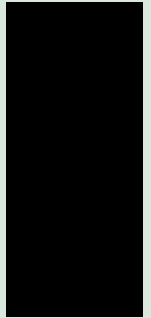
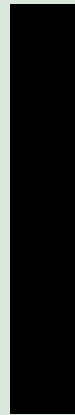
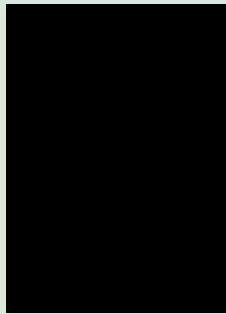
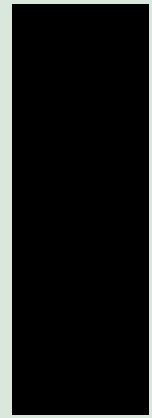
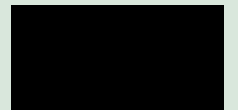
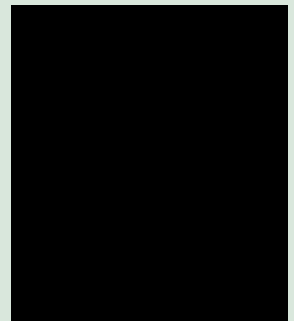
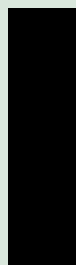
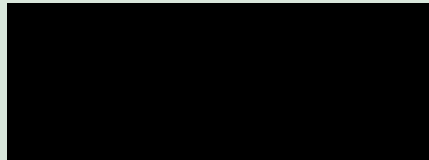
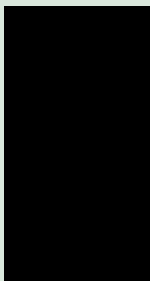


Perspectives



The Human Capital Framework

Making the Connections That Drive Business Results



As global business challenges become more complex, so too do human capital decisions. Organizations face increasing pressure to disrupt and transform existing business models, requiring HR leaders to quickly grasp the implications of these changes for their programs and the work of their HR organizations. In such a dynamic environment, how do companies develop human capital solutions that support their corporate strategy, and will attract and retain the high-value talent required to achieve their organization's business goals? To begin, HR leaders need the ability to view their programs from a holistic perspective in order to understand how different solutions connect and interact with each other.

To provide a structure and mindset for thinking about all aspects of human capital programs in an

