

HEALTH WEALTH CAREER

THE FUTURE OF HR

HR 2020:
WHAT THE FUTURE HOLDS

DRIVEN
BY DATA

**EMPLOYEE VALUE
PROPOSITION**
WHAT SETS YOUR COMPANY APART?

TOTAL REWARDS
2020

**TOP WATCH OUT ‘FOURS’
ON THE HORIZON**
DRIVING DIGITAL ENGAGEMENT

MAKE TOMORROW, TODAY

 MERCER

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HR 2020: WHAT THE FUTURE HOLDS

Four major factors are impacting, and will continue to impact, organizations and shaping the future of work.



GLOBALIZATION

It is clear that the world will become increasingly connected over the next 10 to 20 years as the flow of products, services, talent, and knowledge continues apace across developed and developing countries. To compete and survive, a growing number of companies will intensify their efforts to explore new market opportunities and develop business capabilities to take advantage of these markets, while continuing to grow in more established venues.

Implications for HR: Companies will increasingly depend on building organizational and employee agility rather than relying on periodic change initiatives. They will find it necessary to develop the capacity to attract, develop, and retain top-notch talent in emerging markets.



TECHNOLOGY

Technology enables employees at all levels to work virtually while easily collaborating and sharing ideas not only with each other, but also with outsiders. Continued advancements in globalization and technology increasingly turn work into a 24/7 reality which blurs the lines between work- and non-work lives and increases the pressures and stress on employees sometimes with unfortunate consequences for their physical and emotional well-being.

Implications for HR: In a world of increasingly advanced technologies, where the nature of work changes with great frequency, traditional approaches to filling jobs internally will give way to more systematic and decentralized approaches to matching talent to work and work to talent. As work is redefined and talent flows increase, new, primarily online approaches to employee development will become necessary to ensure that requisite hard and soft skills are kept current.



CONSUMERIZATION

Greater access to information, combined with the spread of social media, encourages the development of a consumer mentality in which customers and clients feel empowered to shape their own experiences while companies are forced to adapt by customizing their products, services, and solutions. These experiences are increasingly being replicated inside organizations as employees – particularly younger employees – come to see “consumerization” and customization as guiding principles on which to base the employer–employee relationship.

Implications for HR: In this new model, employees expect a greater say in shaping the content of their assignments, goals, and even work environments when it comes to issues such as where and when to work. Companies will find it necessary to cut back on the

number of one-size-fits-all policies and practices in their arsenals in favor of greater overall flexibility and, in particular, the capacity to be more responsive to employees’ individual needs and wants. Leaders and managers will find it necessary to improve their understanding of employees as individuals by developing deeper relationships with them and engaging them in genuine dialogue around work, goals, and processes, as well as more personal matters.

GENERATIONAL DIFFERENCES

Most organizations currently have four generations in their workforce: traditionalists/greatest generation, baby boomers, generation X, and generation Y/millennials – with some companies starting to see a fifth (generation Z – those born in 1997 and later). Although there are many similarities across generations and not all

members of a given generation are the same, employers will see key differences across generations in terms of working styles and approaches to collaboration, communication, and decision-making, as well as expectations regarding feedback, rewards, and the pace of promotions.

Implications for HR: Nearly all traditional HR practices are coming under scrutiny as companies find it particularly difficult to motivate young people and retain this talent long enough to recoup investments in their development. In broad terms, many, if not most, gen Ys feel entitled to jobs, projects, and experiences that are tailored in a way that they (as consumers) find personally meaningful. As leaders and managers feel the pressure to individualize everything and to coach and mentor (and even to be reverse mentored), organizations will find that some leaders will and can adapt whereas others will not and cannot.

IMAGINE ...

Instead of HR delivering messages that begin with:



“You have to ...”
“Do this now ...”
“You must ... or ...”



