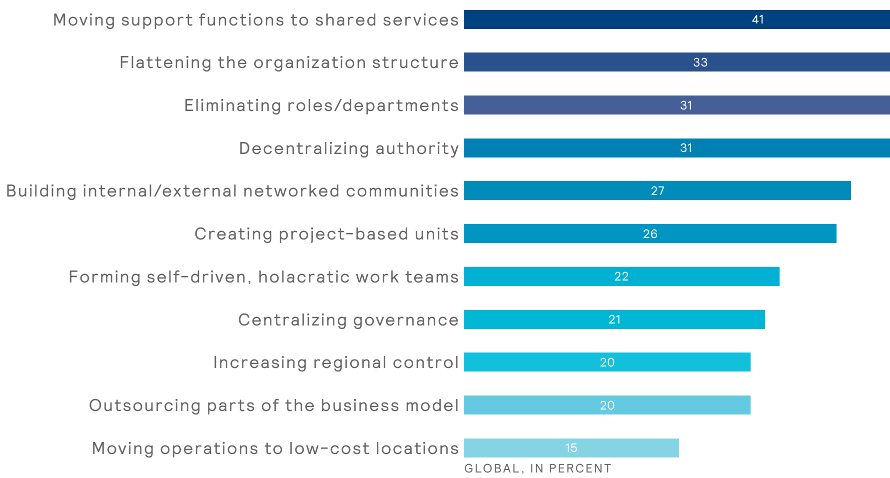
Vertical hierarchies are being replaced by simpler, more horizontal organizational structures. This change reflects a desire for greater efficiency and lower costs, closer relationships with customers, and increased agility and innovation. Companies in different industries are going about this in different ways. Executives in the Auto, Energy, and Healthcare sectors are flattening their organization structures, while those in Financial Services and Logistics are focused more on moving support functions to shared services. Consumer Goods organizations are also creating special units to handle project-based work.

There are interesting differences by geography as well. While greater efficiency is the number one driver of organization design changes in the majority of the countries we studied (including US and UK), it is less of a focus for executives in Japan (who are committed to improving collaboration) and in Hong Kong (for whom innovation is paramount).

The organization in a "world is flat" universe pushes decision-making authority further down the chain, thus employees must be more self-reliant and skilled enough to independently make day-to-day decisions. This requires a shift in how we support employees at different stages of readiness, career, engagement, and work status.

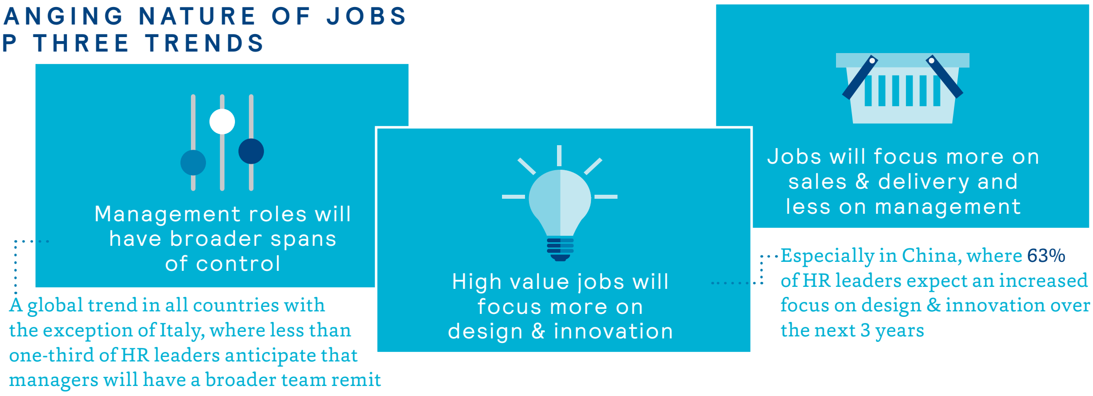
What do employees say they want? When asked in which areas their company should provide more support, simplified approval chains to enable quick decision making ranked third globally. This may reflect their company's current challenges in this area — with only 15% of employees saying that their company excels at this today.

93% WILL MAKE ORGANIZATION DESIGN CHANGES IN THE NEXT 2 YEARS
WHAT CHANGES ARE YOU PLANNING TO MAKE?



Redesign of organizational structures and jobs was among the top three areas of investment executives felt would create the most sizable difference to business performance in the near future. However, only 11% of HR professionals indicated that redesigning jobs, roles, and responsibilities is a priority this year. With structural redesign being driven from the top, lack of definition around what behaviors to leave behind, preserve, or adopt will undermine the impact of these organizational changes.

CHANGING NATURE OF JOBS
TOP THREE TRENDS



THE VALUE OF JOBS IS SHIFTING — ARE YOU SET UP FOR SUCCESS?

Companies are seeking to eliminate the barriers to productivity growth that have crept into their internal business practices. One way is to redesign roles and reporting lines for simplicity, faster decision making, and team-based working. Today, HR is spending a significant amount of time classifying and cataloguing jobs (often driven by the implementation of a new HR technology system). HR leaders will be the first to agree that documenting current state is not enough. New style work arrangements require new style job frameworks that take into account not only the jobs of today, but also what will be needed in the future. The rapid pace of change and C-suite's focus on organization redesign mean that a very different future is not far off. **Without an underlying framework, the goals of agility, simplicity, and innovation will remain elusive**; the key is developing a strategic framework that can flex and adapt to the evolving needs of an agile workplace.

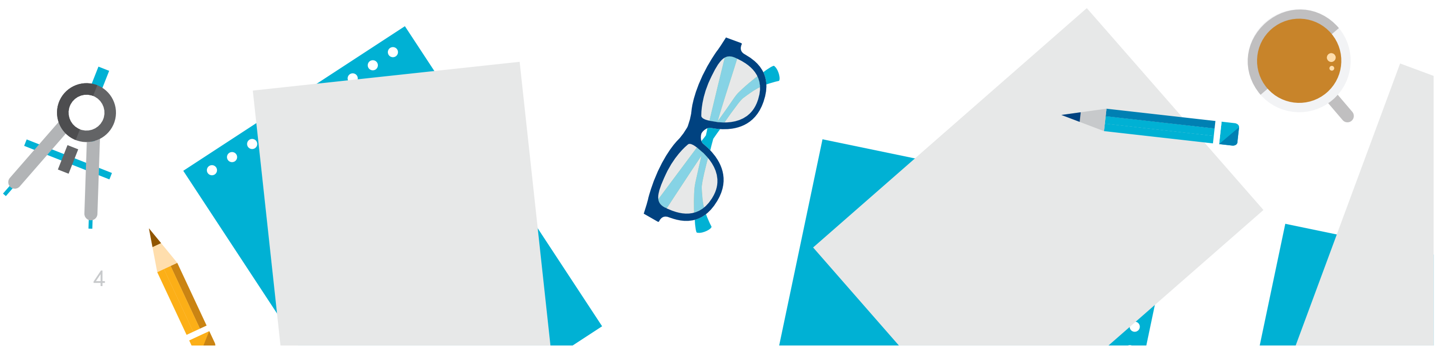
Having a strong decision science underpinning job design has never been more critical, especially as new jobs are emerging faster than ever before. Job design is where HR can truly add business value:

- How do you define jobs for which no precedents exist?
- How do you evaluate new jobs when you have no reference benchmarks?

The challenge is to consider the job's contribution to the creation of value in the organization. We all know that business leaders do not have the patience for a lengthy job evaluation exercise, so the process must be quick, intuitive, and accessible for all line managers. The good news is that HR realizes the need for change — **50% of HR leaders indicated that they will change their job evaluation methodology this year**. The majority are implementing a more scientific approach to valuing contribution.

In a recent Mercer snapshot survey[1], respondents were asked how job evaluation will contribute to the business agenda in the next 10 years; the most common response was "to enable flexibility."

[1]2016 Mercer Global Job Evaluation ROI Snapshot Survey



THE DIGITAL JOURNEY

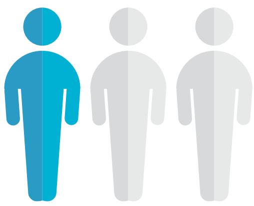
Business executives see technology at work as the workforce trend likely to have the most impact on their organization over the next two years. Yet most are not doing enough to realize the benefits and head off the risks.

> Doing business without digital is like smiling at someone in the dark. You know what you're doing, but nobody else does.
>
> ~Adapted from Steuart Henderson Britt~

WHERE ARE YOU ON THE JOURNEY TO BECOMING A DIGITAL ORGANIZATION?

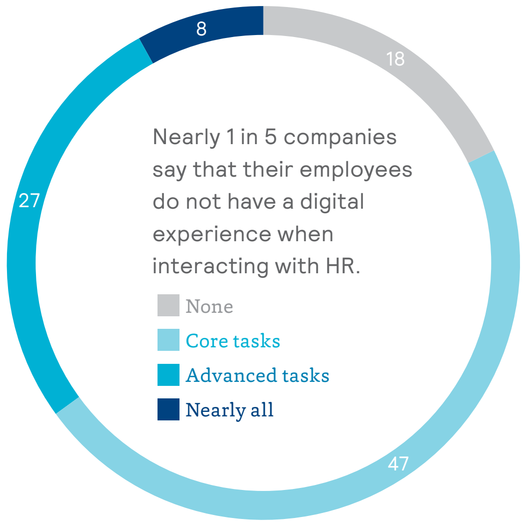
INTERNAL How we shape the employee experience	Not yet on the journey	Long way to go	Making great progress	We are a digital organization
We are a digital organization			1%	5%
Making great progress		8%	14%	1%
Long way to go	4%	37%	12%	1%
Not yet on the journey	8%	6%		
	EXTERNAL How we conduct business			

Less than 10% consider themselves a **Digital Organization** today. Companies that have begun their digital journey tend to focus first on external competitive forces, and later turn their attention internally toward the employee experience.

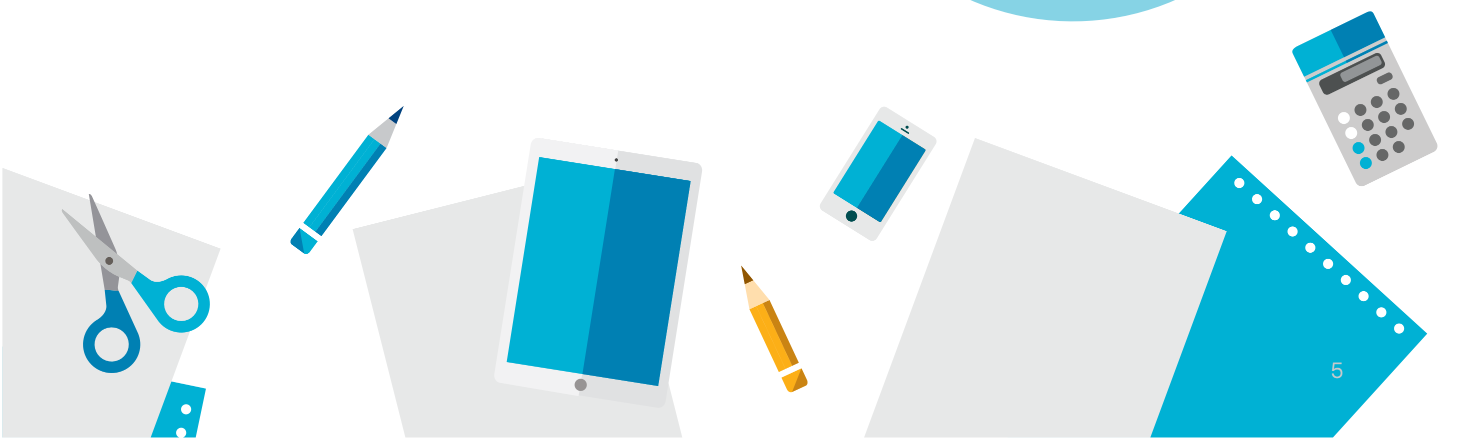


Only 35% of executives believe that HR provides a digital experience for employees.

Only 54% of employees say that they have access to state-of-the-art and innovative tools & technology to support their training and development.



Nearly 1 in 5 companies say that their employees do not have a digital experience when interacting with HR.



TRENDS TO WATCH IN 2017

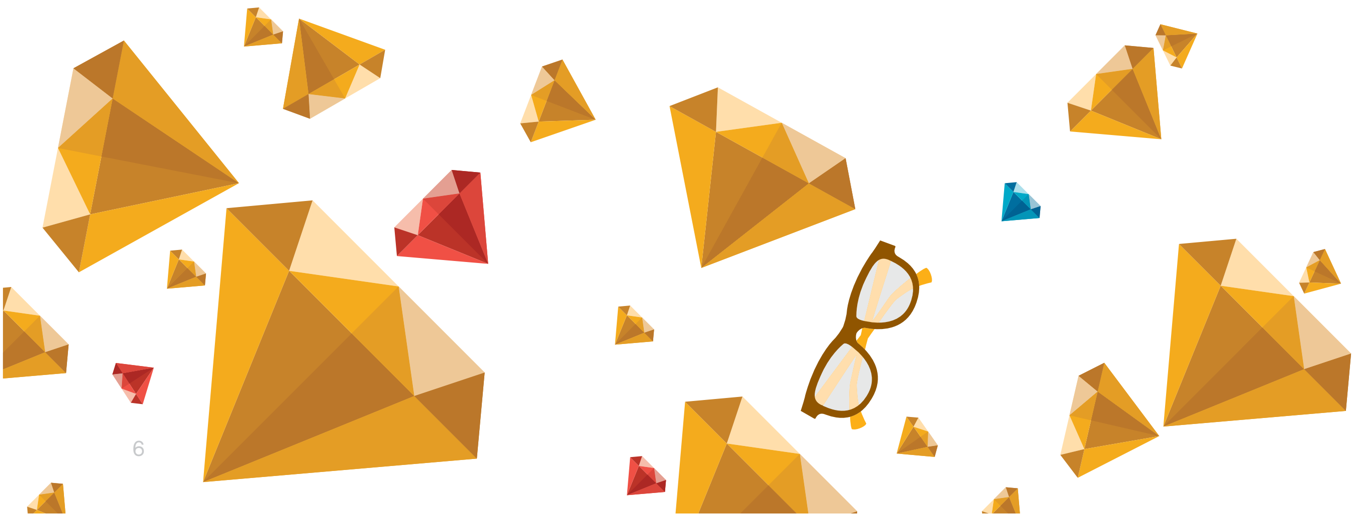
2. A SHIFT IN WHAT WE VALUE

A NEW REWARDS PARADIGM IS NEEDED

Fair & competitive pay and opportunities for promotion are top priorities for employees this year, which is not surprising given the climate of uncertainty and change.

The rapid rise of smart machines and the exponential increase in the complexity of organizations and roles are just some of the ways in which today's workplace is unrecognizable from 30 years ago. What it means to be an employee — and the value of an employee to an enterprise — must necessarily be adjusted. It's no longer just about output. In fact, **97% of employees want to be recognized and rewarded for a wide range of contributions**, not just financial results or activity metrics — but only 51% say that their company does this well today. How rewards are managed reflects an organization's culture and can send powerful signals about what is valued. The same principle applies to executive rewards.

Responsible and responsive leadership was the lead topic at the 2017 World Economic Forum Annual Meeting. The theme of inequality and income disparity is forcing policy discussions on minimum wage and living wage, the gender pay gap, and the pay ratio between the C-suite and the average employee. As organizations are being challenged to consider their societal impact, performance metrics have been broadened to include sustainability measures such as diversity and social responsibility rankings. The trend towards more effective and relevant disclosure of executive remuneration also shows that companies are responding to the demand for greater transparency — **83% of companies are planning to make changes to increase transparency of executive pay**. Market volatility is also adding pressure on executive pay levels — but at the same time, companies are unsure whether to make adjustments as the economic winds can change rapidly. For example, whether to shift to a currency-neutral approach for incentive plans is a hot topic for debate.

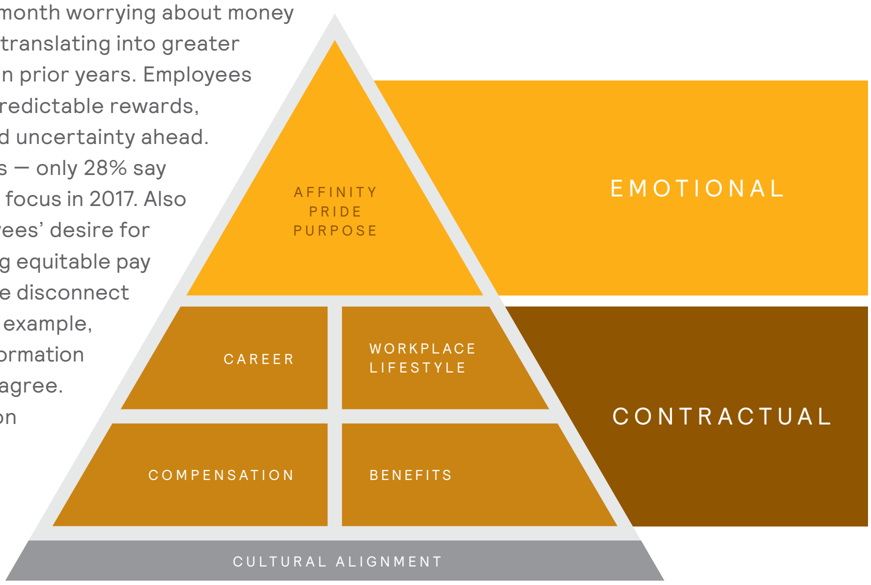


47% of employees globally say the number one thing that would make a positive impact to their work situation is compensation that is fair & market competitive. Below are the top seven responses globally.