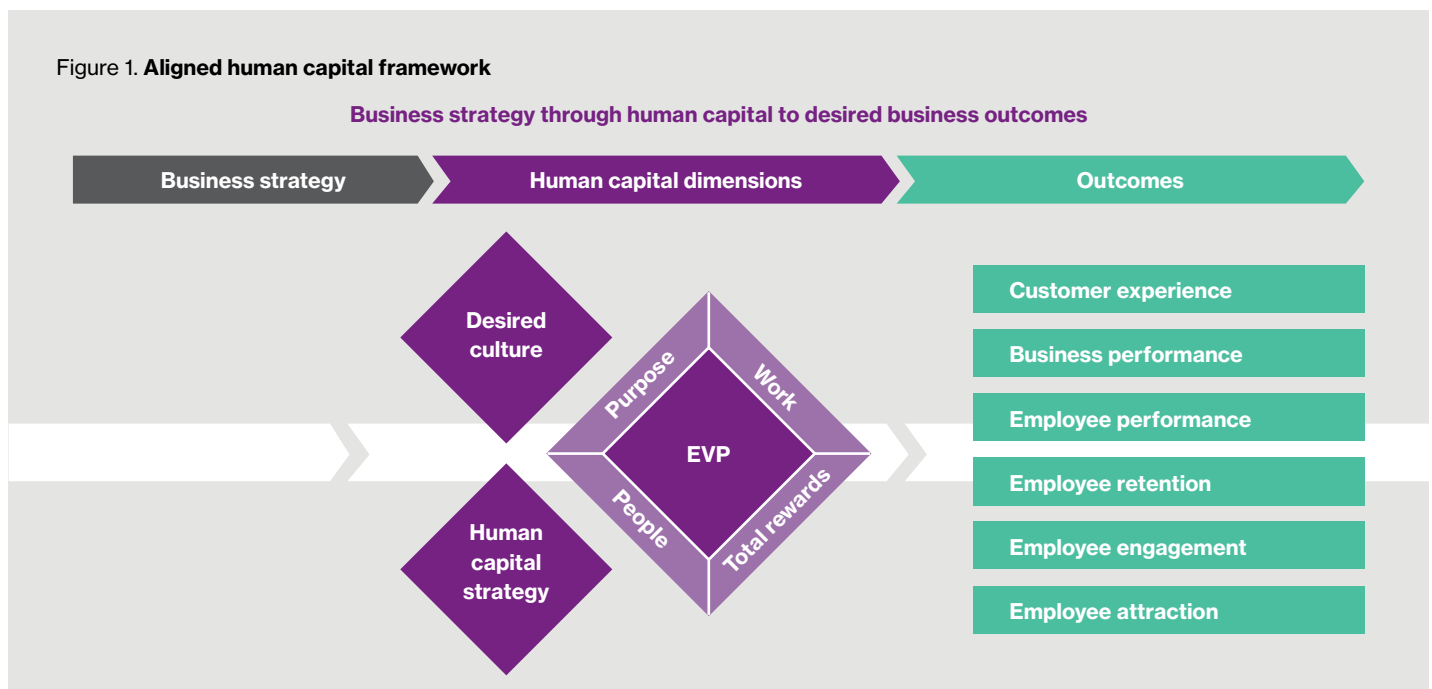
integrated manner, we have developed the Willis Towers Watson Human Capital Framework. This framework encompasses three dimensions: desired culture, human capital strategy and the employee value proposition (EVP) (Figure 1). Our research and consulting experience show that if companies get these human capital dimensions right, they will have a higher probability of achieving their range of desired business outcomes, including financial success.

Our view is that while these three human capital dimensions need to work in harmony, informing and being informed by one another on an ongoing basis, companies should address the question of their desired culture first: What is the culture they need to build in order to achieve their business strategy? Next they must define their human capital strategy – their approach and strategy for managing

talent as well as the strategy for the HR function itself (for example, the HR service delivery model). Only once these foundational elements are in place can employers move to address the EVP.

Our research over many years has indicated that organizations with a highly evolved employment deal – one that is customized for different employee segments and differentiated from those of competitors – significantly outperform their peers financially. Our most recent Global Talent Management and Rewards Survey indicates that companies with a highly evolved employment deal are three times more likely than those who have not formally articulated an EVP to report that their employees are highly engaged and 1.5 times as likely to report achieving financial performance *significantly* above their peers.

HR leaders need the ability to view their programs from a holistic perspective in order to understand how different solutions connect and interact with each other.



Building the Right Culture

In high-performance organizations, internal culture supports how the organization competes in the marketplace. Through our research, we have identified the cultural profiles of high-performing companies that compete in five distinct ways (Figure 2).

We found that financially successful companies have cultures that are aligned with how they need to compete in order to achieve their strategic priorities. For example, an organization that competes successfully through innovation will have a culture that supports experimentation, calculated risk taking, diversity of thought and an openness to new ideas. This contrasts with the culture of a company that competes on efficiency and that typically pursues a low-cost-provider strategy. The culture of the latter would focus on elements such as comprehensive training, tightly coordinated work activity, metrics-driven decisions and careful workload distribution.

Effective Leadership — A Prerequisite

An organization's leaders, who ultimately are responsible for setting and executing business strategy, play an important role across all dimensions of the framework. Leaders need to agree on the desired culture, role model the behaviors that bring the culture to life and spearhead the development of a human capital strategy that reinforces that culture. It's an organization's leaders who are in the end accountable for delivering on the company's EVP.