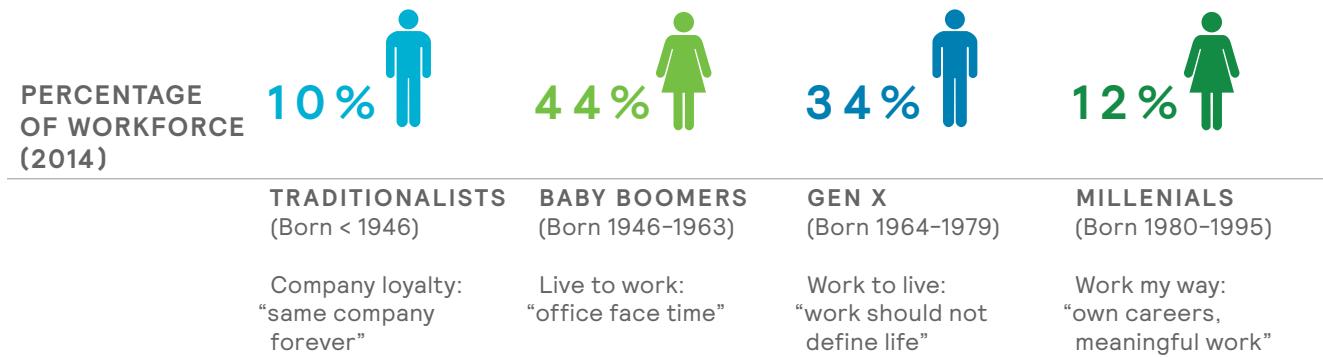
HR delivers experiences that associates **want** to use



“I needed this”
“This is easier”
“This makes my life better”

EXTERNAL FACTORS INFLUENCING TOTAL REWARDS

MULTIPLE GENERATIONS: MANAGING DIFFERENT SEGMENTS REQUIRES SENSITIVITY TO VARYING GENERATIONAL NEEDS



“The Conference Board’s 2014 survey of global CEO challenges ranked human capital as the number one challenge,” says Dave Ulrich, the Rensis Likert Professor at the University of Michigan’s Ross School of Business.

“We’ve found that the leadership profile of successful CEOs most closely matches that of effective CHROs,” he adds, referring to a 2014 analysis he undertook in partnership with Korn Ferry that was published last year in the Harvard Business Review. This suggests that future CEOs may not only place greater importance on HR — in a growing number of companies, they themselves will be former CHROs.

DRIVEN BY DATA



By 2020, HR will need to be adept at providing the rest of the organization with data that does more than simply explain what's already happened — it must tell its leaders who within the organization may be thinking of leaving, who's joining and why, and why one team is experiencing performance failures while another is thriving, says Jean Martin, talent solutions architect at consulting firm CEB.

As work has become more horizontal and collaborative, says Martin, a surfeit of data and technology provides a new level of insight for obtaining more precise answers. Today, she says, companies can report on their turnover rates, but tomorrow, they may be able to foresee that turnover and design programs accordingly, thanks to the level of insight offered by predictive analytics.

Companies such as Google use “meeting-cancellation rates” as an indicator of engagement and potential turnover challenges, says Martin. HR will become a kind of analytics guide, producing “the right answers at the right times” to avoid negative HR outcomes.

“Wearables” will also play an important role; devices such as smart identification badges can predict performance. Hitachi, whose smart badges track employee movement in the workplace, revealed that engineers who move around a lot and eat lunch with large groups of co-workers are more productive than their more solitary counterparts.

There's some bad news, however: Many current HR professionals won't have what it takes to measure up in this new world. CEB's research

predicts that about half the people working in HR today won't be working in the profession five years from now. The CHRO role is a demanding one that requires deep domain in HR but also a willingness to innovate, to push the envelope, and not all director-level HR people are ready for that.

What sorts of skills will be necessary? The ability to understand analytics and draw prescriptive guidance from data will be vital. HR must also be seen as a credible source — in other words, CHROs who are confident in their ability to deliver what the business needs should insist on the same level of support and respect granted to other C-suite members, particularly the CFO.