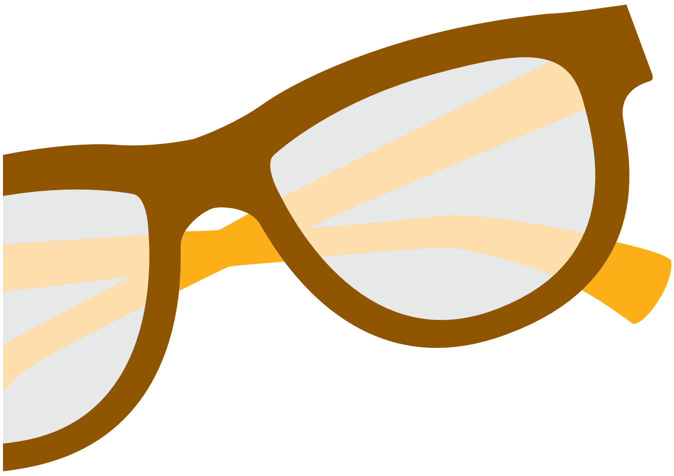
1. FAIR & COMPETITIVE COMPENSATION — #1 for employees in Canada, China, France, Germany, Italy, Singapore, and US
2. OPPORTUNITY TO GET PROMOTED — #1 for employees in Brazil, Mexico, India, and South Africa
3. LEADERS WHO SET CLEAR DIRECTION — #1 for employees in Australia, Canada, Hong Kong, and UK
4. WORKING WITH THE BEST & BRIGHTEST
5. TRANSPARENCY ON PAY CALCULATIONS — #1 for employees in Japan
6. CAREER PATH INFORMATION
7. MORE FLEXIBLE WORK OPTIONS

People spend an average of 13 hours per month worrying about money matters at work[1]. A preoccupation that is translating into greater concern over base pay and benefits than in prior years. Employees are seeking the security of tangible and predictable rewards, which is not a surprise given the perceived uncertainty ahead. However, this is not reflected in HR's plans — only 28% say rewards competitiveness will be an area of focus in 2017. Also not reflected in this year's plans is employees' desire for fair pay, with only 16% of HR leaders putting equitable pay on their list of top five priorities. Part of the disconnect may be due to lack of communication. For example, 51% of companies say that they provide information on pay bands, but only 34% of employees agree. This can also impact employees' perception of their own "promotability" within the organization — lack of clarity around rewards at the next level can lead people to believe there is no path forward.

[1]Inside Employees' Minds Study, Mercer 2016



Even though employees are focused on the *contractual* aspects of the deal, we know that a greater *emotional* connection with the organization leads to less dependence on components such as compensation and benefits.



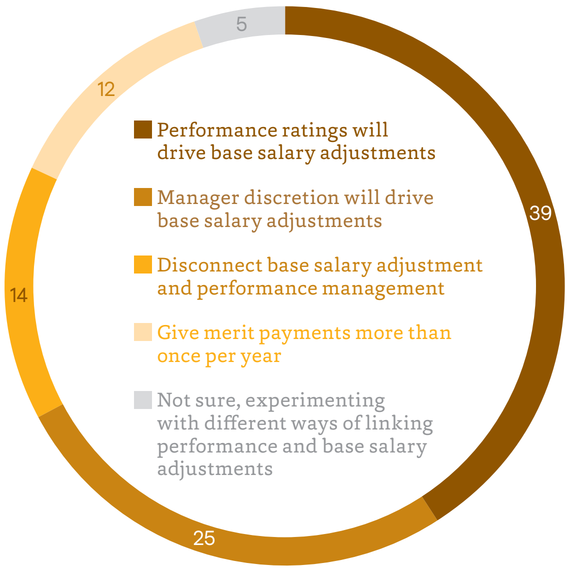
88% OF COMPANIES MADE CHANGES TO THEIR PERFORMANCE MANAGEMENT APPROACH LAST YEAR… AND THERE'S MORE TO COME

The climate of uncertainty is driving decisions about where employees want to work and what they value in the employment deal. So how are companies planning to respond? Changes to performance management processes lead the way and often have implications for rewards. This year, companies will continue to use performance ratings to drive annual base salary adjustments, but there is also a move towards greater manager discretion in how employees are paid.

CHANGES PLANNED IN 2017

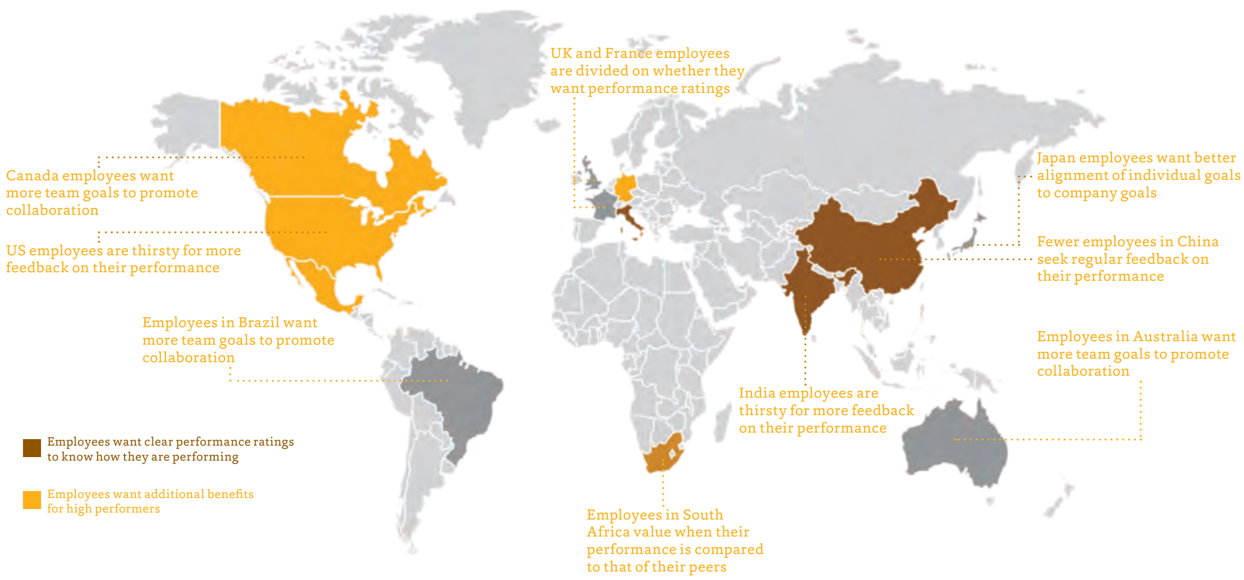
- Strengthen strategic goal cascade
- Calibrate goals across peer roles
- More team-based goals & metrics
- Replace ratings with descriptors
- Eliminate performance ratings altogether
- Add forced rankings
- Remove forced rankings
- Shift performance discussions to career & development
- Introduce continuous feedback technology

There continues to be a focus on goal calibration and cascade, with 83% of companies having made or planning to make a change to their goal setting process. Continuous feedback is also becoming more prevalent, no doubt enabled by technology, with 81% of companies having already put in place an "anytime feedback" tool or planning to do so this year. Managers are also being encouraged to balance backward-looking performance reviews with more future-focused career and development conversations — 81% of companies have made this shift or plan to do so this year. Companies are taking the opportunity to determine whether their performance management processes are "fit for purpose" and inspiring for employees.



Employees are clear on one thing: performance ratings give them clarity on how they are performing and motivate them to do better work. In addition to individual work contributions, they also want to be measured on team goals to promote collaboration. This is a trend set to continue, with 40% of employees expecting that their workplace will become even more team-based over the next two years.

UNIQUE VIEWS FROM AROUND THE WORLD



TO RATE OR NOT TO RATE?

61% of organizations eliminated performance ratings last year or are planning to do so this year.

NUMBERS OR WORDS?

75% replaced numerical ratings with descriptions or are planning to do so this year.

FORCED RANKINGS… OR NOT?

39% of companies that either added or removed forced rankings in 2016 are now planning to reverse their decision in 2017.

Industry sectors making the most changes:
Energy, **Life Sciences**

Countries satisfied with the status quo:
Japan, **China**, **UK**

TRENDS TO WATCH IN 2017

3. A WORKPLACE FOR ME

PERSONALIZATION OF THE EMPLOYEE EXPERIENCE

People expect their employer to “make work work” for their individual circumstances. Companies are starting to respond by taking a “whole person” approach and increasing the flexible work options available to their workforce. Advances in technology are enabling individualized choice without adding an undue administrative burden for HR.

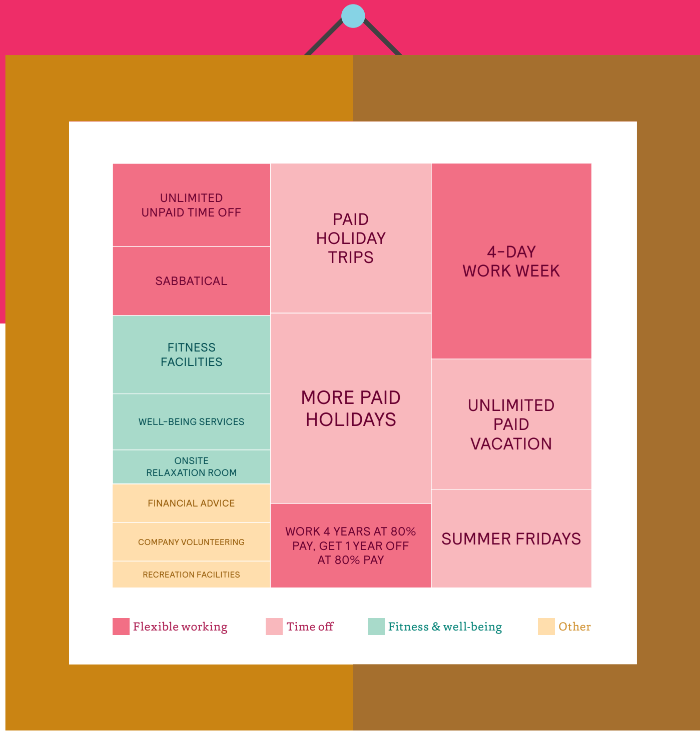
While clarity on job responsibilities, rewards, and promotion criteria are fundamentals, there is another workplace revolution underway. Globalization and technology are making the world smaller and shaping employees’ expectations of when and how they want to work. As part of the Era of the Individual and the rise of the free agent, employees are seeking more flexible and personalized work arrangements. Organizations are realizing that developing one employee value proposition that resonates across five generations, men and women, white and blue collar, working at the office or from home… is nearly impossible to achieve.

Personalization is not a new concept, but it’s one that in the past has been difficult to address. The good news is that advances in technology (from employee portals to career matching apps to benefit management platforms) are making it much easier to bridge the gap. Responsive and intelligent software can adapt to the needs of each unique employee to provide the right support at exactly the right time. Additionally, the micro-segmentation science of personas commonly used in marketing is starting to be applied to people strategy. These realistic representations of employee “types” can enable HR to better target employee benefits and communications.

More than a list of cool benefits and perks, personalization itself is fast becoming a differentiator.

One way to achieve this is through flexible work options. This year’s study showed that the majority of employees want more flexibility, and 40% of HR respondents acknowledge that offering more flexible ways to work would improve their employees’ ability to thrive. Sixty-two percent of companies already have pockets of flexibility in place, but only 35% say that it is a core part of their value proposition. An additional 27% offer flexible work options only when requested by individuals and sanctioned by managers.

We also asked employees about their experiences with flexible working in practice. They generally reported support from their managers (61%) and colleagues (64%). However, 1 in 3 employees indicated that they had requested a flexible work arrangement in the past and were turned down, and **1 in 2 expressed concern that working part-time or remotely would negatively impact their promotion opportunities**. Certainly there is more work to be done to create a culture where flexibiltiy is not seen as a benefit, but as an opportunity for workforce optimization and personalization.



Flexibility comes down to finding a way to integrate one's work and personal life. We asked what would make employees choose one company over another — providing an exhaustive list and taking pay out of the equation. Time off was the clear winner — either more of it, or at least the flexibility to spread it out or even work fewer hours for less pay. Perks such as fitness and recreation facilities, well-being services, and financial advice were all present, but ranked lower down the list.

This focus makes sense when viewed alongside employee priorities. When asked about their biggest concerns in the near future, the themes across geographies and generations were all the same: first Health, then Wealth, and then Career. The findings were clear-cut, with 61% globally choosing Health as their top concern, followed by 23% choosing Wealth, and 16% choosing Career.

Staying healthy is directly tied to minimizing stress.

However, employees are expecting the opposite, at least when it comes to stress on the job — only 19% predict that their workplace will become less stressful over the next two years. Finding ways to seamlessly integrate all areas of one's life (home, family, job, community, etc.) through flexible working and creative time off arrangements can help mitigate this growing trend.

Ultimately, people want to fit work into their unique lives. Personalization, then, becomes the key to creating an employee experience that resonates with each individual.

TRENDS TO WATCH IN 2017

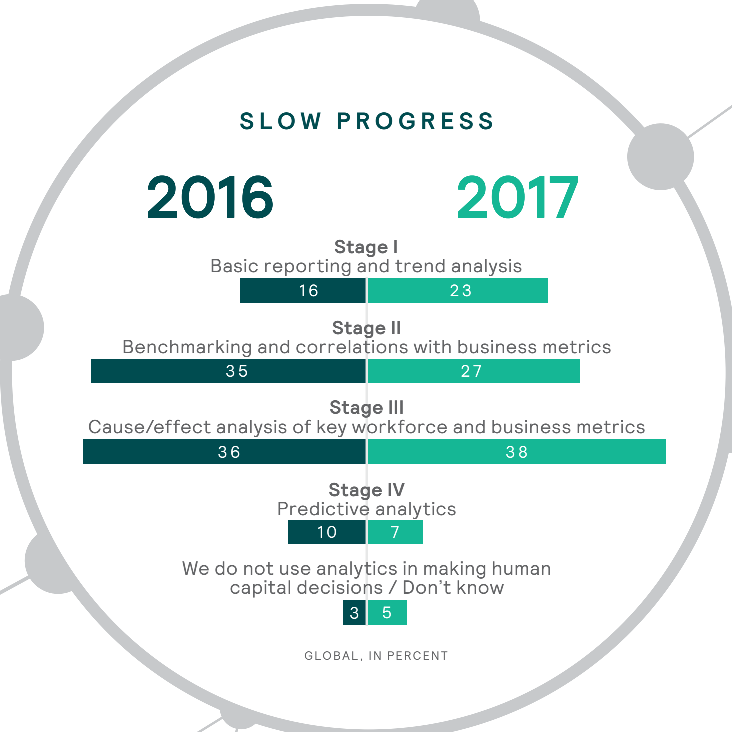
4. THE QUEST FOR INSIGHT

PREDICTIVE ANALYTICS ARE STILL OUT OF REACH

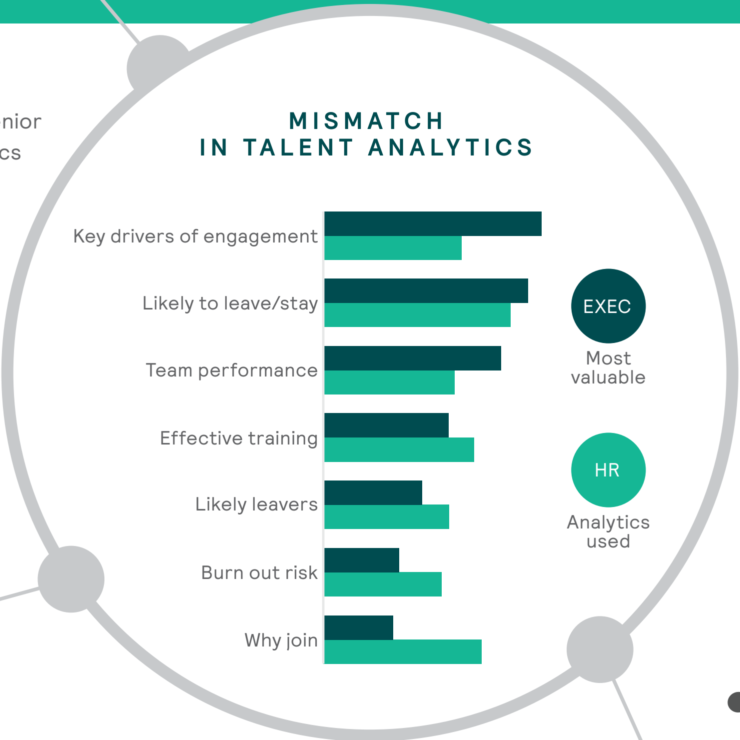
An empowered organization that is agile and responsive is one that listens and learns. The quest to derive actionable insights from talent analytics and big data is a core element of the empowerment agenda.

Just as marketing data and buyer insights are leading business transformation efforts, **talent analytics has the potential to deliver accelerated success on the people agenda** — both to enhance the employee experience and drive better decisions. But do companies have what they need? Certainly companies are collecting more information from both candidates and employees than ever before. As we add feeds from HRIS systems and candidate screening assessments, as well as passive data from social media, email traffic, and even wearables, the sheer volume of talent data we collect will only increase. So the problem is not a lack of data... it's what to do with it!

Companies around the world are making slow progress in using analytics to inform human capital decisions. Very few are able to translate data into predictive insights, and nearly 1 in 4 are still only able to produce basic descriptive reporting and historical trend analysis. Companies in the Life Sciences and Logistics industries are ahead of the curve, but still have a long way to go in delivering actionable insights that impact managers' day-to-day decisions.



Even with all of the data that is being collected, senior executives are not getting the kind of talent metrics they need to make better business decisions. For example, executives say that understanding the key drivers of engagement would be the insight that is most value adding to their business, but only 35% of HR leaders are able to provide this information. This is especially surprising given that most companies today have at least some form of engagement survey in place. Predictive analytics — such as identifying which employees are likely to leave or what causes one team to out-perform another — are even less common.



HR and employees recognize that the disconnect may be due in part to a capability gap — both groups ranked "data analytics & predictive modeling" in the top three in-demand skills for the next 12 months, with HR professionals in Canada, France, and the UK ranking it number one.

The risk of not leveraging talent data is especially acute when there is so much organizational change on the horizon. **When decisions are informed only by financial and marketing data, there can be unintended people consequences**. For example, the World Economic Forum's *Future of Jobs*[1] report found that "women are at risk of losing out on tomorrow's best job opportunities" as disruption and displacement are likely to occur in job families with the largest share of female employees. When HR is able to partner with business operations to facilitate an evidence-based decision making process, they help mitigate these risks and ensure that the talent implications are being considered, especially during organizational redesign.

[1]World Economic Forum (2016). The Future of Jobs: Employment, Skills and Workforce Strategy for the Fourth Industrial Revolution.

LEAP FORWARD:
ADVICE TO STAY AHEAD

ATTRACT & RETAIN TOMORROW'S TALENT

BUILD FOR AN UNKNOWN FUTURE

CULTIVATE A THRIVING WORKFORCE

LEAP FORWARD: ADVICE TO STAY AHEAD

ATTRACT & RETAIN TOMORROW'S TALENT

In a talent-led economy, the employee experience has never been more critical to attracting the best and brightest. Getting it right is even more challenging now, in a more diverse workplace that must embrace five generations with different norms and expectations. The interactions that candidates have during the recruitment process, how employees engage with the organization during their tenure, and how they are treated after they leave — these are all vital opportunities to shape the "experience." **Notably, half of all employees rated their application and hiring process as average or below average**. Not to mention the candidates that fell out of the process along the way!