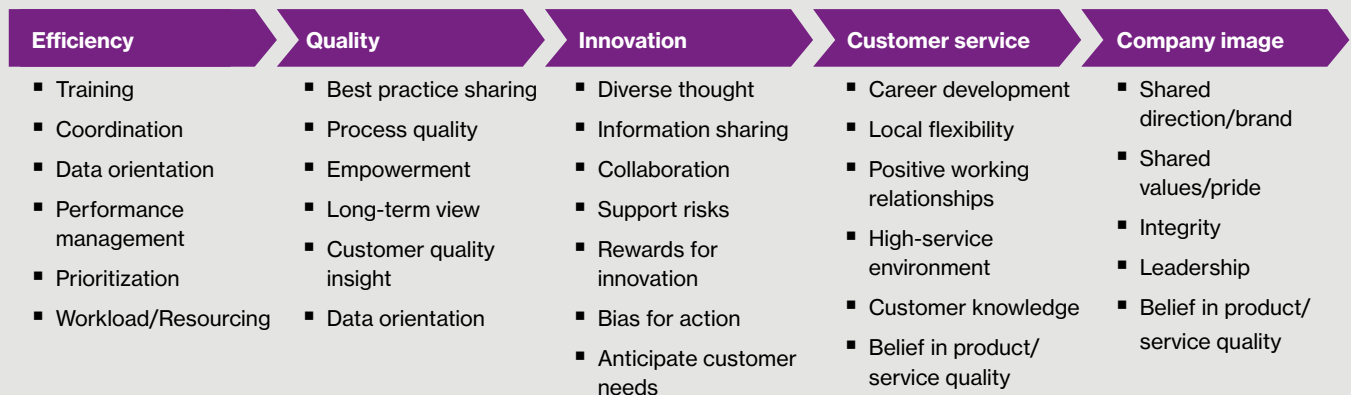
But what constitutes an effective leader? We believe three key aspects contribute to overall leadership effectiveness:

- *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

By assessing their leaders' effectiveness in these areas, organizations will be able to identify opportunities for improvement and take action to bridge any gaps.* With effective leaders in place, an organization can begin to address the different dimensions of the human capital framework.

*Saville Consulting, a Willis Towers Watson Company, provides a suite of leadership assessments and consulting services, <https://www.savilleconsulting.com/leadership-assessment-and-development>.

Figure 2. **Strategic business priorities and culture differentiators in high-performing organizations**



Leaders must ensure that the desired culture is embedded across the organization. This starts with the leaders themselves, who shape the culture through their actions and words. For example, leaders in successful service companies model flexibility and agility in responding to customer needs, while leaders of successful innovative companies model risk taking and a bias for action. In doing so, leaders ensure that their organization's culture emphasizes the attributes and employee behaviors needed to compete successfully.

Developing a Human Capital Strategy

An organization's human capital strategy reinforces its desired culture and establishes the optimal approach to work. A human capital strategy includes two key components: a talent management strategy and an HR strategy.

A *talent management strategy* must clearly define the workforce requirements and investments needed to drive business results. This involves examining the following questions:

- *What are the key value drivers for the business model; what capabilities are required, and what does the company need to be good at (versus great at) relative to its competitors in order to achieve the performance outcomes underpinning its strategy?* For example, a medical device company needs to excel at

developing high-quality products, as the consequences of an error can have a substantial negative impact on many stakeholders, jeopardizing the organization's ability to compete in a high-stakes market.

- *Does the organization design support the strategy?* It's critical to ensure that the organization design is fit for an organization's purpose. For instance, if an organization expects to expand into a new product area requiring significant sales support, does the talent strategy accurately reflect this requirement and how it will be met (e.g., by full-time employees, independent contractors)?
- *How does an organization ensure it has the right talent to power its business model?* It starts by segmenting the organization to determine the roles where great talent really makes a difference versus where good enough will suffice. And it appropriately manages the performance of each segment. For example, for a global airline, having all pilots operate at an expected level of proficiency is essential to sustaining the airline's business model, while continually motivating flight attendants to strive to exceed customer expectations is critical to differentiating the airline on the basis of its key strategy: customer service.