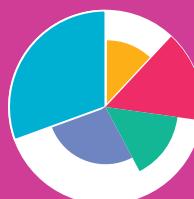
Excerpted from Human Resource Executive Online, May 2015

CONDUCT QUALITATIVE AND QUANTITATIVE ANALYSIS

Insights that come from juxtaposing “say” and “do” are so strong, and so often at variance with what comes from either approach alone, that the best way to ensure insight and successful change — for the important issues — is to work with both.

CROWD-SOURCING

Data about what employees and employers say about performance management as caused by:



DATA

Data about how performance management influences employer and employee actions as captured by actions such as pay increase/promotion linkages to ratings

EMPLOYEE VALUE PROPOSITION

WHAT SETS YOUR COMPANY APART?

The value of working needs to go beyond the traditional silos of HR programs. The glue that binds colleagues together isn't simply the sum of the pay and benefits program.

Total rewards is a part of your broader employee value proposition (EVP), which includes long-term career opportunities, workplace culture, and line of sight to the impact of jobs. The EVP has to connect to the meaningfulness — the purpose — of the work of your next generation of talent and leaders.



WE NEED TO RE-IMAGINE WHAT WE DO

Love isn't an abstract emotion. It's the most acute and specific emotion we feel. It's about a specific relationship built on unique experiences between two people.

What if we re-imagined the programs of HR into complete, distinct, and personal set of experiences built on a common compelling story — experiences that foster passion for the purpose of work, experiences that translate into delighted customers and an unwavering love of the brand?

What if we used design-thinking, mobile, social, and big data techniques to help employers craft a story and build a set of signature employee experiences — a new and distinct employment value proposition?



ENGAGEMENT DRIVES A BETTER BOTTOM LINE

Organizations with high engagement levels experience positive returns on talent outcomes, customer satisfaction, and the bottom line.

- Employees who work **57%** harder and are 9 time less likely to leave.
- Average three-year revenue growth of **20.1%** as compared to industry average of **8.9%**.
- Higher stock price over a periods of **3 years** as compared to a sample of **500** leading companies in a variety of industries.

- **3x** higher EBITA growth as compared to industry average.
- When employees clearly understand what is expected of them, individual performance increases by **36%**.
- In a culture where communication between managers and employees and between peers is frequent and effective, individual performance increases by **34%**.
- When managers emphasize the positive in their employee reviews, individual performance increases by **36%**.
- When managers emphasize the negative in their employee reviews, individual performance decreases by **27%**.
- When managers provide fair, accurate, job relevant feedback on a regular basis, individual performance increases by **39%**.

Source: The Conference Board

EVP AND TOTAL REWARDS INFLUENCES ENGAGEMENT, TALENT, AND BUSINESS

The numbers show ...

Companies in the top quartile for engaged employees, compared with the bottom quartile, had:

- 22% higher profitability.
- 10% higher customer ratings.
- 28% less theft.
- 48% fewer safety incidents.

Source: Gallup Poll/NY Times article



DRIVERS

- Personal/relevance of EVP.
- Communication.
- Recognition.
- Empowerment.
- Teamwork.
- Leadership.

RESULTS

- Quality.
- Productivity.
- Sales growth.
- Safety.
- Profit.

OFFERS

- Material rewards.
- Intangible rewards.
- Career value.
- Company reputation.

MEASURES

- Discretionary effort.
- Attraction.
- Internal moves.
- Promotions.
- Turnover.
- Absenteeism.

HOW DOES MERCER DO IT?

Take a comprehensive look at how employees experience your EVP

BUILD
Your Wealth

UNDERSTAND
Your Rewards

ENVISION
Career
Possibilities

ALIGN
Purpose and
Values

FIND
Community

LEAD
Your Team

MANAGE
Your Health

TOTAL REWARDS

2020

There are many external factors influencing the total rewards strategies of the future:



Aging Population
We are living longer, which will create greater pressure on retirement and social programs.



Multiple Generations
Managing different segments requires sensitivity to varying generational needs.



Health Care
Current trends in the US are unsustainable.



Retirement
Traditional pension plans in the US are from a bygone era.