Increasingly, HR is being asked to leverage tools and techniques once reserved for the marketing function to build and sustain a strong employer brand. Anyone who has contact with the organization is a potential ambassador for the brand, and word of a less-than-stellar interaction can spread quickly. An often overlooked group is candidates who apply but are unsuccessful. They are a vocal majority who — if handled with care and provided with career advice — can serve as a source of positive word-of-mouth and a potential candidate pool for future recruitment drives.

DO YOU HAVE A STRATEGY IN PLACE TO MAKE YOUR COMPANY ATTRACTIVE FOR

A strong digital presence is now becoming a corporate imperative, especially when trying to reach the elusive, "great-fit" passive candidate pool. The power of brand attraction is strongest when the interactions that candidates, employees, and alumni have leverage the company's external brand. Technology is shaping this landscape, not only to increase efficiency and decrease time-to-hire, but also to ensure a positive candidate experience. Some examples include:

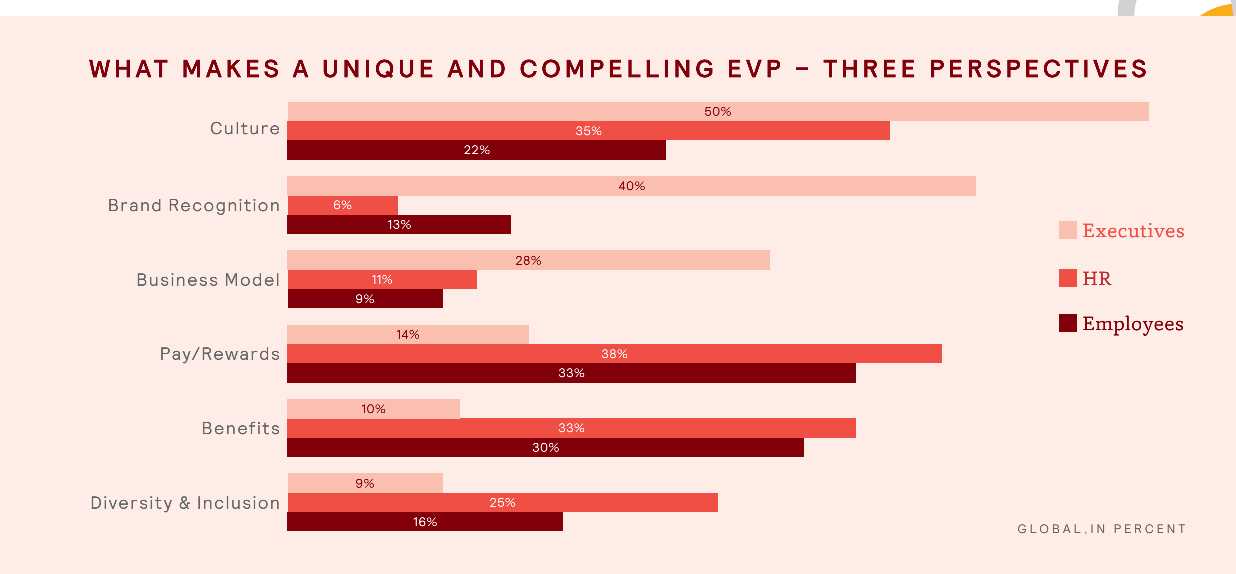
- **Chatbots** — Create a more scalable and engaging recruitment process by answering candidates' questions and gathering background information without the need for lengthy application forms.
- **Algorithms** — Enable more targeted sourcing by generating a list of qualified candidates in seconds by scraping social data.
- **Online assessments** — Drive more intelligent decisions through games that tap into employee judgment and shorter psychometrics that predict future potential.

In a shifting job landscape, recruiting on future-focused criteria may prove more fruitful than reviewing an applicant's current capabilities or past experience.

Goldman Sachs is leveraging innovative technology and a competency-based interviewing method to reach more candidates while continuing to make informed, data-driven hiring decisions. Undergraduate candidates now submit online, pre-recorded video interviews as their first round evaluation for internship positions. Candidates record answers to a set of pre-defined questions that align to core competencies such as teamwork, analytical thinking, judgment, etc. Interviewers then assess the extent to which the candidate's answer demonstrates that particular competency and can rank and compare candidates against one another, ensuring that objectivity and consistency remain key elements of the hiring process.

COURTING IS ONE THING, MARRIAGE IS ANOTHER

If the Employee Value Proposition (EVP) is not authentic to the company's DNA (i.e., how we do things around here), then this passion of attraction will not be translated into a passion for the job. Business executives, HR leaders, and employees have differing perspectives on what makes their company's EVP unique and compelling. HR and employees agree that compensation and benefits — the contractual aspects of the "deal" — are a core component. Leading on responsible rewards and pay equity can help, as can focusing on health and flexible work options. Companies that want to cut away from the pack should not rely on industry benchmarking, but rather choose one or two areas in which they can truly differentiate themselves. One recent example is companies setting global parental leave standards (regardless of country norms).



All three groups agree on the importance of organizational culture. The line manager's role in shaping how employees experience the organizational culture is pivotal to delivering the brand promise, as well as translating the EVP into an individual value proposition (IVP). Smart HR platforms can use talent analytics to nudge managers when employees might be an engagement or retention risk. But ultimately, it is managers' ability to have effective "stay" conversations and engage their team in future-focused career planning that will shape employees' perceptions of how they are valued.

COMMUNICATION — THE BASIS OF ALL GOOD RELATIONSHIPS

Delivering and sustaining a compelling EVP again draws on HR's "marketing" skills, in particular their ability to define personas and leverage digital channels for a responsive relationship with employees. An integrated communication strategy can bring an EVP to life, and resources that people can access on-demand and on-the-go put key messages at their fingertips. Targeted messaging can be pushed to the most relevant groups at the right times, meeting employees where they are today. **Simplicity is key** — get to the heart of the message quickly or put the content no more than three clicks away. Personal reminders and easy-to-use apps can encourage employees to make healthier choices, invest more wisely, and explore career possibilities. Together, these solutions deliver the consumer-grade work experience that employees today are craving.

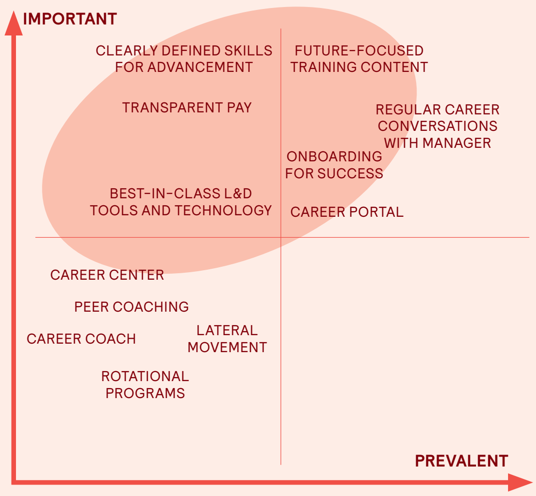
LEAP FORWARD: ADVICE TO STAY AHEAD

HOW TO PREVENT THE SEVEN-YEAR ITCH

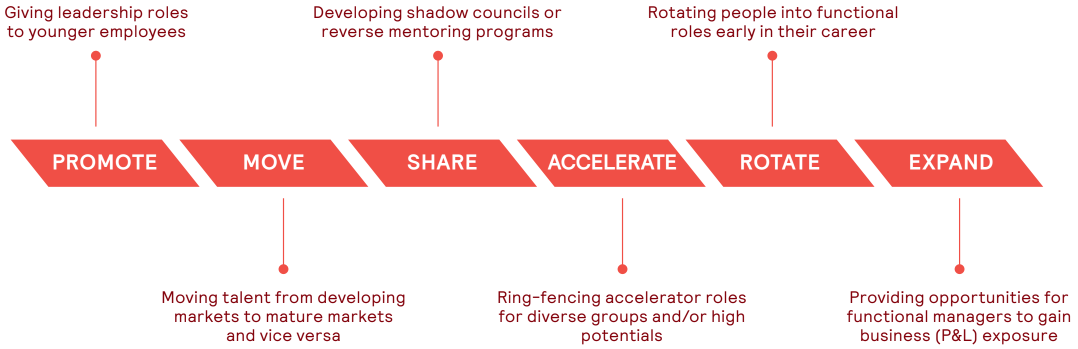
With the contractual aspects of the deal sharply in focus, it's never been more critical to effectively communicate the total reward proposition. Pay disparity and unbalanced promotion rates are often accompanied by retention challenges and serve as early indicators of when the career engine is failing to fire.

Part of this equation is employees' desire for more flexibility. Organizations are now evaluating the type and degree of flexibility inherent in each role and intentionally modeling flexibility into job design. Another part of the equation is that employees want to understand their career options and the criteria for promotion. We asked employees what support is most important in moving their career forward. Setting aside pay, future-focused training, regular manager conversations, and clarity around skills came out on top. Lateral moves and rotation programs seem to be missing the mark, perhaps because they are not as prevalent or are perceived to be less effective career development tools.

CAREER SUPPORT MOST SOUGHT BY EMPLOYEES



One of the hallmarks of a healthy career framework is its ability to facilitate pathways for non-traditional talent. The usual suspects — often those who "look good on paper" — are always considered for new assignments, promotion, or rotation opportunities. But taking a chance on those with less experience or a different background can be beneficial in bringing diversity of thought and increasing retention in under-represented populations.



THE POWER OF DATA

Companies are recognizing that to attract and retain tomorrow's talent HR needs easy access to quality and actionable data to combine what people say with what they are actually likely to do.

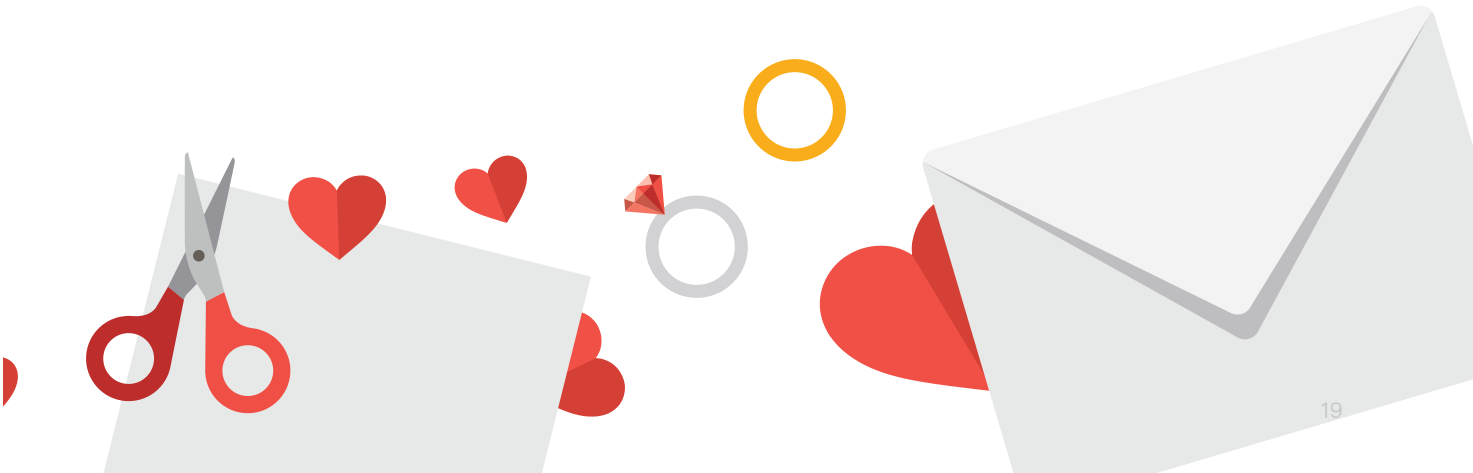
General Electric has experienced the power of putting data in the hands of those who can translate it into meaningful predictive insights. This has been pivotal in staying connected with future trends and building a dynamic relationship between insight and action.

> By democratizing access to non-sensitive people data, all of HR can now more easily surface workforce insights and improve planning capacity globally.
>
> *Travis Barton, Workforce Planning, GE International*

ASK YOURSELF

- Do candidates who apply to our company have a brand-enhancing experience?
- Do our performance metrics reflect the wide range of contributions that employees can make?
- Do we take a "whole person" perspective when designing benefits programs, flexible work policies, and training for managers?
- Is it easy for individuals to understand the available career paths, compensation for roles of interest, and skills & experiences needed for promotion?
- Do we consider non-traditional talent (including younger and older workers) for development assignments, promotion opportunities, and internal mobility?

If you answered "no" to two or more of the above, attracting and retaining tomorrow's talent may be a focus area for your organization this year.



LEAP FORWARD: ADVICE TO STAY AHEAD

BUILD FOR AN UNKNOWN FUTURE

Everyone agrees — the future of work will look very different, and iterative changes won't be enough to generate sustainable growth and value. In particular, the skills, culture, and work models of today will likely not be relevant three years from now — and the effects will be felt even before that. But how do you prepare for the future if you don't know what it's going to look like? For companies struggling to get started, one way to demystify the unknown is by laying out a few tangible scenarios.

FUTURE THINKING:

Q: How can our strategy be shaped by non-traditional competitors? What can we learn from industry adjacencies and start-ups?

Q: What strategic capabilities are essential to delivering sustainable value to the business?

Q: What culture do we need to have in place to facilitate success? How does that translate into leader and colleague behavior?

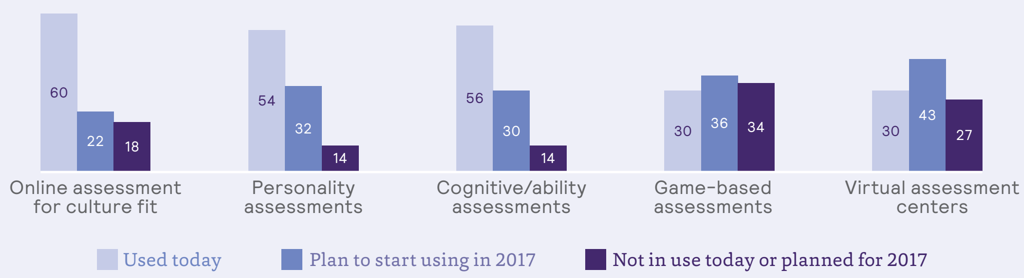
Q: What is the desired work model — human or machine, full-time or freelance, virtual or on-site? How does the work model affect learning and culture?

PLANNING FOR GROWTH

This kind of integrated people strategy goes beyond capacity planning. It helps to clearly define the gap between today and the future state being modeled. Most organizations are planning to close the gap by building from within. Taking a future-focused approach means it's important to identify the people who will be able to drive the business forward — even if they are not in positions of influence today. The good news is that nearly **3 in 4 organizations globally have a clear method for identifying high potentials** and they are drawing on the rigor of talent assessments as part of the process. Psychometric measures of personality and cognitive ability are providing insight into the foundational attributes of potential, and Virtual Assessment Centers are answering the question of who is ready to take on a stretch assignment or move to the next level. These same assessment methodologies can also ensure that external candidates are being hired not only because they have the skills for the immediate job but also the underlying qualities to be successful in future roles, including some that may not yet exist.

DO YOU USE THE FOLLOWING TOOLS FOR SELECTING INTERNAL OR EXTERNAL TALENT?

GLOBAL, IN PERCENT



PREPARING FOR CHANGE

There is an inherent tension between the C-suite's desire to flatten structures and employees' appetite for promotion.

The skills and knowledge that underlie success are constantly changing; thus, a company's career framework must be both structured and responsive to cope with this constant evolution. Portals and apps can seamlessly deliver updates directly to employees, keeping role profiles relevant and helping to drive forward-looking development efforts. These vehicles can also facilitate two-way conversation; for example, by crowdsourcing new and emerging competencies that can then be incorporated into existing frameworks and learning agendas.

Dynamic career paths are key to embracing the pervasion of digital competence across every organizational function. "Digital" is not a standalone skill but a set of competencies that is needed in every functional area. For example, researchers in the pharmaceutical industry who are trained in biochemistry will now need to acquire skills to operate advanced robotics to stay relevant.

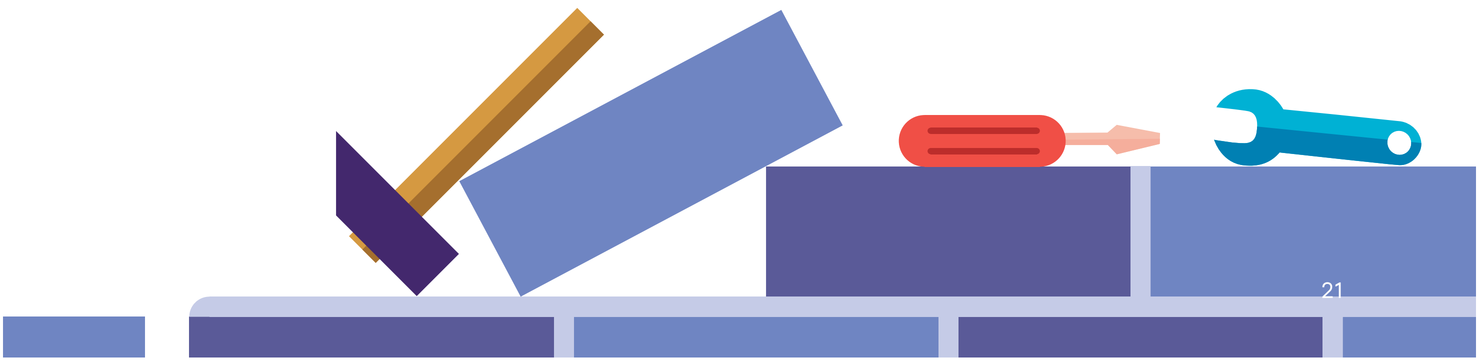
DEVELOPING DIVERSE SKILLSETS

Whether through external hiring or internal development, **assembling talent with a diverse set of skills allows organizations to pivot in response to market demands**. Both HR and employees named design thinking & innovation, as well as a global mindset, as the top in-demand skills for the year ahead.

Competencies to accelerate innovation include an entrepreneurial spirit, a sense of adventure, scanning the market for new ideas, challenging the status quo, calculated risk tasking, and taking a long-range perspective. Tenacity and resilience — the building blocks of "grit" — are not things you learn in the classroom. Instead, they require hands-on experience and trial-and-error, whether through internal mobility or immersion learning. By creating a culture that fosters these traits, organizations can build agility and tolerance for an ambiguous future.