Companies striving to select the best candidates for the unique requirements of each role are increasingly turning to psychometric assessments, which are typically software-enabled. This approach also enables organizations to evaluate candidates' future potential and fit with an organization's culture and values.*

An *HR strategy* defines how HR will respond to the requirements of the talent strategy. This involves determining the right HR operating model and focusing on the following areas:

- *Talent delivery* — Identifying the operating model that will meet the needs of different talent pools and key segments of the workforce
- *Governance* — Establishing governance processes supported by logic-driven analytics to identify critical issues in the shared HR and business agenda
- *Engagement communities* — Building engagement communities comprised of stakeholders from across the organization (e.g., employees, managers, business leaders) and external experts who are capable of driving new initiatives and effecting change

The HR operating model must flex or shift as the organization manages the trade-offs and choices associated with making differentiated investments in various employee segments.

*<https://www.savilleconsulting.com/assessment-product-range>

Creating the Right EVP

The EVP plays a central role in our human capital framework. Highly effective organizations tailor their EVP to the different employee groups identified in their talent strategy. As already noted, Willis Towers Watson research shows that organizations with a highly evolved employment deal outperform those organizations without a formally articulated deal and accompanying total rewards strategy.

From the outset, it is critical to understand the two major aspects of the EVP:

- *Employee experience* — Employees’ interactions with the company, colleagues and customers; the work environment; and total rewards — which together, drive employees’ behaviors and engagement
- *Employer expectations* — The desired affiliation, mindset and behavior that optimize an employee’s contribution to the organization’s success

The EVP includes four key components: purpose, people, work and total rewards. It is important to consider each component from both the employee and employer perspectives.

- **Purpose.** For employees, purpose is shaped by a company’s mission, vision and values, as well as the company’s image and reputation. To fulfil their mission and vision, employers expect that employees will embrace corporate behaviors and values, and deliver the company’s unique customer experience and brand promise. (See sidebar on the connection between the EVP and the external brand.)

Clarify the Roles of the EVP and Employer Brand

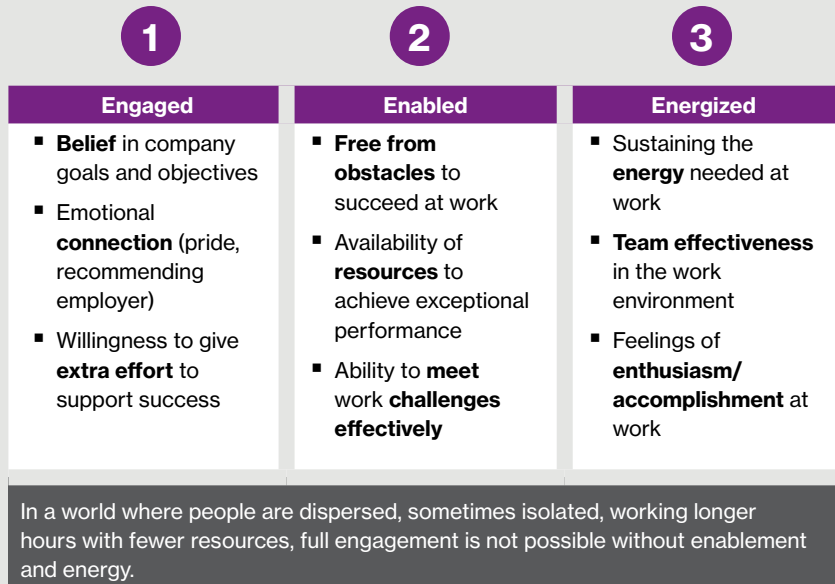
The internal and external view need to be complementary

	Internally	Externally
Communication Creating meaningful relationships and building engagement	Between employers and their employees	Between companies and their customers
Value proposition Defining the deal	Employee value proposition	Client value proposition
Brand Building a connection	Employer brand	Corporate brand

How an organization is perceived as an employer “on the inside” has a significant influence on how it is perceived as a company “on the outside” because employees are an organization’s frontline “brand ambassadors.” A company’s employees are the people who are delivering on the brand promise every day, whether in product development or customer service. Therefore, an organization’s communication, value proposition and brand need to run on parallel tracks — what it says and does internally must be aligned with its words and actions on the outside.