Compensation
Income growth divergence in the US is causing social unrest and minimum-wage pressure.



Unionization
The new bargaining agenda in the US calls for a living wage and corporate wealth sharing.



Diversity
The workforce of the future will be less homogenous.



Globalization
There will be a greater need for global workforce management.



Technology
Work environments will take on a new flexibility.



Activist Investors
Continued pressure on corporate results requires rethinking total rewards.

How organizations will respond is a topic for much discussion. Through extensive research, we at Mercer have compiled our thoughts on what total rewards will look like in the next five years.

HOW WILL ORGANIZATIONS RESPOND?

THOUGHTFUL RESPONSES: PERSONALIZED EVP FOR CORE WORKERS		
YESTERDAY	2015	2020
STANDARDIZE		► INDIVIDUALIZE
How to retire	Confusion about employment relationship	Core employees viewed as crucial for success
Paternalistic	Transactional employment relationship	Individual accountability for benefits, careers, and workplace
One-size-fits-all	Limited rewards flexibility	Personalized rewards reflecting global cultures and multi-generations
PROGRESSIVE EMPLOYEE RELATIONS		
YESTERDAY	2015	2020
AUTHORITATIVE		► PARTICIPATORY
Employees as interchangeable	Employees as necessary evil	Employees as volunteers
Formal dress code	Business casual	Anything goes
Rigid attendance policies	Limited attendance flexibility	Universal paid time off
Pay is secret	Apps provide an opportunity for pay comparisons	Pay arrangements are open similar to proxy statement disclosures
Work is performed at the employer site	Broad-band allows work to be conducted outside of the employer site	Work and play over 24/7: employee determines place and time
Union prominent for major employers	Unions on the continued decline	Unions support lack of living wages
COMPENSATION FOR THE NEW WORLD ORDER		
YESTERDAY	2015	2020
INTERNAL BASED		► EXTERNALLY BASED
Limited employee risk	Employees desire fixed pay	Employees as business partners
Base pay linked to internal equity (job evaluation)	Market pay becomes common practice	Market pay within global levels
Pay positioning is at market	Most organizations target pay between P25-P75	Fixed pay is at P25-P50 with P50+ coming from variable cash/equity compensation
Variable pay is limited to executives and sales	Most organizations offer variable pay	Significant variable pay opportunity is the norm



DO-IT-YOURSELF BENEFITS

YESTERDAY	2015	2020
COMPANY RISK		→ EMPLOYEE RISK
Paternalistic	Organization role continues to decline	Individual accountability through self-service
Organization provided health care, retirement, etc.	Cost shifting and abandonment of employee benefits	Organizations provide group purchasing power without being the sponsor
Defined benefit pension plans	Defined contribution	401(k) plans with and without employer match
Health care for employee and dependents	Constant cost shifting	Opportunity to participate in exchanges

ACTIVE TALENT MANAGEMENT

YESTERDAY	2015	2020
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PASSIVE TALENT MANAGEMENT → AGGRESSIVE TALENT MANAGEMENT

Unlimited supply of talent	Labor markets tightening	Constant struggle to retain skills and millennials
New hire training	Buy experienced talent	Continuous training and development to support EVP
Hierarchical career path	Career progression being defined	Well-defined lattice career growth
Annual performance management process	Healthy experimentation	Frequent performance assessments with annual ratings
Leadership reflects home country	Global mobility is encouraged	Leadership is multicultural

DIVERSITY AND PAY EQUITY ARE REALITIES

YESTERDAY	2015	2020
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GOOD IDEA → MANDATORY PRACTICES

Diversity goals in most organizations	Organizations struggle to meet goals	Employers match the multiple cultures that they serve
Employers don't know how to develop diverse talent	Experimentation is rampant	Analytics drives good decision-making
Pay equity is afterthought	Pay inequality is a leadership concern	Pay fairness is assured through analytics