MOST IN-DEMAND SKILLS

HR PROFESSIONALS / EMPLOYEES	L	M	H
H		DATA ANALYTICS	DESIGN THINKING/ INNOVATION GLOBAL MINDSET
M	INCLUSIVE LEADERSHIP CHANGE MANAGEMENT	DIGITAL SAVVY	
L	ENTREPRENEURSHIP SALES	VIRTUAL COLLABORATION	



LEAP FORWARD: ADVICE TO STAY AHEAD

EMBRACE THE UNKNOWN

There is an imperative to support stronger accountability and decision making throughout the organization and more quickly cultivate a commercial mindset earlier in people's careers. This imperative requires a shift in how employees are supported at different stages of their skill-readiness, engagement, and work status (full-time, part-time, contingent, etc.). It means being ready to embrace a more fluid workforce and more actively support continuous learning.

Sharing talent across the talent ecosystem, leveraging supplier and customer environments to speed up development, and building a sustainable model for redeployment and reskilling are all part of building an agile workforce capable of renewal. However, executives believe their organizations are lagging in retaining good talent during change.

How many C-suite executives are confident in their organization's ability to:

20% Reskill displaced workers

39% Redeploy talent internally

35% Provide outplacement services

43% Fill newly vacant positions with external talent

Encouraging employees to take control of their own career complements efforts to intentionally build capability. This year's study found that compared to employees who do not feel that they can create their own career success, those who feel "career empowered" describe their work environment differently in two important ways:

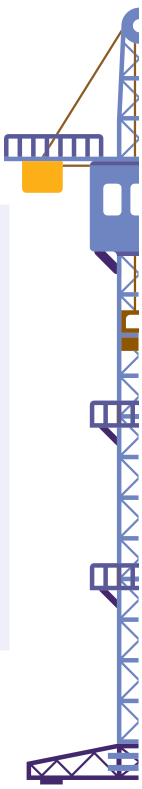
8x more likely to give an "A" rating on their manager's ability to **COACH & DEVELOP** them

4x more likely to report that their company supports **INNOVATION** efforts

THE PIVOTAL ROLE OF COACHING

The first aspect of the work environment as perceived by *career empowered* employees underscores once again the importance of the direct manager in creating a positive experience. However, in a world with frequent restructures and supervisory changes, an increase in team- and project-based work, and broader spans of control, placing full responsibility for coaching and mentoring on the manager's shoulders may be an outdated view. In a horizontal world, coaching must be supported by same-level peers, not just from above, in order to be sustainable. Knowledge sharing platforms and digital mentorship arrangements are helping to create a supportive culture, but more needs to be done to actively coach and develop employees.

Titan, the world's fifth largest watch manufacturer and a part of the Tata conglomerate, truly believes in the philosophy that all individuals have potential to succeed and should be empowered to lead at their level. The company has developed a tiered learning program, which utilizes an individualized approach to leadership assessment and development. This program meets high potentials' requirements at every step of their career. The programs instills not only autonomy but also a deep sense of pride in the employees that work for the organization. The results are clearly visible in the various instances of innovations and turnarounds the company has experienced over the course of its journey.



IDEAS, EVEN GOOD ONES, ARE NOT ENOUGH

Nearly 50% of companies say that they gather innovation ideas from their employees. However, crowd-sourced idea generation can fall flat if it fails to meet employee expectations on execution or doesn't deliver commercially-viable solutions. Organizations that are committed to building a culture of innovation need to think about the time, investment, and training required to truly embed this into their DNA.

HOW DOES YOUR COMPANY PROMOTE INNOVATION?

> "Experimentation is an effective way to de-risk innovation. Creating a minimum viable product (MVP) — the most basic version of the idea — extends the learning process and allows for the testing of hypotheses, the identification of various iterations and the opportunity to change course."
>
> *Amantha Imber, Chief Innovation Officer, Inventium*

ASK YOURSELF

- Is our current people strategy process future-focused and based on growth scenarios?
- Do we set aside sufficient time and budget for innovation and experimentation?
- Do we embrace a continuous learning approach beyond the traditional content that is delivered through classroom and online training?
- Do we have mechanisms in place to hire diverse talent, build a wide range of skills, and leverage diverse perspectives on project teams?
- Is our Career Framework detailed and dynamic enough to provide guidance on the skills and experiences needed for tomorrow's jobs?

If you answered "no" to two or more of the above, building for an unknown future may be a focus area for your organization this year.

LEAP FORWARD: ADVICE TO STAY AHEAD

CULTIVATE A THRIVING WORKFORCE

Creating an empowered workforce that responds to the changing work landscape means creating an environment where each individual employee can thrive. This new environment requires fresh styles of leadership, new rules for teaming, and updated thinking on how to develop and inspire.

To cultivate a thriving workforce, three elements must be in place.

Employees who:

1. Are healthy and energized
2. Can grow and contribute
3. Feel a sense of belonging

FOCUS ON HEALTH AND WELL-BEING

Embracing the "whole person" agenda requires attention to all aspects of employees' lives: their physical, social, financial, professional, and psychological well-being. Demonstrating care for employee health can be a significant attraction and retention strategy, but it also makes good business sense. Stress-related absences alone accounted for 11.7 million lost working days in Great Britain last year.[1]

With Health surpassing Wealth and Career as the number one concern for employees, this aspect of the value proposition will continue to grow in importance. Today, only 41% of companies are focusing on the physical well-being of employees, and even fewer have policies for psychological (37%) and financial (35%) well-being.

> Johnson & Johnson aspires to have the healthiest workforce by helping its employees live well across their whole lives, providing flexibility and a breadth of whole-life health benefits and wellness resources. It offers innovative programs such as the Energy for Performance® training (which links personal health to an individual's purpose and mission) and unique digital health tools (that conveniently connect users to their everyday health and well-being). Johnson & Johnson is dedicated to providing an environment that fosters healthy choices so employees can achieve their personal best in body, mind, and spirit, igniting full engagement at work, at home, and in their communities.

[1]Health and Safety Executive Statistics. http://www.hse.gov.uk/statistics/dayslost.htm. Last accessed March 2017.

FEELING ENERGIZED

People who describe themselves as "energized" at work (7+ on a scale of 1 to 10) view their work environment quite differently from those with lower reported energy levels. Below are the top ten differences.

WHAT IS DIFFERENT ABOUT THEIR WORK ENVIRONMENT?

83% feel they can bring their authentic selves to work — can "be themselves in their jobs" (compared to the overall global result of 68%)

CREATE A SENSE OF BELONGING

Employees are working more independently than ever before, while at the same time craving more collaboration. Office workers spend hours locked into one-to-one interaction with business machines, yet technology is bringing us closer together. How can organizations harness these opportunities and carve out a work environment that truly inspires? To help foster a sense of belonging, organizations can create communities of interest and networks that include people inside and outside the organization — experts from suppliers and customers, company alumni, and others in the broader talent ecosystem. Tapping into a broader network can also help employees to blend their social personas with their work personas to create connections without boundaries.

LEAP FORWARD: ADVICE TO STAY AHEAD

HELPING PEOPLE GROW AND CONTRIBUTE

It is clear that employees want more clarity on career options and more freedom to execute in the way they see fit. This provides each employee with the opportunity to contribute to the company's strategic agenda. A contribution culture does not need to be manager-led; rather, it could mean giving direction and getting out of the way. Setting up the right infrastructure is just the start. Exposing people to different experiences and reskilling individuals displaced by disruption are key to maintaining a thriving workforce. Removing complexity in decision making, implementing efficient knowledge management systems, and constantly realigning around goals and priorities are other ways that companies can ensure their culture supports employee growth and contribution.

> "Engagement survey data shows that employees' views on 'opportunity to learn and grow' and 'freedom to use my own judgement' track very consistently with their 'confidence in the future of the company.' These Thrive dimensions show greater levels of movement and sensitivity than standard engagement scores – providing organizations with the ability to see patterns develop before they become business critical."
>
> *Peter Rutigliano, Ph.D., Managing Director of Data Analytics, Mercer | Sirota*

A WORKPLACE THAT ALLOWS ME TO BE ME

Diversity & Inclusion (D&I) falls well beneath HR's top five priorities for the year:

Building a culture of D&I **16%**
Ensuring equitable pay **16%**
Retaining culturally diverse talent **14%**
Retaining female talent **9%**

While 96% of companies have some form of D&I initiative in place, only 14% of executives indicated that D&I investment would make a sizable difference to their company's performance. Given that the C-suite has identified talent scarcity as their number one concern, a culture where D&I is not a top priority risks alienating a substantial percentage of the working population.

An inclusive culture has the ability to attract diverse and talented individuals, but more critically this environment enables diverse segments to contribute and thrive. Fewer than 1 in 3 HR professionals say that their D&I strategy is aligned to their company's business goals. Making the link between inclusiveness and metrics around engagement and retention (both areas of focus for business executives), as well as articulating the relationship between inclusiveness and customer intimacy, can help to position D&I goals as both a vital risk mitigation strategy and a prerequisite for innovation and growth.

PROMOTING INCLUSIVENESS IN MEETINGS

- ✓ Send materials ahead of time to help people with different styles feel ready to contribute
- ✓ Make it a norm to encourage less outspoken individuals to contribute
- ✓ Set a "no interruptions" rule to allow each person a chance to fully contribute
- ✓ Rotate the meeting chair, starting with someone who has been quieter in the past
- ✓ Summarize all the points (including the divergent ones)
- ✓ Provide an opportunity for counter-challenges before decisions are finalized

ADAPTED FROM "CREATING AN INCLUSIVE CULTURE" REPORT, CORPORATE RESEARCH FORUM, OCTOBER 2016

> One of the key reasons that management attention and investment in D&I programmes have not yielded better results is that organisations have focused on increasing the proportion of people from underrepresented groups, rather than tackling the underlying culture.
>
> *Wanda Wallace and Gillian Pillans*
> *Authors of "Creating an Inclusive Culture" report*

ASK YOURSELF

- Are managers incentivized to promote a balanced and healthy work environment?
- Do we have thriving communities that foster a sense of belonging?
- Do our values and behaviors promote a climate of collaboration, inclusion, and contribution?
- Is it easy for new hires to join or for existing colleagues to get up-to-speed in a new area?
- Are people empowered to make decisions and take swift action based on what they believe is in the best interests of their customers?

If you answered "no" to two or more of the above, cultivating a thriving workforce may be a focus area for your organization this year.

LEAP FORWARD

A lot has been said about an organization's ability to bounce back when faced with adversity... but disruption brings adversity *and* opportunity, so let's explore three imperatives to enable organizations to bounce *forward*.

ATTRACT & RETAIN TOMORROW'S TALENT

OUR COMPANY HAS A COMPELLING & DIFFERENTIATED EVP

61% HR

57% C-suite

42% Employee

BUILD FOR AN UNKNOWN FUTURE

A CULTURE OF INNOVATION — EASIER SAID THAN DONE

86% of organizations say innovation is a core part of their agenda for this year

42% of employees say their company makes it easy to INNOVATE

CULTIVATE A THRIVING WORKFORCE

WHERE EMPLOYEES FEEL THE GREATEST SENSE OF BELONGING

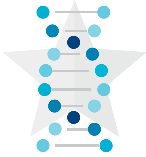
52% to company, department, manager, coworkers

42% to industry, profession, function

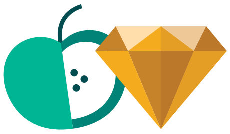
6% to clients

TOP TIPS TO WIN THE TALENT WAR

EMPOWERING YOUR WORKFORCE IN AN AGE OF DISRUPTION



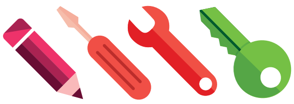
Align your Employee Value Proposition to your company's core DNA



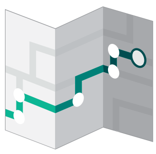
Focus on the "whole person" agenda, including Health and Wealth benefits

Define exciting career paths for a positive impact on retention

Take a chance on non-traditional talent who have potential but not experience

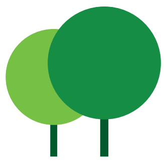


Mitigate risk by building a diverse portfolio of skills and a culture of innovation



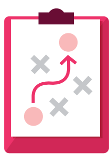
Quantify future-focused capability gaps through integrated people planning

Increase agility by simplifying decision making and encouraging talent mobility

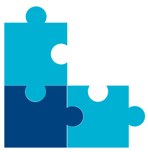


Accelerate progress through intentional developmental experiences and lifelong learning

Differentiate on a healthy workplace to address employees' top concerns



Understand talent flows and address choke points for key talent segments



Promote a contribution culture where everyone feels welcome to give input

Create a sense of belonging that resonates with your diverse workforce

IMPLICATIONS FOR HR

The C-suite certainly has People issues on their agenda this year. In fact, they see the increasing competition for talent even more acutely than HR does, and are planning bold changes to stay ahead. This focus on the talent agenda provides HR leaders with an incredible opportunity to align with business priorities and maximize their impact. To secure a seat at the table, HR leaders must continue to represent the needs of employees, while also keeping a finger on the pulse of external trends. Amplifying their voice requires leveraging data in ever more sophisticated ways to tell a story that is both compelling and relevant. Without talent insights from HR, CEOs' dreams and aspirations will struggle to leave the boardroom.

IF DISRUPTION IS THE NEW NORMAL, WHAT CAN WE DO TODAY TO PREPARE FOR TOMORROW?

Start by saying "yes" to flexible ways of working, listening to and trusting in your people, and being inspired by rule breakers from other industries or geographies. Recognize that disruption isn't something that happens *to* you, it's an opportunity to break away from the crowd. Top organizations shape the future through a culture of innovation, contribution, and inclusiveness. They outpace their competitors not by making decisions behind closed doors, but by empowering each and every employee to drive the company forward. These are the "power tools" that help companies not only survive, but thrive.

INDUSTRY REPORTS

Interested in industry-specific findings? This year's Global Talent Trends Study focused on 8 key industry sectors. Individual reports are available for Mercer Select Intelligence members through http://select.mercer.com and for non-members through www.imercer.com.

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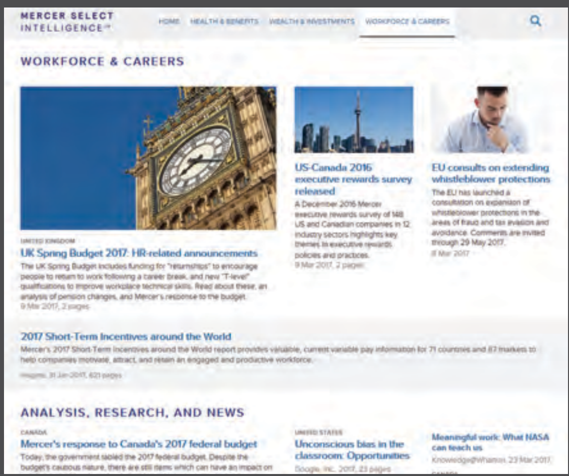

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MERCER CAREER

PROFESSIONAL PRACTICE AREAS

Talent Strategy
Forecast your talent needs and develop the strategies and infrastructure to ensure the right flow of talent to meet current and future business objectives. *Ask us about performance management design, virtual assessment centers, and Mercer Match.*

Talent Mobility
Optimize your talent investments by developing and executing on mobility strategies and maximizing the value of international assignments. *Ask us about AssignmentPro, Quality of Living report, Global Leadership Profile, and Mercer Passport.*

Workforce Rewards
Attract, retain, engage, and motivate your workforce through programs that reward the right behaviors and outcomes using globally consistent methodologies, insights, and data. *Ask us about pay equity/fair pay consulting, total rewards optimization, and Benefits Around the World reports.*

Executive Rewards
Align executive rewards with your business objectives to attract, retain, and motivate the best leadership talent to enhance business performance while meeting governance requirements. *Ask us for advice on executive plan design, performance measurement and goal setting, and pay disclosure.*

HR Transformation
Enhance the efficiency and effectiveness of your HR function and better align HR's focus with business needs to add long-term value. *Ask us about the HR function of the future, HR Capability Builder, and Mercer Learning.*

Workday Services
Go beyond the technical deployment with HR domain expertise and proprietary methodologies to quicken the time to value from your Workday Human Capital Management or Financials platform. *Ask us how technology can improve manager decision making and provide predictive analytics for change.*

Communication
Use proven methodologies and digital solutions to create and deliver results-driven communications to support major HR initiatives and M&A-related change. *Ask us about the Mercer Career View app, Belong portal, and award-winning Darwin benefits platform.*

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Duke Energy

Utility Industry Executive Compensation Trends

Discussion Draft

May 15, 2015

TOWERS WATSON

Today's Discussion

- Utility Compensation Trends Research Findings
  - Summary Highlights
  - CEO Compensation Trends
  - Annual Incentive Plan Practices
  - Long-Term Incentive Plan Practices
  - Pay for Performance
  - Stock Ownership Guidelines
- Key Trends and Issues Impacting the Utilities Industry
  - Say-on-Pay Trends
  - Workforce Research
  - Key Market Trends
  - Utility Industry Issues

Summary Highlights for 2015

Research consists of **25** publicly-traded, regulated US-based electric utilities

Revenue Summary

Median **$12.3B**

Average **$12.6B**

Revenue *increased by* **+8%** *in FY14*

Operating Income increased by **+15%** in FY14

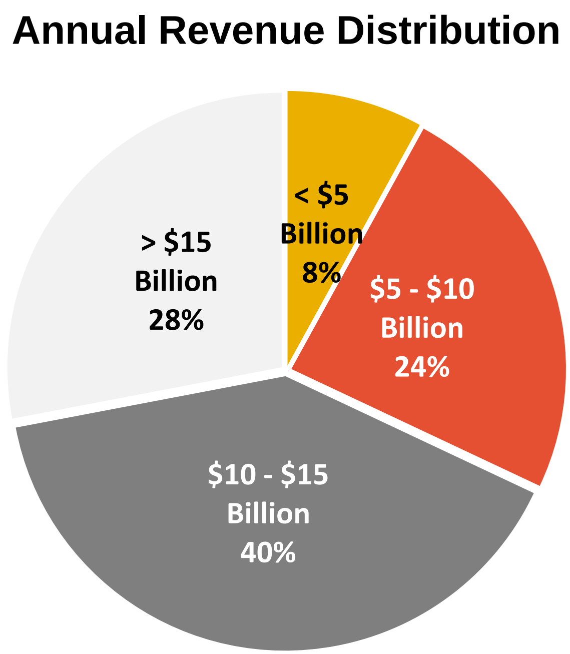
Almost **84%** of companies *paid their CEO's above target annual incentives* in FY14