- **People.** From the employee perspective, the people component includes expectations about effective leadership, supportive relationships with their managers and collaborative peer relationships. Employers expect employees to demonstrate desired behaviors and values, and display collaboration and teamwork. Hallmarks of effective leadership are instilling trust and confidence, successfully growing the business, taking a sincere interest in employee well-being and behaving consistently with an organization’s core values; together, these drive long-term employee engagement. Our research shows that effective leadership is the leading driver of sustainable engagement and each of the three components that comprise sustainable engagement: traditional engagement, enablement (providing workers with the right internal support, tools and resources) and energy (promoting physical, emotional and social employee well-being) (Figure 3).

Figure 3. **Sustainable engagement model**



Effective managers are also critical to the employment deal. Our research shows that there is room for improvement in this area. According to our most recent Global Workforce Study, manager favorability scores lag when it comes to delivering the deal and crafting jobs, which are two key elements of managing performance.* Managers need to work closely with employees to set performance goals and to assign tasks suited to employees' skills and abilities. And in assessing performance, it is important for managers to differentiate between high and low performers, and to make fair decisions about performance and pay.

In addition, our research shows that when employees perceive managers and leaders as effective, the percentage of employees who are highly engaged is twice as large as when only the leader is perceived as effective.

Figure 4. **The work-related component of the EVP**

Job content	Work environment	Tools and resources
<ul style="list-style-type: none"> ▪ Organizing and structuring jobs ▪ Defining work, goals and objectives ▪ Articulating desired competencies (organization-wide, leadership, functional) ▪ Designing work to allow work/life balance 	<ul style="list-style-type: none"> ▪ Physical work environment, workplace design ▪ Location ▪ Approach for managing innovation 	<ul style="list-style-type: none"> ▪ Tools to facilitate accomplishing work, e.g., technology ▪ Established work processes, Q&A and decision protocols, etc.

▪ **Work.** The work component of the EVP focuses on both employee and employer expectations regarding job content, i.e., the type of work that will be done, the environment in which the work will be performed, and the tools and resources available to perform the work (Figure 4).

Employees seek an experience where they clearly understand their *job content*, i.e., how activities and accountabilities are organized, and how broader goals and objectives are aligned to jobs. In this regard, it is critical for employers to establish a globally consistent job architecture that organizes roles by function and type of work, and a job-leveling system that determines the relative value of the work in an organization. This will help

*Willis Towers Watson, 2014 Global Workforce Study, <https://www.towerswatson.com/en-US/Insights/IC-Types/Survey-Research-Results/2014/08/the-2014-global-workforce-study>

employees understand the work they do and how that work fits into the wider organization as well as their future career opportunities. And we know career advancement opportunities continue to be a top driver of both attraction and retention.

Underpinning the strategy, culture and job architecture should be a competency model that clearly defines the needed organization, functional and technical competencies that will help employees understand what is expected of them and how they can be successful. These competencies need to be incorporated into an organization's performance management process.

Employees also prioritize their physical *work environment*. Attention must be paid to the design of the environment where the work is performed to ensure it supports innovation and enables the work of cross-functional project teams. In addition, organizations must address broader environmental considerations including space, light, sound etc., to ensure a stimulating and stress-reducing environment. Moreover, many employees value flexibility in their work environment, including alternative working arrangements.

Also important to employees is access to the *tools* required to perform their work, such as technology, and having a clear understanding of operating *processes*, including those for decision making, which empower employees.

In return, employers expect that employees will fulfill their roles and responsibilities, demonstrate core competencies and exert discretionary effort. Our research shows that employers that address issues

Underpinning the strategy, culture and job architecture should be a competency model that clearly defines functional and technical competencies that will help employees understand what is expected of them and how they can be successful.

related to the work component of the EVP will reap significant benefits. This is especially true given that the top drivers globally of sustainable engagement include clear goals and objectives, work/life balance and empowerment.

Finally, employers will use the combination of their job architecture, job-leveling system and competency model as the foundation for a reward and career framework that supports the entire employee life cycle and guides their investments in the different aspects of the work component of the EVP.

▪ **Total rewards.** Most companies use the phrase “total rewards” to describe the combination of *monetary and nonmonetary investments* they make to attract, retain and engage the people they need to operate their businesses successfully. To be considered part of total rewards, there needs to be an investment in a specific program. In many ways, an organization's total rewards program is the most visible component of its EVP and top of mind for its workforce.