TOP WATCH OUT 'FOURS' ON THE HORIZON

DRIVING DIGITAL ENGAGEMENT



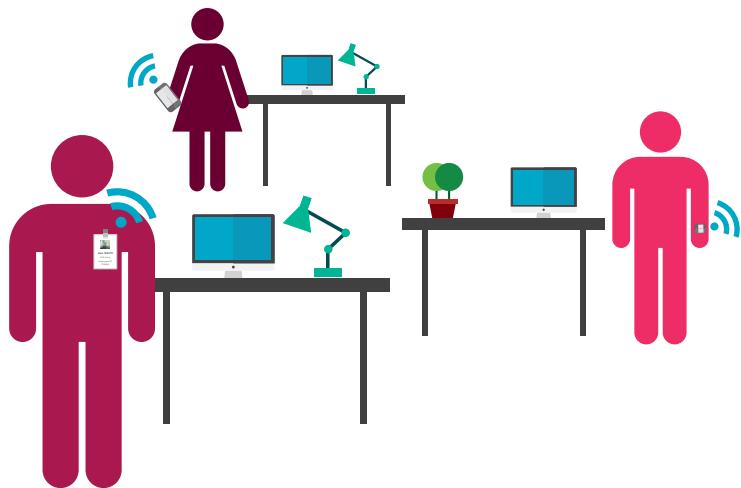
1
WEARABLE
COMPUTING

2
INTERNET OF THINGS

3
CONSUMERISM OF
USER EXPERIENCE

4
AUGMENTED
REALITY

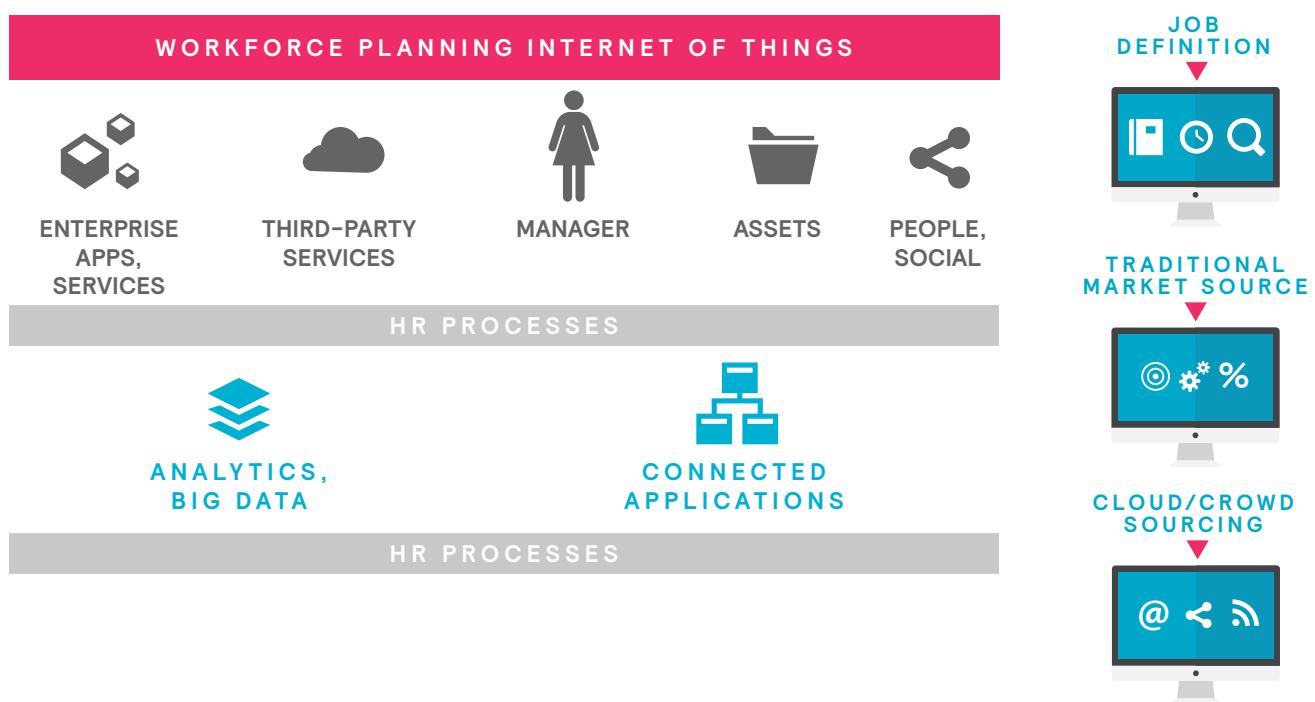
1 WEARABLE COMPUTING



Where wearable tech is potentially heading:

- Provide employees information they need the moment they need it.
- Provide temperature readings of an employee's environment.
- Enable employees with digital information — seamlessly.

2 INTERNET OF THINGS



3 THE AGE OF CONSUMERISM



Consumers are using multi-function devices for work purposes.

Nearly 60% of consumers say it improves their productivity to take conference calls and use collaboration tools from their personal devices.

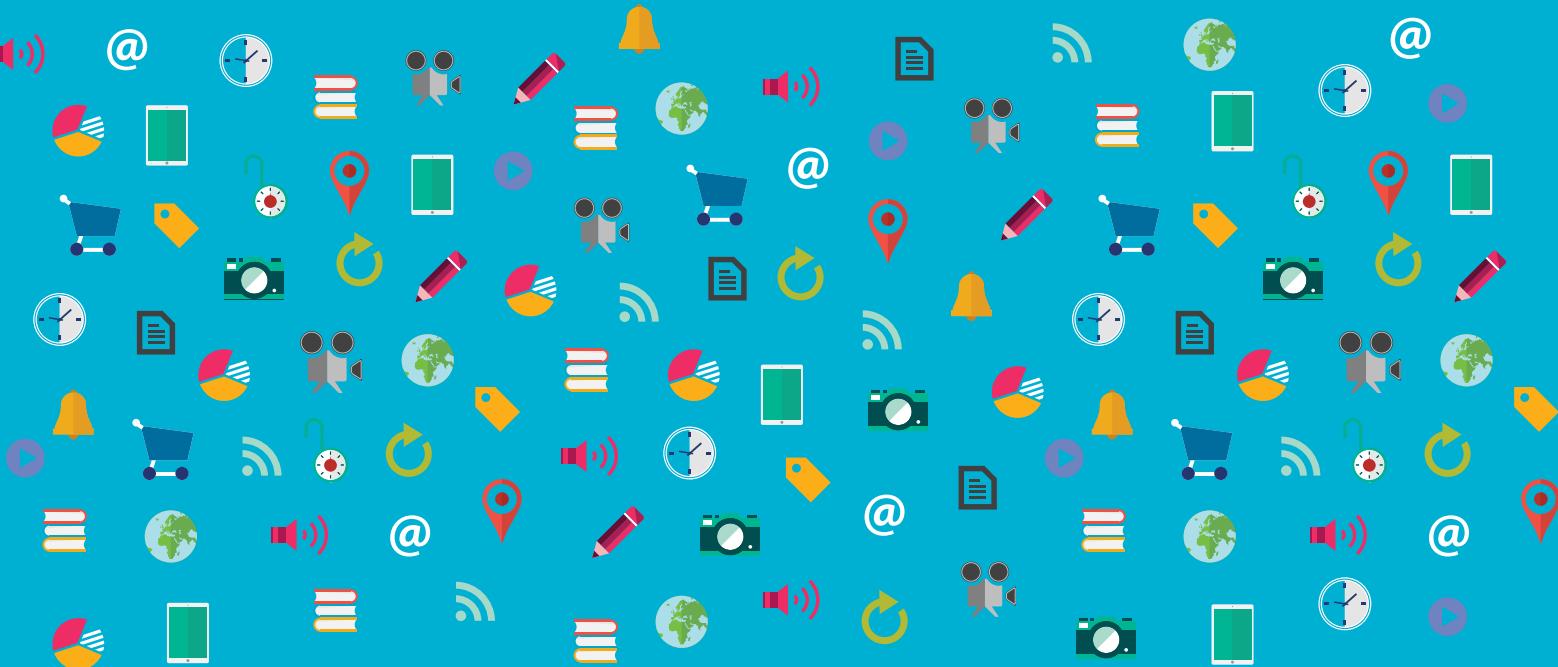
Source: Accenture

4 AUGMENTED REALITY



Job-seekers point their phone at a building/office and immediately see what positions are available, compensation ranges, and benefit packages.