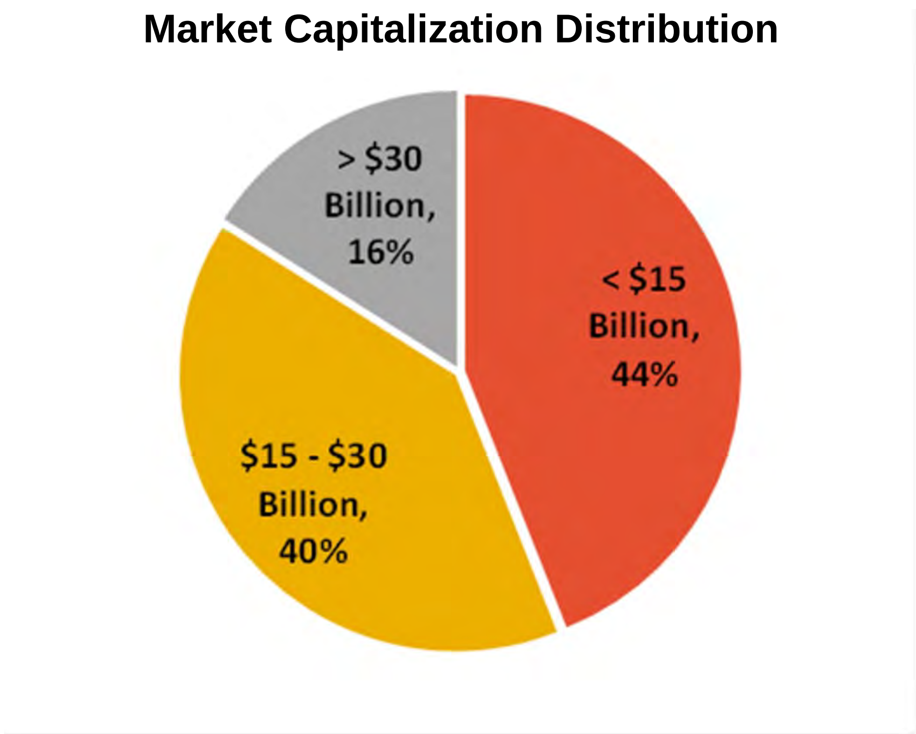
Continued use of *multiple incentive plan measures*

6% *increase in CEO total direct compensation* over 2014 at median

Summary Highlights
Companies Examined

- We examined the 2015 proxies of 25 regulated electric utilities with median revenues of $12.3B
  - Median revenues increased 8% from 2013 fiscal year-end



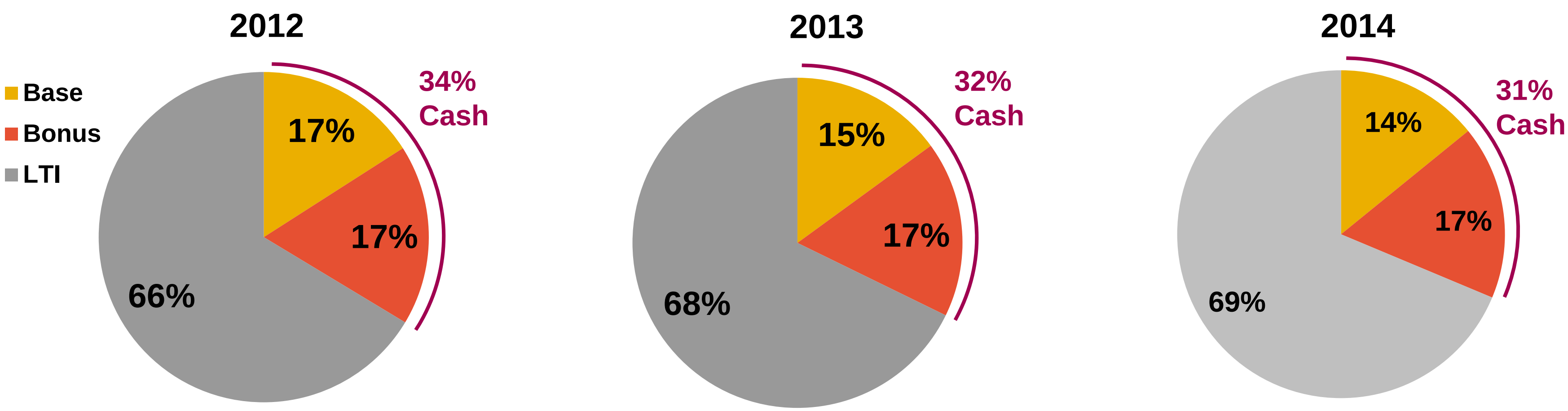


Source: Standard and Poor's Capital IQ database.

CEO Compensation
Year-over-Year Comparison

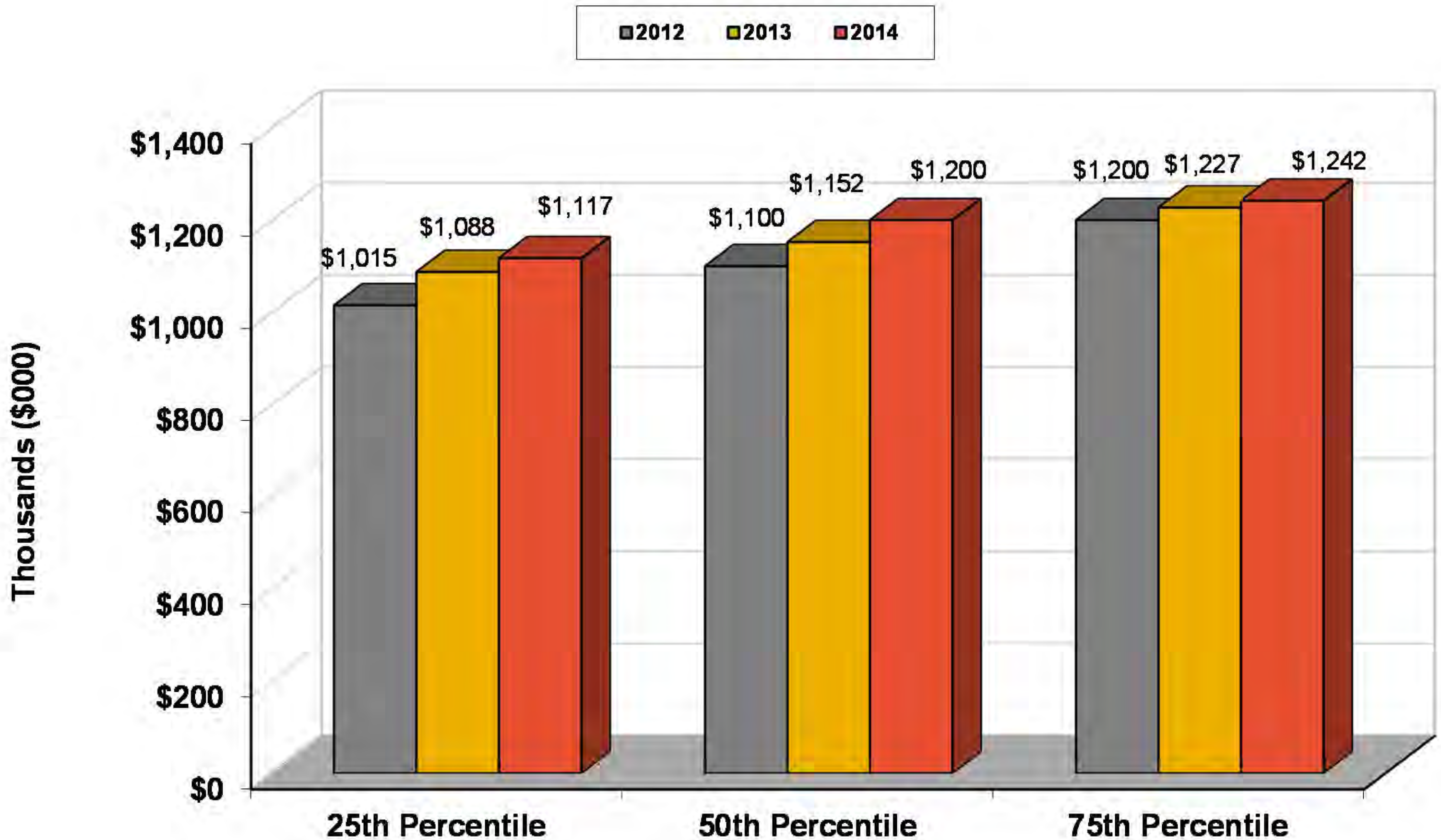
- CEO pay showed similar growth from prior year and target pay mix remains constant

		Median Change		
Pay Element	**Includes**	**2012 - 2013**	**2013 - 2014**	***Projected 2015***
Base Salary	Annual salary	3%	3%	**3%**
Target Bonus	Target annual bonus set at the beginning of the year	3%	5%	**3%**
Target Long-Term Incentives	Grant date value of stock options, restricted stock and performance plan awards	9%	8%	**5% - 10%**
Total target direct compensation increased 6%				



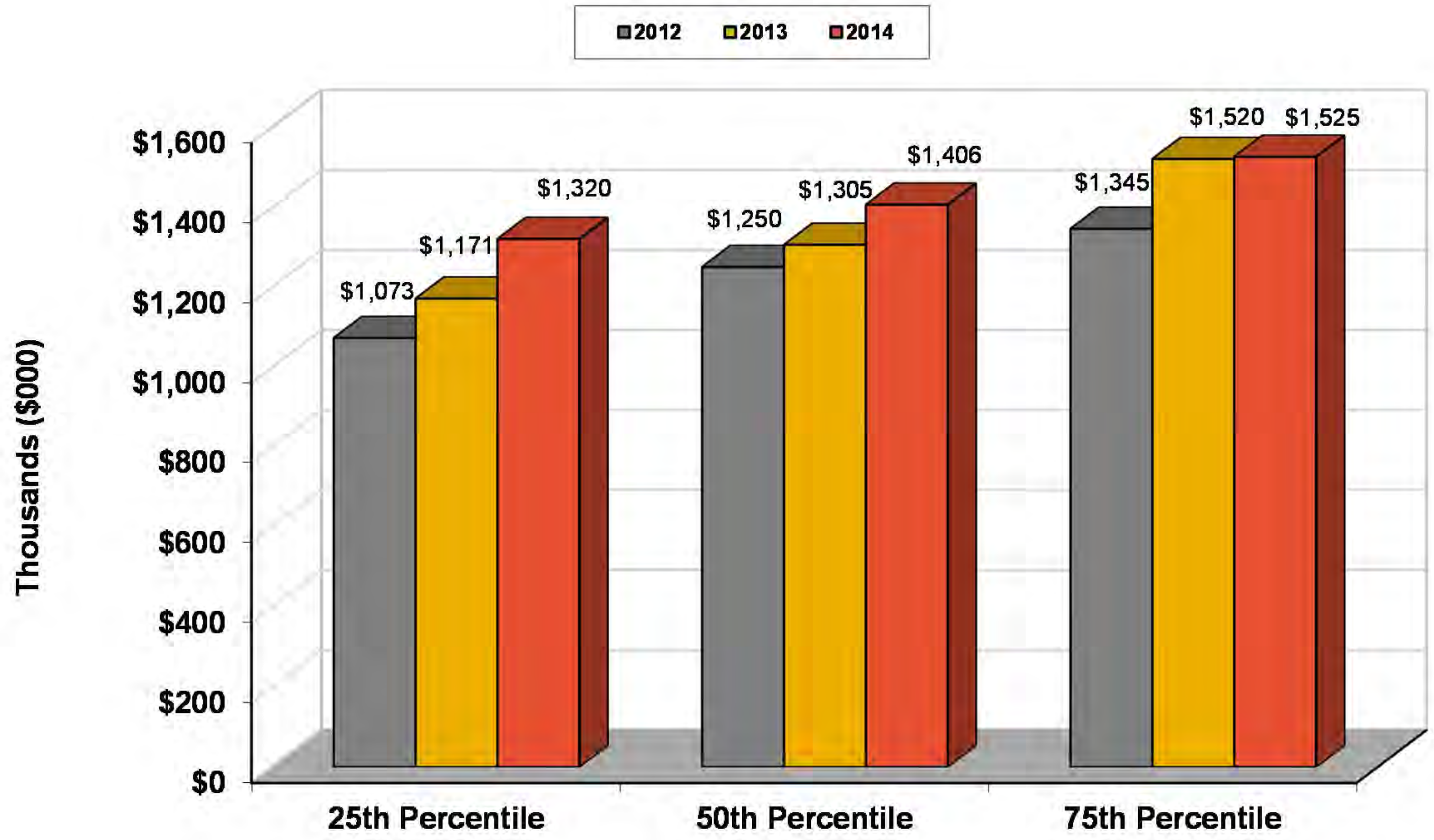
Source: Proxy filings.
Data reflects CEOs in the role for the past 36 months (19 of 25 companies) and represents median of variances.

CEO Compensation
Modest Base Salary Growth



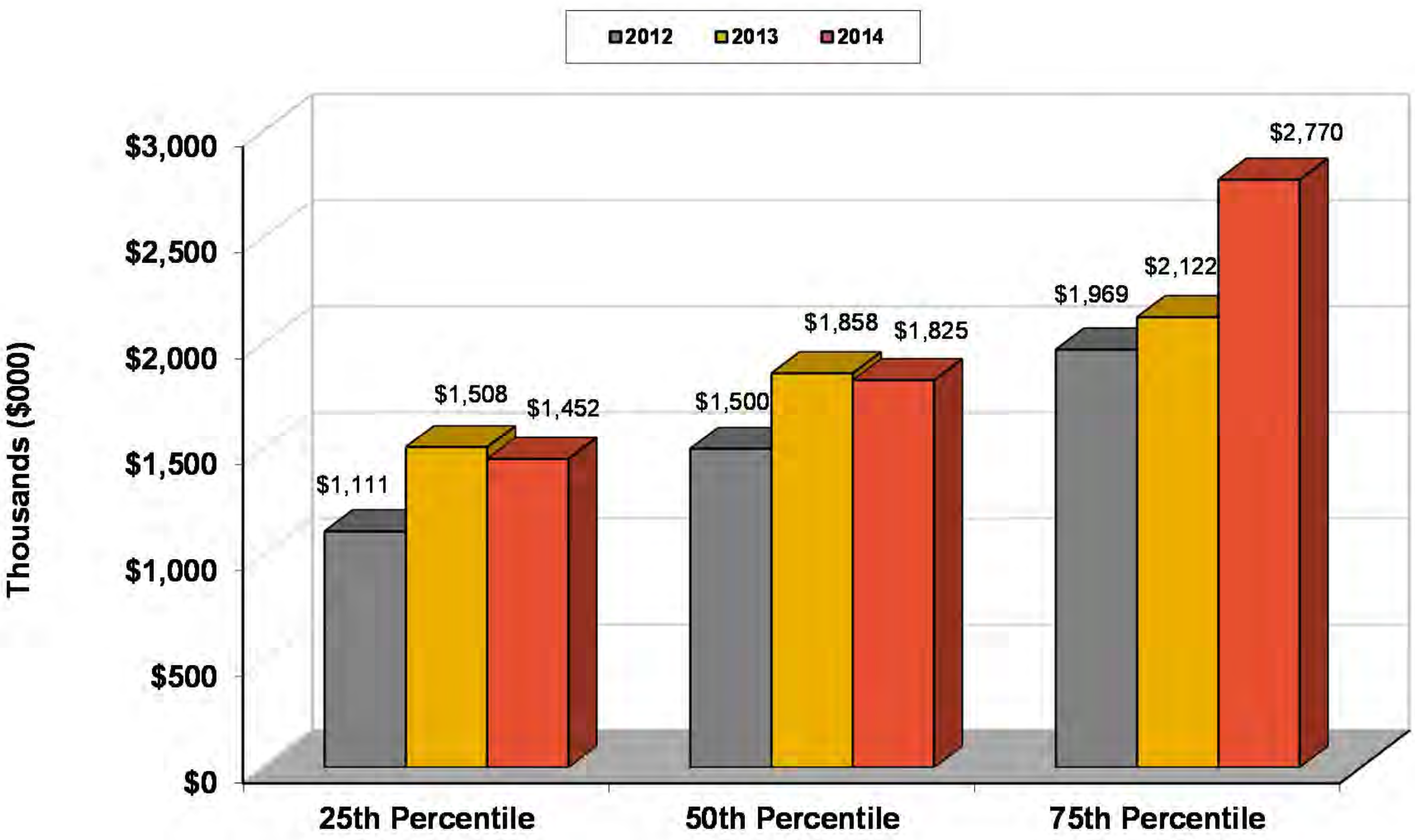
Source: Proxy filings.
Data reflects CEOs in the role for the past 36 months (19 of 25 companies).

CEO Compensation
Shot-term Incentive Targets Up Slightly



Source: Proxy filings.
Data reflects CEOs in the role for the past 36 months (19 of 25 companies).

CEO Compensation
Actual Bonus Payouts Decreased Slightly at Median

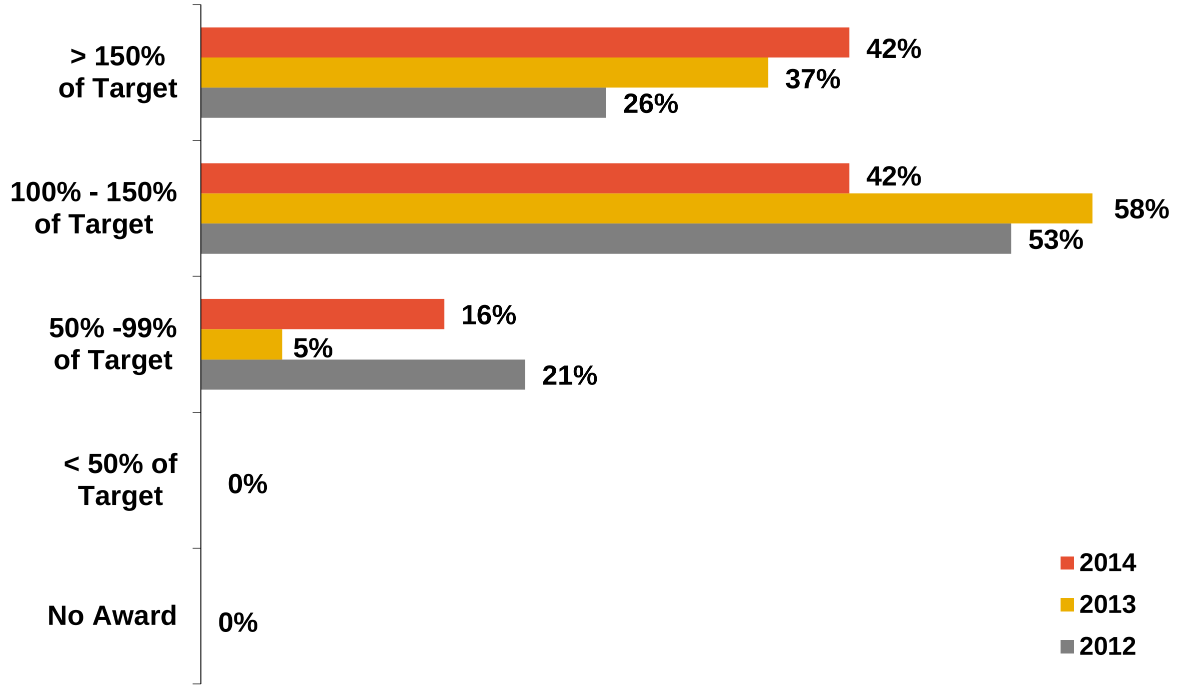


Source: Proxy filings.
Data reflects CEOs in the role for the past 36 months (19 of 25 companies).