Willis Towers Watson organizes total rewards into three components:

- *Foundational rewards* provided to employees as a baseline part of employment (e.g., base pay, health care and retirement benefits)
- *Performance-based rewards* offered for superior performance to drive a high-performance culture (e.g., merit increases, and short- and long-term incentives)
- *Career and environmental rewards* that enrich the EVP and help employees manage their careers (e.g., training and career development programs, mentor programs, flexible work programs, talent mobility programs and wellness programs)

In return for these rewards, employers expect employees to meet (or exceed) baseline responsibility and competency requirements including demonstration of company values and desired behaviors. Employees are also expected to achieve specific objectives at different levels and commit to continuous development in their career with the organization.

Because of the value of total rewards programs to both employees and employers, it is essential for organizations to develop their programs in a thoughtful and systematic manner. We recommend the following three-phase approach (Figure 5):

- 1. Philosophy and strategy.** An organization should begin by analyzing its current business strategy, plan and performance. It's important to capture both an internal perspective, such as the views of leaders and employees, and an external perspective, such as the results from benchmarking against targeted competitors. The resulting insights are used to develop a future-state vision and understand the gaps between the current and future state.
- 2. Design.** Following the decisions on design principles and the objectives for each program within the total rewards portfolio, companies can create an integrated and balanced set of programs.

3. Delivery. Our research and experience show that many total rewards programs fail to achieve their objectives *not* because they are badly designed, but because they are poorly delivered.

Effective program delivery requires a focus on four critical elements:

- **Communication.** Willis Towers Watson research has found that many employees significantly underestimate the value of their reward packages. As such, it is especially important for leaders and managers to communicate the full value of reward programs so that employees will understand and trust the programs that are in place.
- **Process.** Efficient processes ensure alignment among the various total rewards programs, using the organization's EVP as a compass, and also ensure design decisions take into account what employees value.
- **Technology.** Technology is essential in the delivery of total rewards programs. Today the use of technology goes far beyond pure administration, extending to applications that support effective decision making (for example, in the pay review process), enable analysis and reporting of programs' costs and value, and enhance the employee experience of total rewards.
- **Governance.** Good governance ensures that there is clarity of decision making and that the balance between global and local decision making is appropriate. It also involves defining success metrics and taking proactive course corrections as needed. Robust governance protocols convey to employees that leadership stands behind both the total rewards principles and the resulting decisions.

Figure 5. Integrate total rewards strategy, design and delivery for a superior EVP