CEO Compensation
Average Bonuses Higher in 2014 than 2013

- 84% of companies paid 100% of target or more in 2014, versus 95% and 79% in 2013 and 2012 respectively

Actual Payout as a Percent of Target

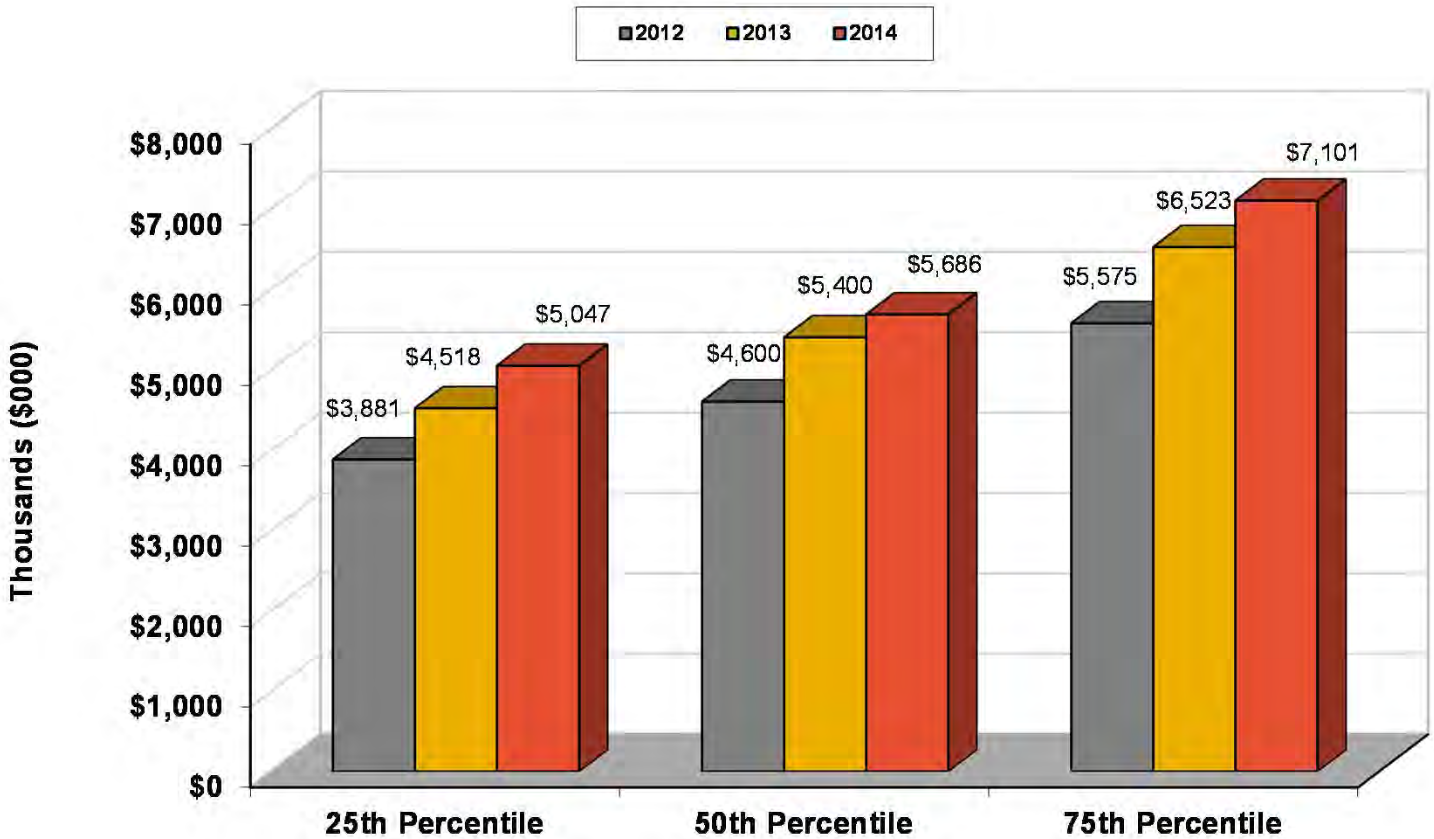


Average Actual Bonus as a Percent of Target
2012: 130% 2013: 142% 2014: 149%

Source: Proxy filings and Standard and Poor's Capital IQ.
Data reflects CEOs in the role for the past 36 months (19 of 25 companies).

CEO Compensation

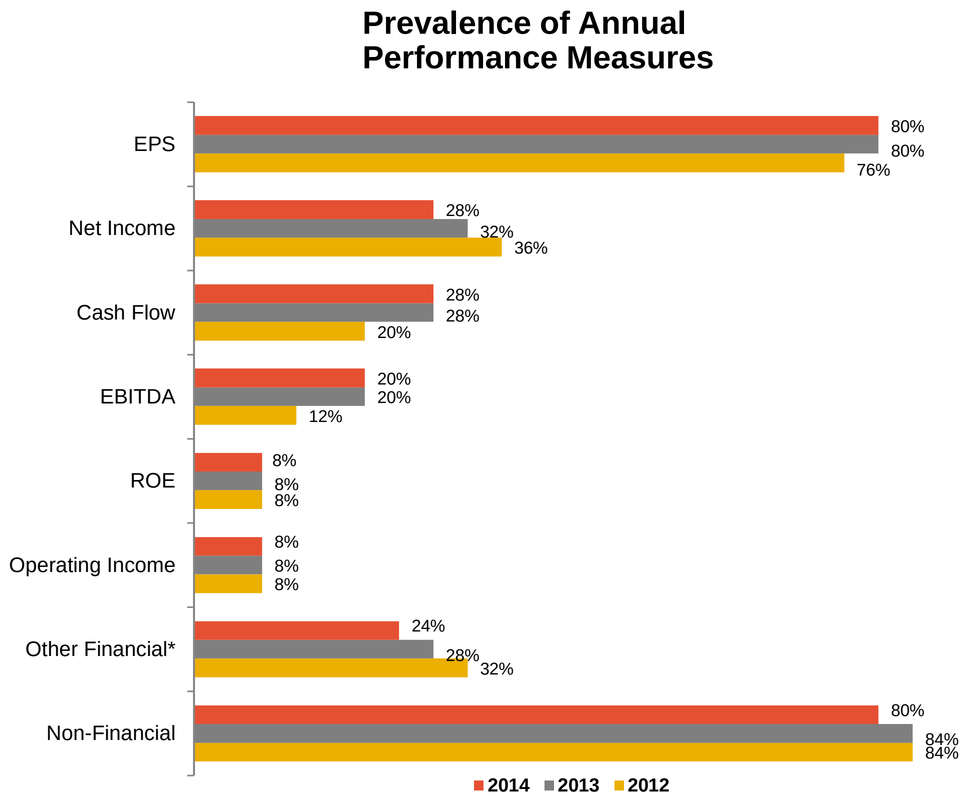
Continued Increases in Target Long-Term Incentive Grant Values

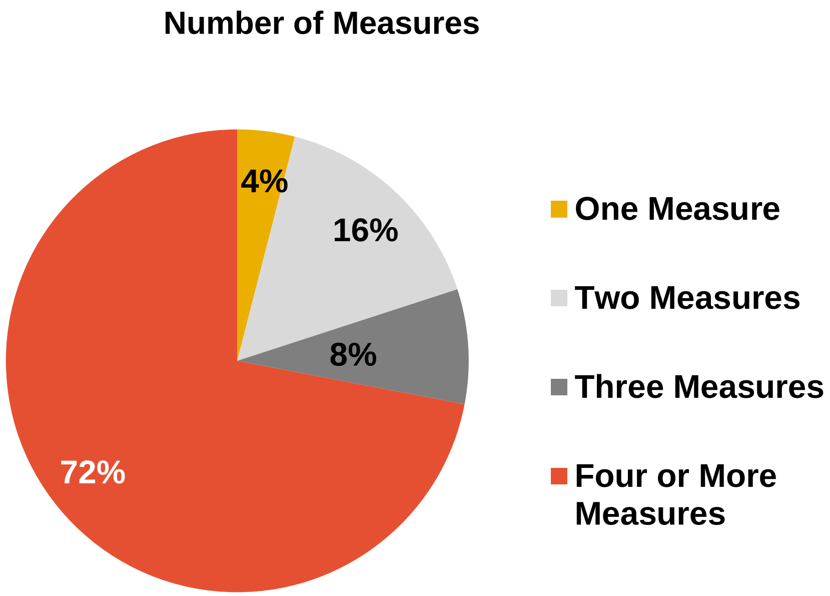


- LTI grants increased for 11 of 19 companies, predominantly due to the company's stock price increasing from the previous year (73%) versus an increase in the number of shares/units/options granted

Source: Proxy filings.
Data reflects CEOs in the role for the past 36 months (19 of 25 companies).
LTI data represents the accounting value of equity grants as disclosed in company's proxy filing.

Annual Incentive Design
Measures Focus on Balanced Scorecard





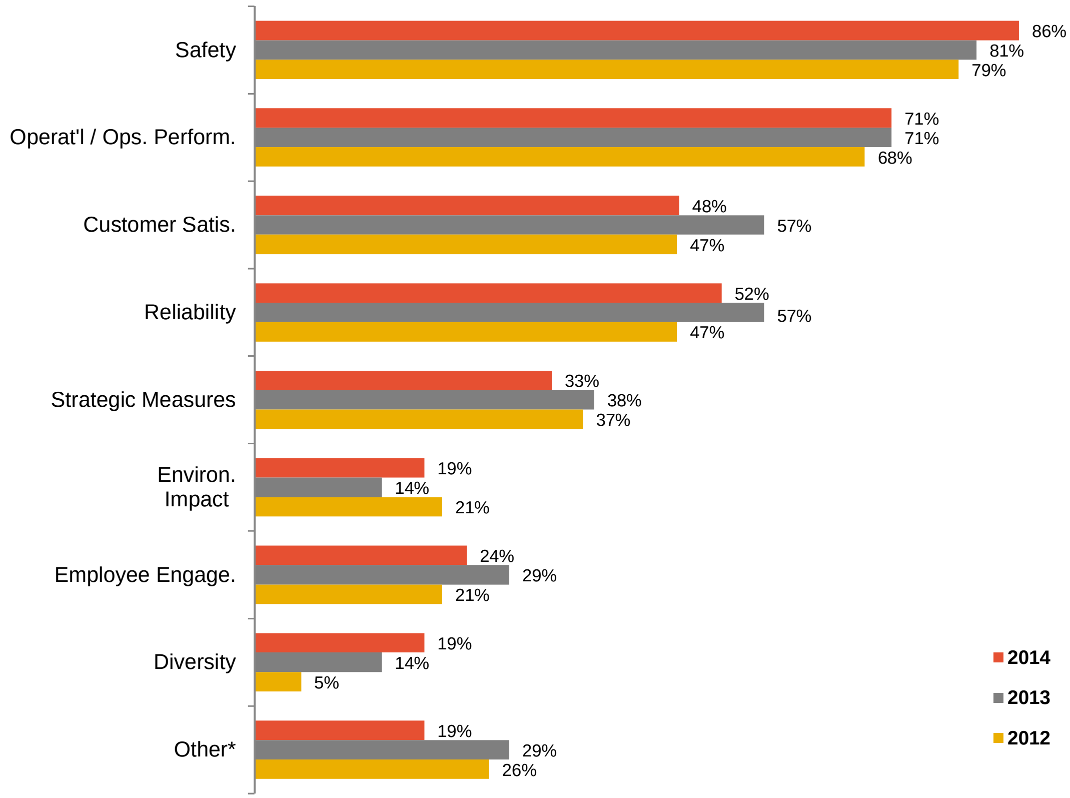
- 56% of utility companies consider **individual performance** in plan design

Source: Proxy filings.

Annual Incentive Design
Non-Financial Measures

- Safety remains the most common annual incentive plan non-financial measure, but noticeable increases in reliability, engagement and diversity

Prevalence of Non-Financial Measures

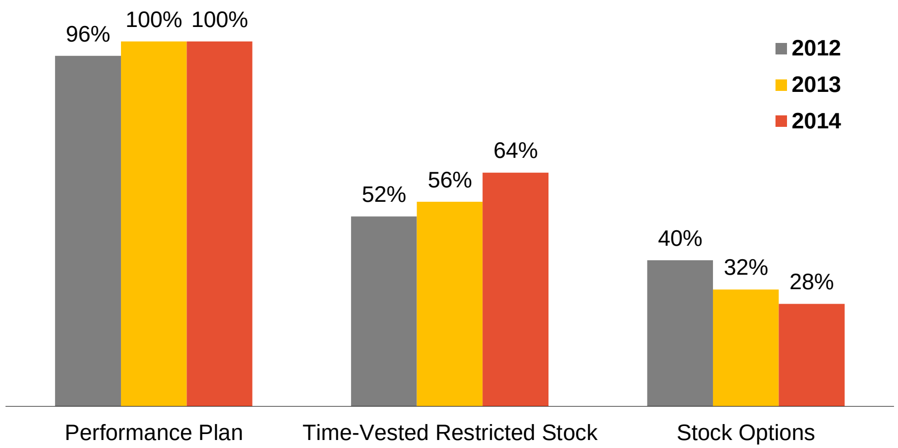


Source: Proxy filings.
* Examples of “Other” include merger effectiveness, performance improvement, outage rate and regulatory compliance.

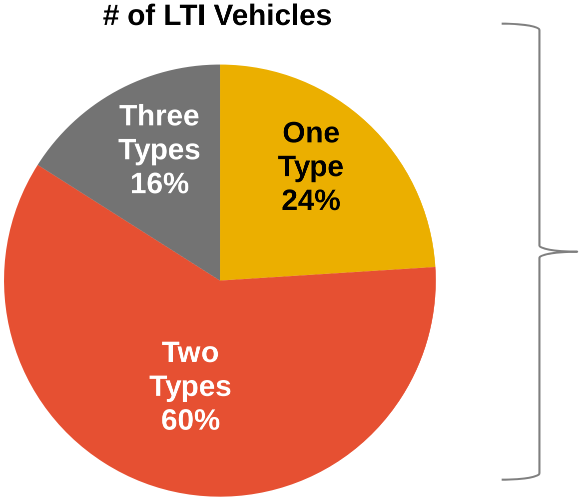
Long-Term Incentive Design

Number and Type of Vehicles

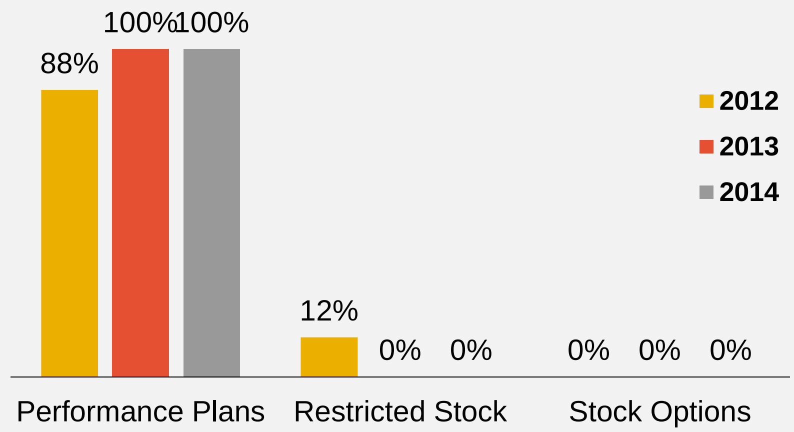
LTI Vehicle Prevalence



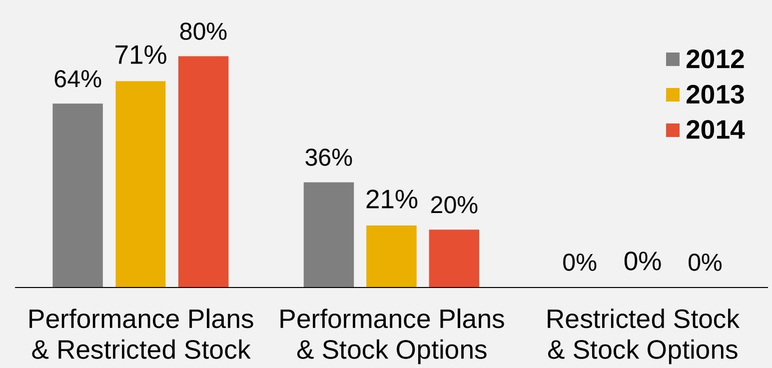
# of LTI Vehicles



Companies using only one vehicle



Companies using two vehicles

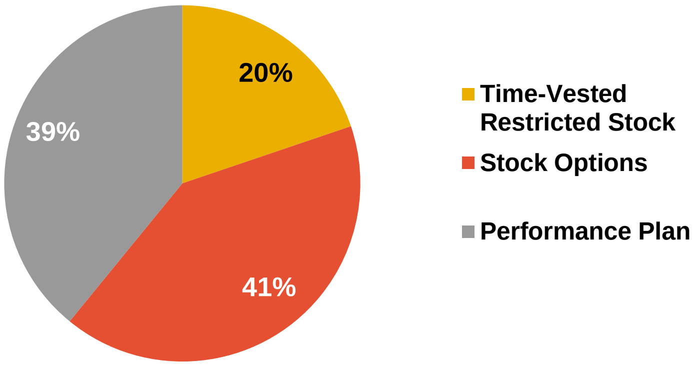


Source: Proxy filings.