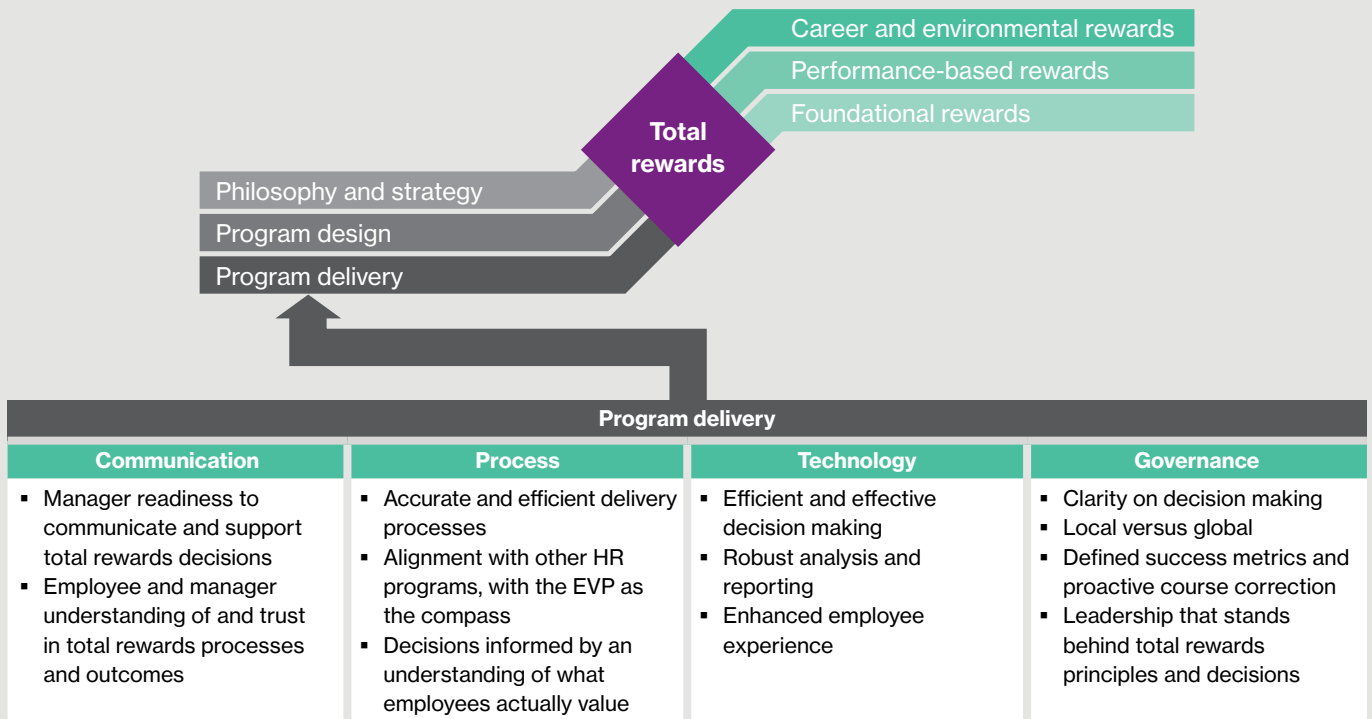
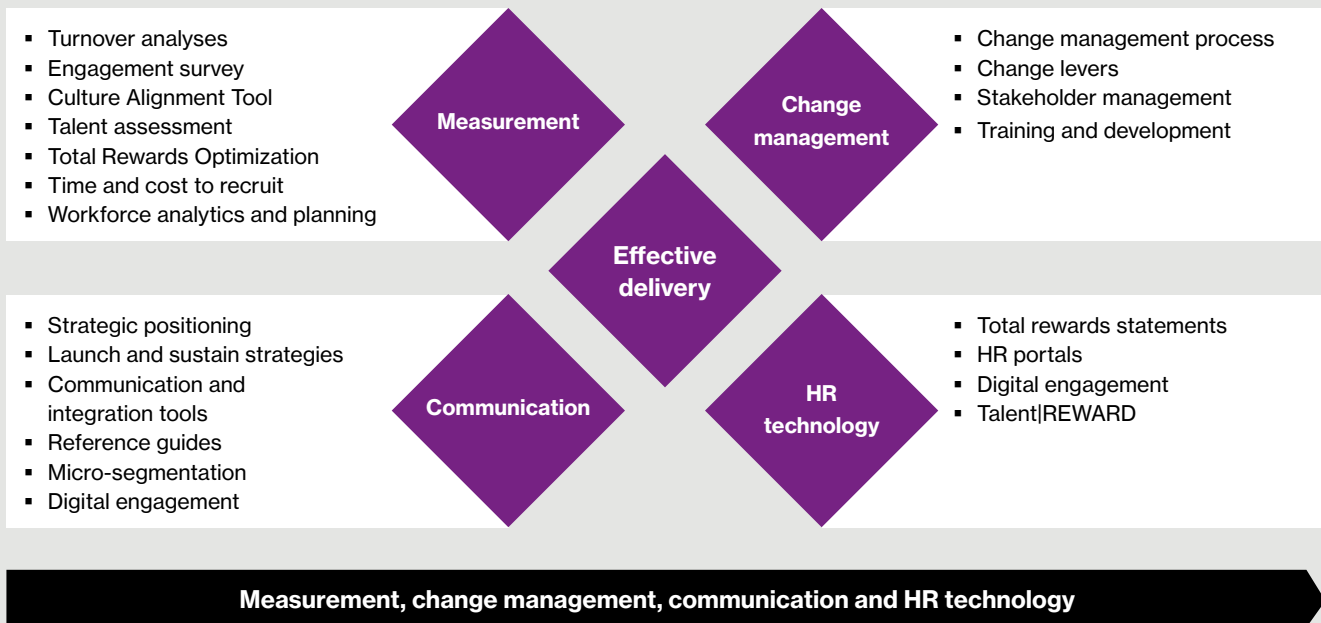


Figure 6. **Leverage supporting tools and processes to optimize effective EVP delivery and achieve desired outcomes**



Optimizing the Delivery of the Complete Framework

Expanding from the effective delivery of total rewards, what tools and processes do organizations need to successfully implement the complete human capital framework? (Figure 6)

▪ **Change management.** To the extent that new talent and reward program designs represent a difference from existing programs, companies need to successfully execute change management, starting with a compelling business case for change. Leadership is key to inspiring confidence in the change. While this starts at the top, frontline managers play a vital role in engaging employees and using various tactics (for example, training and development programs as needed) to ensure different employee groups are ready for the change.

▪ **Communication.** Companies need to embed their desired culture and EVP across the organization through effective communication to and from leaders, to and from managers and ultimately to employees. To communicate the EVP, it is essential to be transparent about what employers deliver and expect in return. Willis Towers Watson research shows that the most successful companies categorize employees into meaningful groups and then deliver targeted communications to those groups via a combination of traditional and digital media.

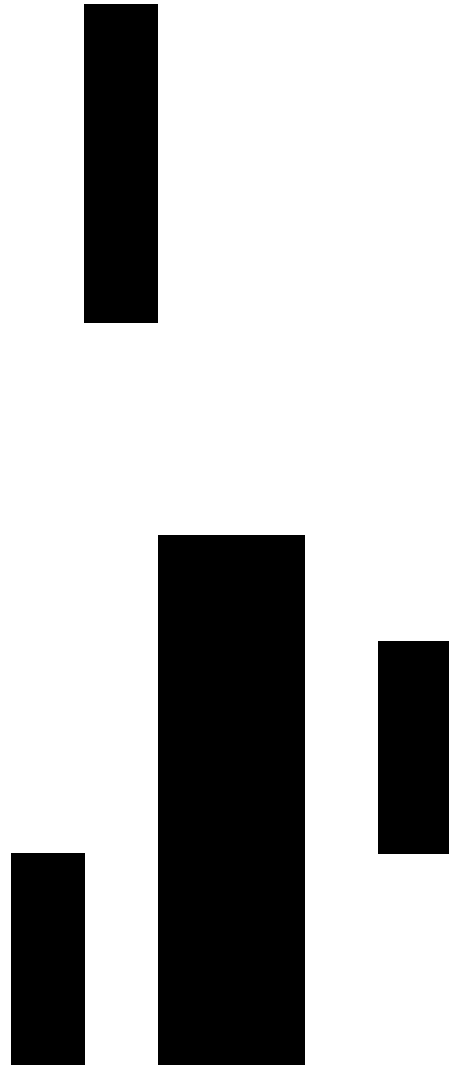
▪ **HR technology.** Effective use of HR technology is essential to analyzing current-state programs and testing the impact of proposed future programs. A range of software solutions helps employers bring the EVP to life. For instance,

integrated talent and compensation management software enables organizations to align rewards with performance. Other types of software applications such as total rewards statements and HR portals promote greater employee understanding and appreciation of their employment deal.

▪ **Measurement.** Organizations use measurement to inform their work in all phases of EVP design, development and delivery. Employers can compare their current state against the desired future state by utilizing a range of software tools. Such tools can help them better understand the baseline and measure progress against goals.

Making the Right Connections

Many HR leaders struggle to align disparate programs in order to attract, retain and engage the critical talent needed to achieve their organization's business objectives. The Willis Towers Watson Human Capital Framework will help these leaders make decisions about the strategy, design and delivery of their programs from an integrated, holistic perspective. By connecting culture, human capital strategy, total rewards and the EVP, this framework enables organizations to influence employee behavior, enhance performance and drive employee outcomes. And we know from our research and consulting work that if companies get the human capital dimensions right, they will have a higher probability of achieving their desired business objectives including attraction and retention goals, higher levels of engagement or customer satisfaction, and ultimately, better financial results.



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.