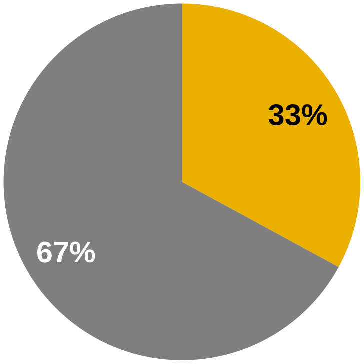
Long-Term Incentive Design
Use of Multiple LTI Vehicles

- Average LTI award mix is more weighted toward performance plans but more so when only two equity vehicles are used

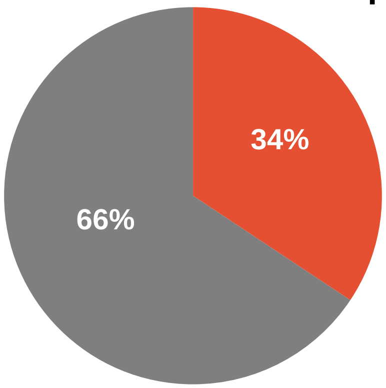
3 Vehicle Average Mix



2 Vehicle Average Mix (Performance Plan and Restricted Stock)



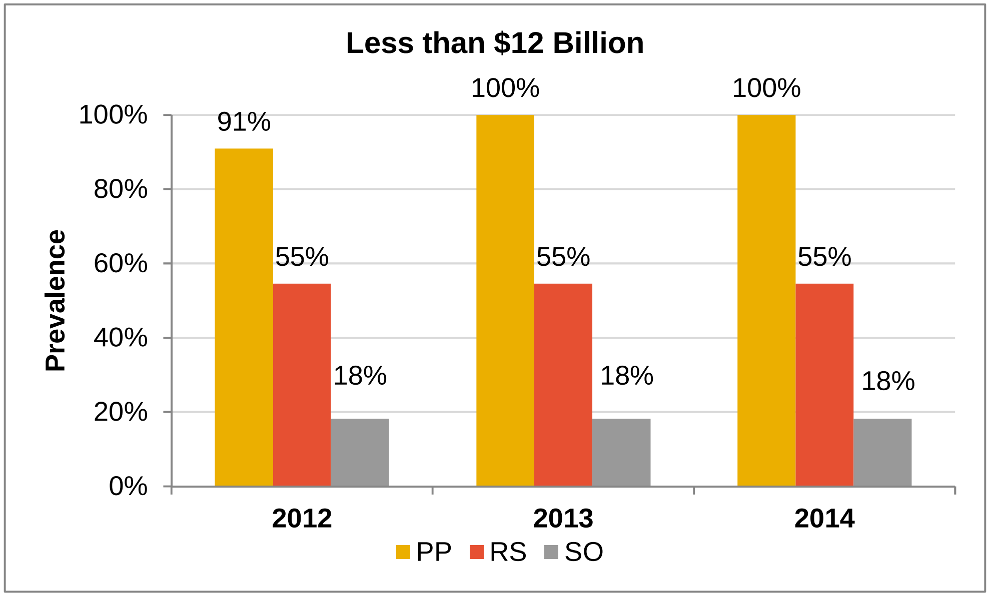
2 Vehicle Average Mix (Performance Plan and Stock Options)

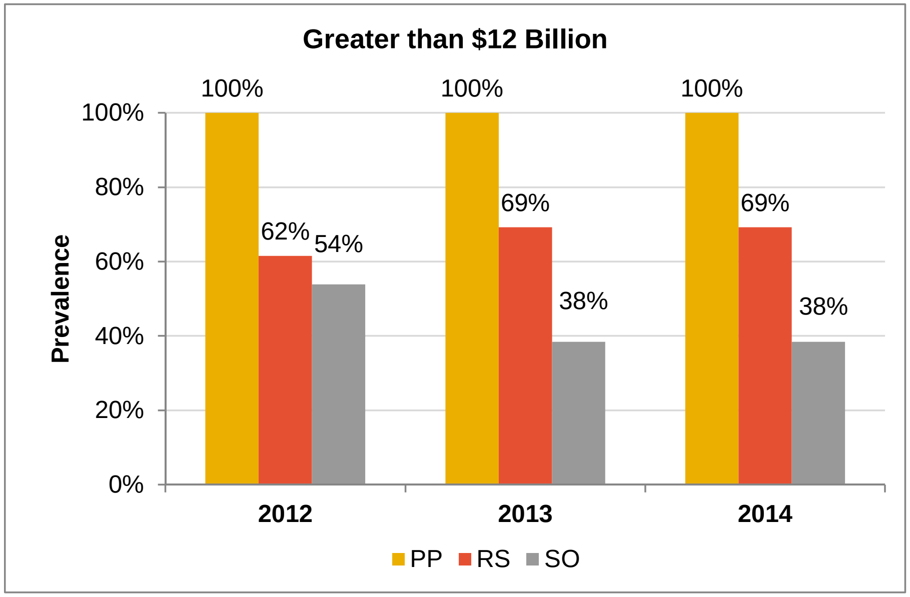


Source: Proxy filings.

Long-Term Incentive Design
Vehicle Prevalence Based on Company Size

- Performance plans are used among all utilities within the sample
- Restricted shares and stock options are more prevalent among utilities with revenues greater than $12 billion

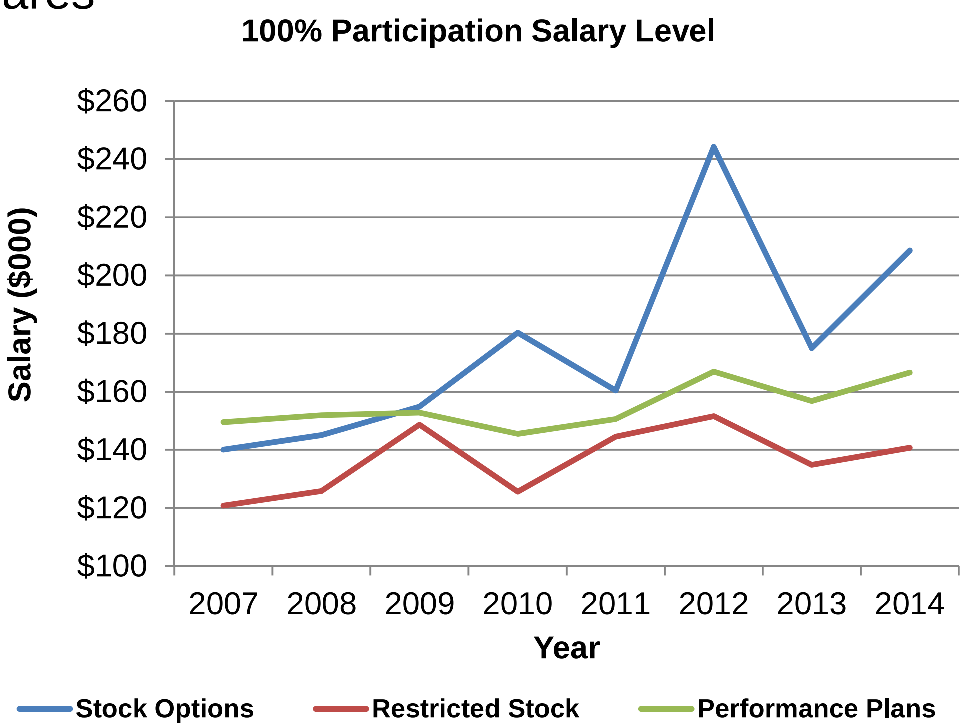




Source: Reflects 24 of the 25 utilities that participated in *TW US CDB Energy Services Survey* over the last three years.

Long-Term Incentive Design
Participation Levels Decrease

- LTI participation levels show a modest decrease year-over-year
- Restricted stock is often granted deeper within organizations given the retention impact of awards
- Stock option participation tends to be more limited than restricted stock and performance shares

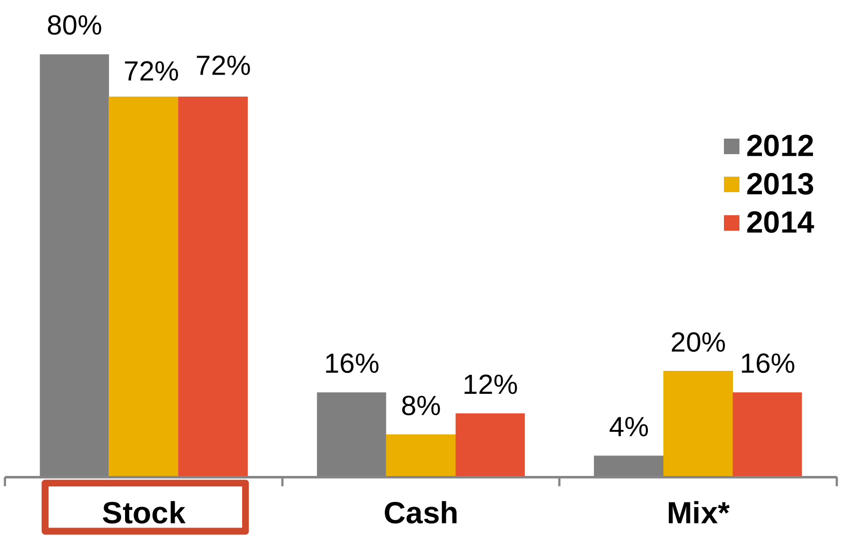


Source: 2007 – 2014 *Towers Watson U.S. Long-Term Incentive Plan Report – Energy Services Industry*.

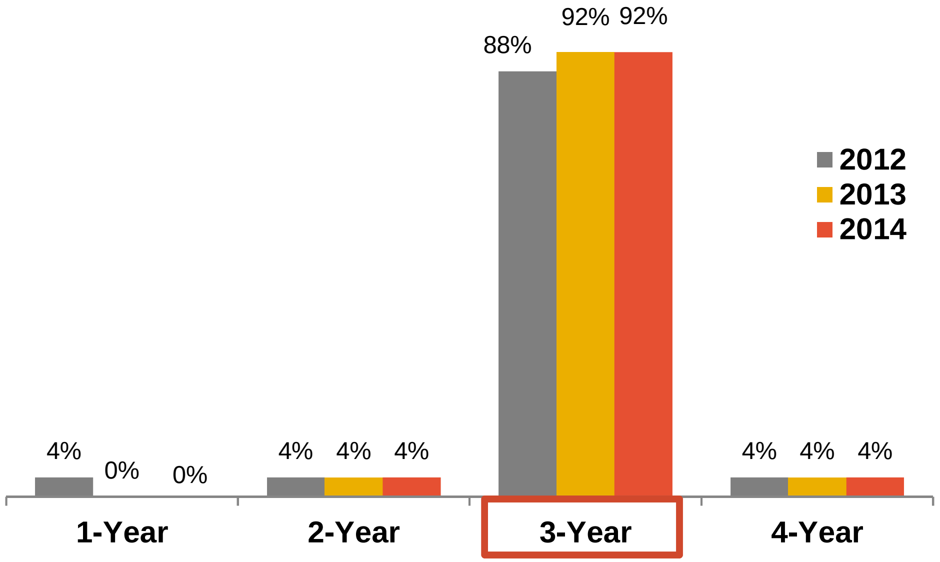
Long-Term Incentive Design
Performance Plans

- Performance plans typically pay out in stock based on a three-year performance cycle

Prevalence of performance plan payout



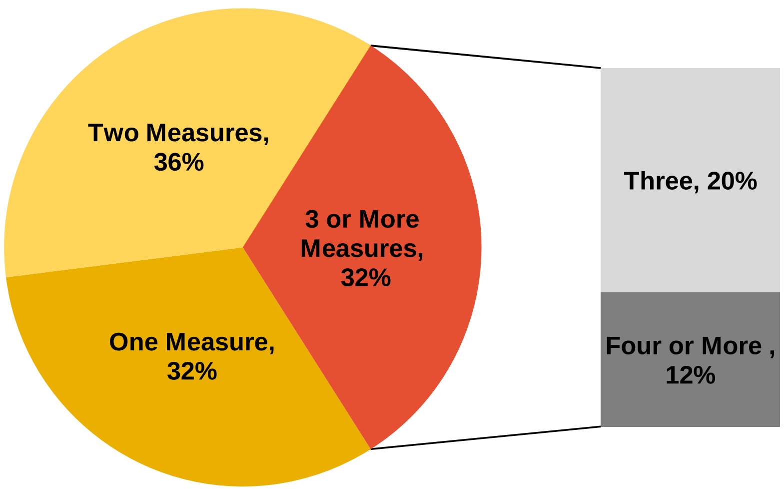
Prevalence of performance plan cycle



Source: Proxy filings.
* “Mix” refers to a mix of stock and cash.

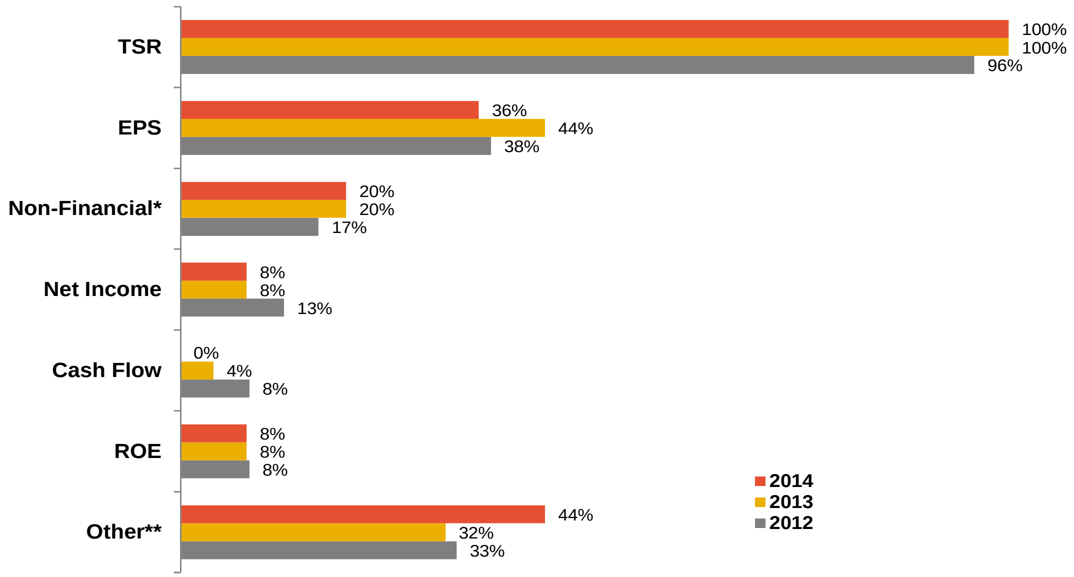
Long-Term Incentive Design
Performance-based LTI Measures

Number of Measures



- 100% of companies with a **single** measure use **TSR**

Performance Measures

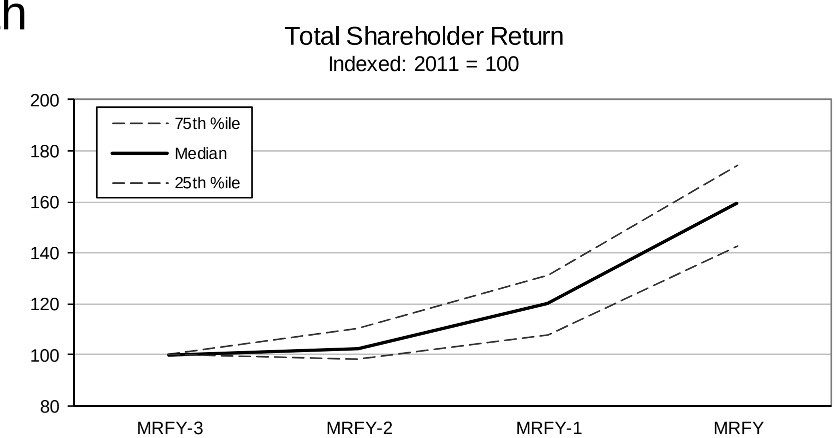


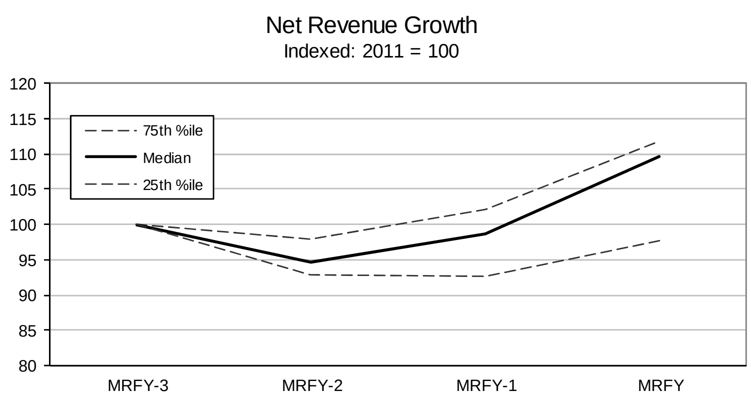
Source: Proxy filings.

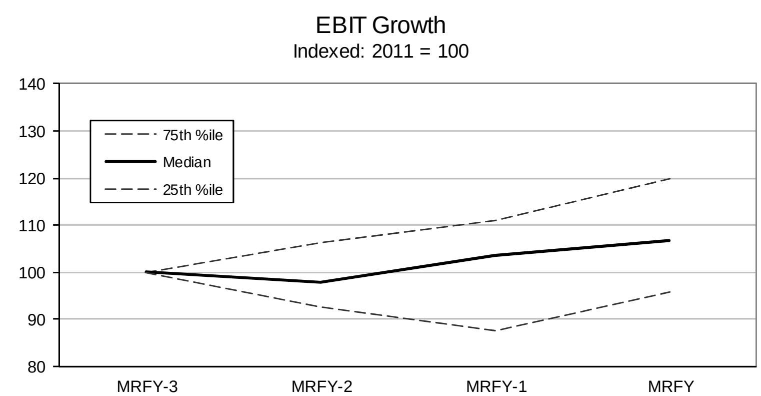
Pay For Performance

TSR Performance Has Been Strong, Revenue Growth and Profitability Increasing

- Overall, median 3-year TSR is 17%
  - All but one company had positive TSR; all but three companies had double digit TSR growth





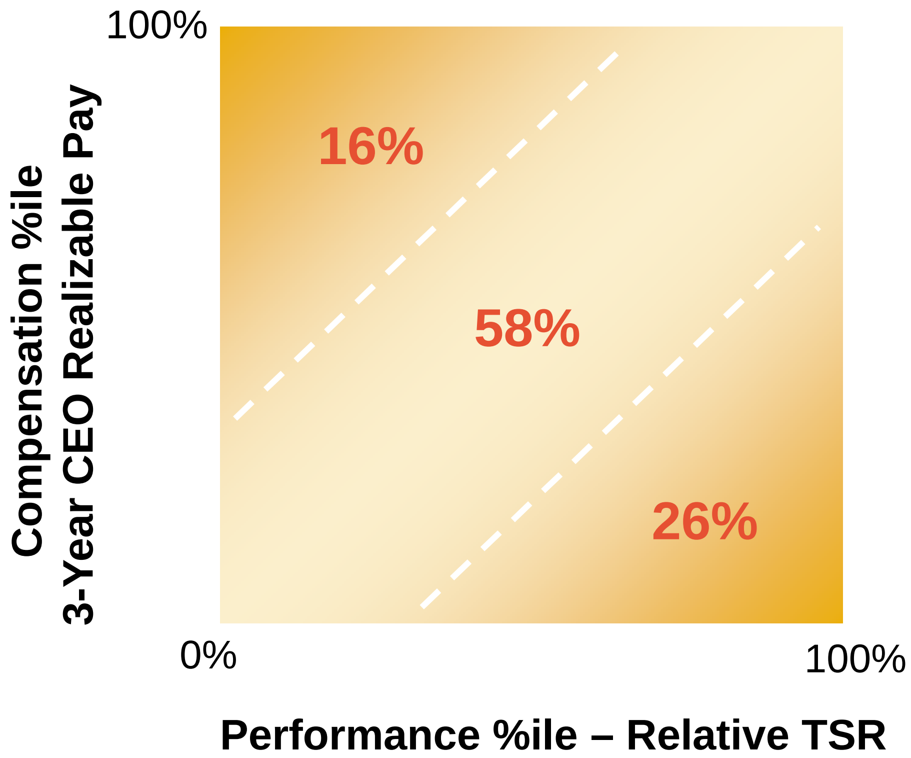


MRFY = Most recent fiscal year
*Based on a sample of 19 companies with no change in CEO from 2012 - 2014

Pay For Performance

Realizable Pay Alignment with Performance

- Over half of the utilities* under study fall within the alignment zone, though just over 25% fall within the high performance-low realizable pay category



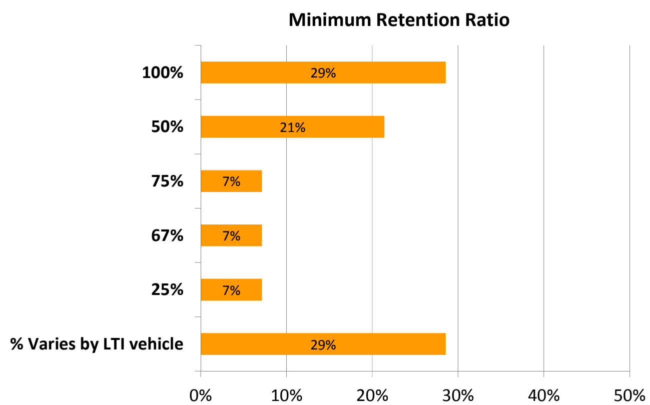
*Based on a sample of 19 companies with no change to CEO from 2012 - 2014

Stock Ownership Guidelines
Multiples of Salary and Retention Ratios

- Stock ownership guidelines structured as a multiple of base salary are most common and a majority of utilities include a retention policy
- 92% of utilities reported stock ownership guidelines as a multiple of salary

Multiple of Base Salary Reported	Position			
	CEO	CFO's	EVP's, SVP's & Div. Heads	VP's
Lowest	3X	2X	2X	1X
Highest	7X	4X	4X	1X
Most Common	***5X***	***3X***	***3X***	***1X***

- 56% of utilities include a retention policy as part of their stock ownership guidelines with varying degrees of minimum retention for future equity grants

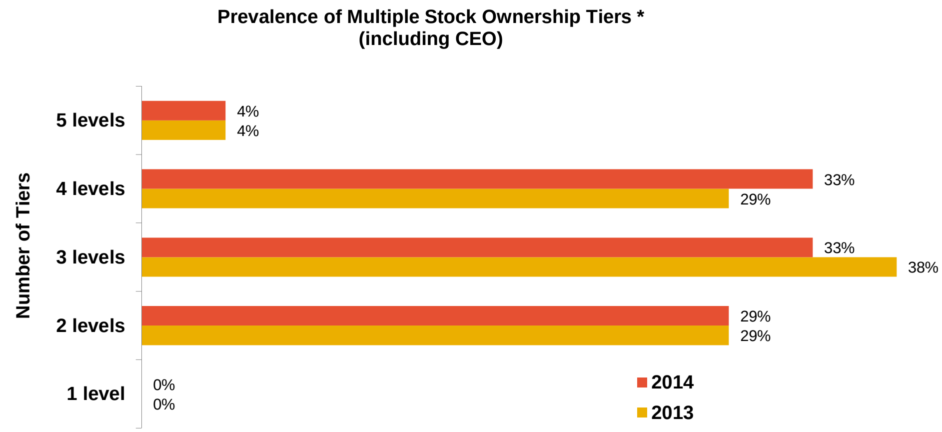


Source: Proxy filings.

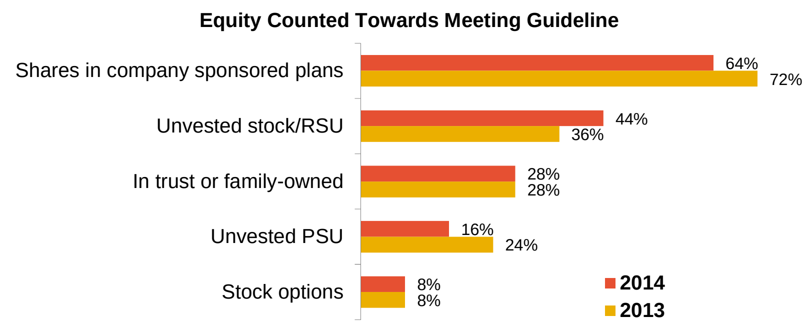
Stock Ownership Guidelines

Multiples of Salary and Retention Ratios

- Most stock ownership plans are structured to include executives two to three tiers below the CEO



- Most companies count equity in company sponsored plans and unvested stock towards the ownership guideline



Most utilities allow executives five years to meet ownership guidelines

Source: Proxy filings.
* 1 of the 25 companies reported using ranges rather than discrete multiples.

Key Trends and Issues Impacting the Utility Industry

Say-On-Pay
Early 2015 Results

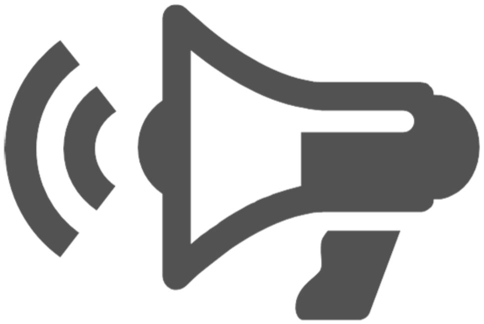
A comparison of say-on-pay and equity-plan vote recommendations and outcomes for new and amended plans in 2015

Say on pay			Equity plans	
General Industry	Utilities		General Industry	Utilities
90%	97%	Average support in 2015 to date	90%	95%
11%	0%	ISS negative vote recommendations	20%	0%
1%	0%	Failure rate	0%	0%

Source: Towers Watson Executive Compensation Resources analysis; results based on 151 companies reporting results from January 1, 2015, to April 7, 2015, for say-on-pay votes and 58 for equity plan votes at Russell 3000 companies. ISS recommendations confirmed using ISS Governance Analytics.

Say-On-Pay
Disclosure Practices — Equity Plan Proposals

- Utilities/Energy Companies are enhancing their disclosure
  - Almost half (44%) discuss share use
  - Two-thirds (67%) summarize key best practices followed
  - About three-quarters (78%) provide summaries of changes which may include several of the following:
    - — Add double-trigger vesting
    - — Add clawback policy
    - — Remove share-recycling provisions
    - — Limit dividends to shares earned/vested
    - — Adopt minimum vesting provisions

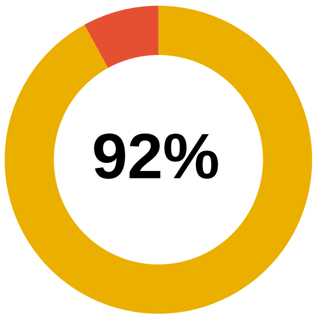


Source: Towers Watson Executive Compensation Resources and company proxies.

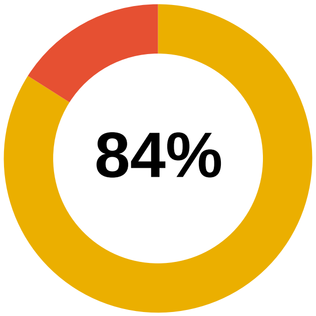
Say-On-Pay

Compensation Discussion and Analysis (CD&A) elements in the 2015 utility proxies

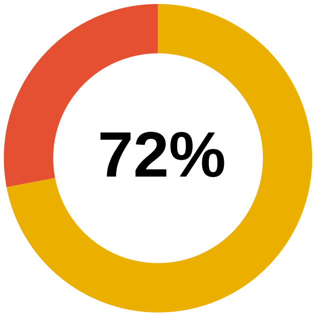
Executive summary



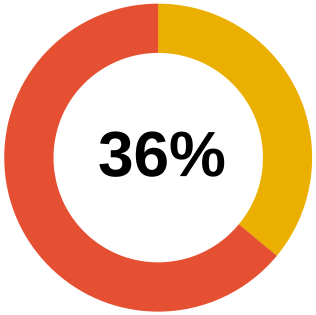
Pay mix chart



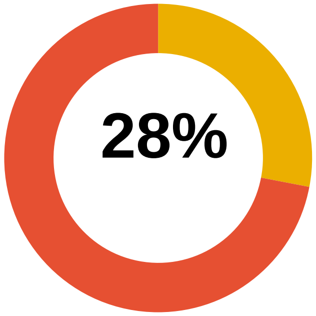
Best practice list



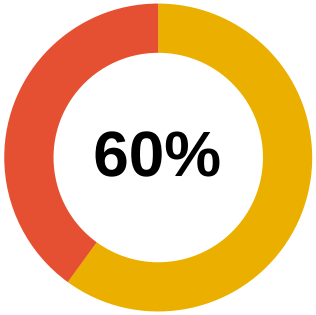
Forward-looking disclosure



Pay-for-performance disclosure



Shareholder engagement



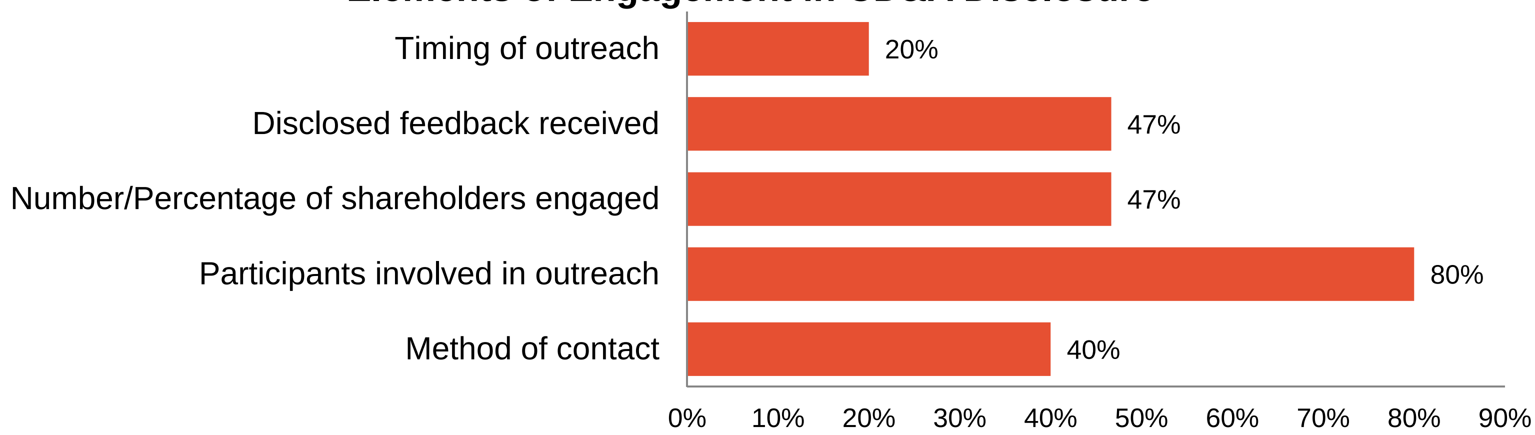
Source: Towers Watson Executive Compensation Resources and company proxies.

Say-On-Pay

Disclosure of Shareholder Engagement

- 60% of the utilities examined provide detailed disclosure of shareholder engagement (e.g. annually holding discussions with shareholders, disclosing feedback received from discussions)
  - This is an significant year-over-year increase, only 24% of the utilities reported details on shareholder engagement in their 2014 proxy
  - Shareholder engagement remains much lower in the general industry, around 15% year-over-year

Elements of Engagement in CD&A Disclosure



Source: Towers Watson Executive Compensation Resources and company proxies.

Workforce Research

Organizations continue to face challenges attracting and retaining talent

Talent mobility has increased.

48% of employers indicate that hiring activity has increased compared to last year.

52%

35% of employers report that turnover is rising.

56%

Retention risk is high.

46% of employees think their organization does a good job of hiring.

42% of employees think their organization does a good job of retaining highly qualified people.

Utilities

Sources: *Towers Watson 2014 Global Workforce Study, 2014 Global Talent Management and Rewards Study*

Workforce Research
Attraction Drivers

	Total Global Sample		Utilities	
	Employer View	Employee View	Employer View	Employee View
1	Career advancement opportunities	Base pay/salary	Career advancement opportunities	Job security
2	Base pay/salary	Job security	Base pay/salary	Base pay/salary
3	Challenging work	Career advancement opportunities	Job security	Career advancement opportunities
4	Organization's reputation as good employer	Learning and development opportunities	Heath care and wellness benefits	Organization's reputation as good employer
5	Organization's mission/vision/values	Challenging work	Organization's reputation as good employer	Learning and development opportunities
6	Learning and development opportunities	Organization's reputation as good employer	Challenging work	Challenging work

Sources: *Towers Watson 2014 Global Workforce Study, 2014 Global Talent Management and Rewards Study*

Workforce Research
Retention Drivers

	Total Global Sample		Utilities	
	Employer View	Employee View	Employer View	Employee View
1	Base pay/salary	Base pay/salary	Career advancement opportunities	Base pay/salary
2	Career advancement opportunities	Career advancement opportunities	Relationship with supervisor/manager	Length of commute
3	Relationship with supervisor/manager	Trust/Confidence in senior leadership	Base pay/salary	Career advancement opportunities
4	Manage/Limit work-related stress	Job security	Learning and development opportunities	Trust/Confidence in senior leadership
5	Learning and development opportunities	Length of commute	Manage/Limit work-related stress	Physical work environment
6	Short-term incentives	Relationship with supervisor/manager	Short-term incentives	Job security

Sources: *Towers Watson 2014 Global Workforce Study, 2014 Global Talent Management and Rewards Study*

Key Market Trends

1 **Develop and/or re-visit Total Rewards Strategy and Employee Value Proposition to ensure continued alignment with relevant employee attraction and retention drivers**

- Get the fundamentals in place
- Focus on communication of existing HR programs
- Strengthen career management and career advancement opportunities for key employees

2 **Review incentive plans, balancing pay for performance and the need for retention**

- Ensure understanding by plan participants
- Calibrate metrics and ensure appropriate goal-setting
- Analyze equity program delivery to ensure use of appropriate vehicles and line of sight for participants
- Consider approaches to workforce segmentation and performance differentiation

3 **Optimize the effectiveness of shareholder disclosures to facilitate shareholder support**

- Ensure EC philosophies and programs are simple to understand
- Clearly articulate links between business performance and pay outcomes, given new SEC guidance
- Illustrate the alignment of realizable pay and performance
- Strike a balance between compliance and marketing

Utility Industry Issues

1 Stagnant Energy Demands

- Utilities have been investing heavily in themselves over the past 5 years but with stagnant demand, return on equity has decreased
- Regulators have been cutting allowed returns to utilities

2 2015-2016 Environmental Regulations

- Closures of coal plants continues ahead of environmental regulations taking effect in 2015-2016
- Continued focus on cost reductions given demands of compliance with environmental regulations

3 Talent Management Key Area of Focus

- Level of turnover in the utility industry outpacing general industry given large number of employees (baby boomers) eligible or soon eligible to retire
- Retention of critical staff and development of “bench strength” is vital for utilities continued success
- Increased mobility of the workforce puts even greater pressure on the employment deal offered by utilities

Appendix

Appendix: Regulated Electric Utilities Financials

- The table below outlines the regulated electric utilities reviewed for this report:

Company	Ticker	Revenue ($MM)[1]	Assets ($MM)[1] as of FYE	Market Cap ($MM)[2]
AES Corporation	AES	$17,146	$38,966	$8,593
Ameren Corporation	AEE	$5,838	$22,676	$9,936
American Electric Power Co., Inc.	AEP	$17,020	$59,633	$26,934
CenterPoint Energy, Inc.	CNP	$9,226	$23,200	$8,875
CMS Energy Corp.	CMS	$7,179	$19,185	$9,132
Consolidated Edison Inc.	ED	$12,919	$44,308	$17,568
Dominion Resources, Inc.	D	$12,436	$54,327	$40,923
DTE Energy Co.	DTE	$12,301	$27,974	$13,897
Duke Energy Corporation	DUK	$23,427	$120,709	$53,038
Edison International	EIX	$13,413	$50,186	$19,979
Entergy Corporation	ETR	$12,495	$46,528	$13,477
Eversource Energy	ES	$7,742	$29,778	$15,447
Exelon Corporation	EXC	$27,429	$86,814	$27,747
FirstEnergy Corp.	FE	$14,629	$52,166	$14,362
NextEra Energy, Inc.	NEE	$17,021	$74,929	$43,769
NiSource Inc.	NI	$6,471	$24,866	$13,151
PG&E Corp.	PCG	$17,090	$60,127	$24,868
PPL Corporation	PPL	$11,499	$48,864	$21,170
Public Service Enterprise Group Inc.	PEG	$10,886	$35,333	$20,060
SCANA Corp.	SCG	$4,951	$16,852	$7,612
Sempra Energy	SRE	$11,035	$39,732	$26,462
Southern Company	SO	$18,467	$70,923	$39,673
UGI Corporation	UGI	$8,277	$10,093	$5,640
Wisconsin Energy Corp.	WEC	$4,997	$15,163	$10,915
Xcel Energy Inc.	XEL	$11,686	$36,958	$17,026
25th Percentile		$8,277	$24,866	$10,915
Average		$12,623	$44,412	$20,410
50th Percentile		$12,301	$39,732	$17,026
75th Percentile		$17,020	$54,327	$26,462

Notes:
Source: Standard and Poor's Capital IQ
1. Revenues and assets are as of 2014 fiscal year end.
2. Market cap is as of March 9, 2015.
3. Eversource Energy formerly known as Northeast Utilities