Expatriates search for places of interest in their new home country.



SO, WHAT NOW? THINK ABOUT ...

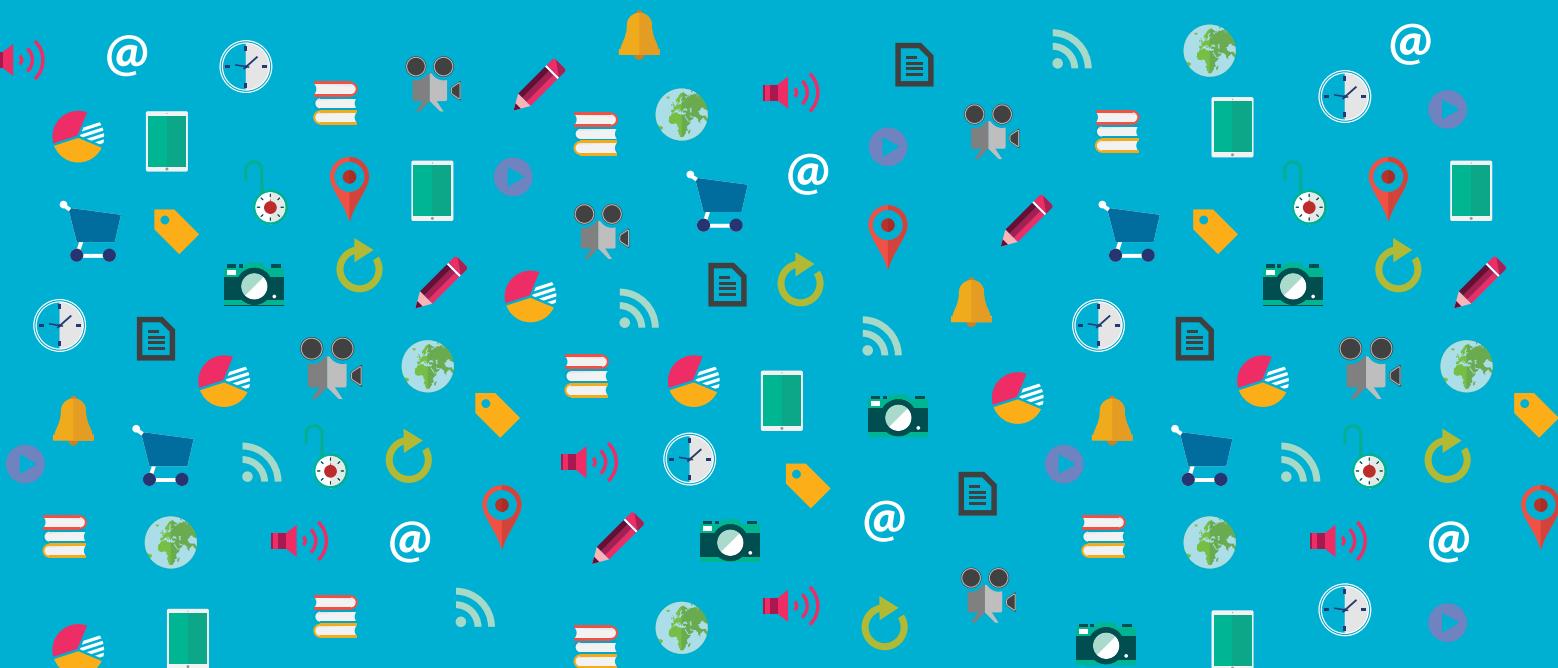
The impact that wearables can have on the workforce, by simply monitoring employee's interactions.

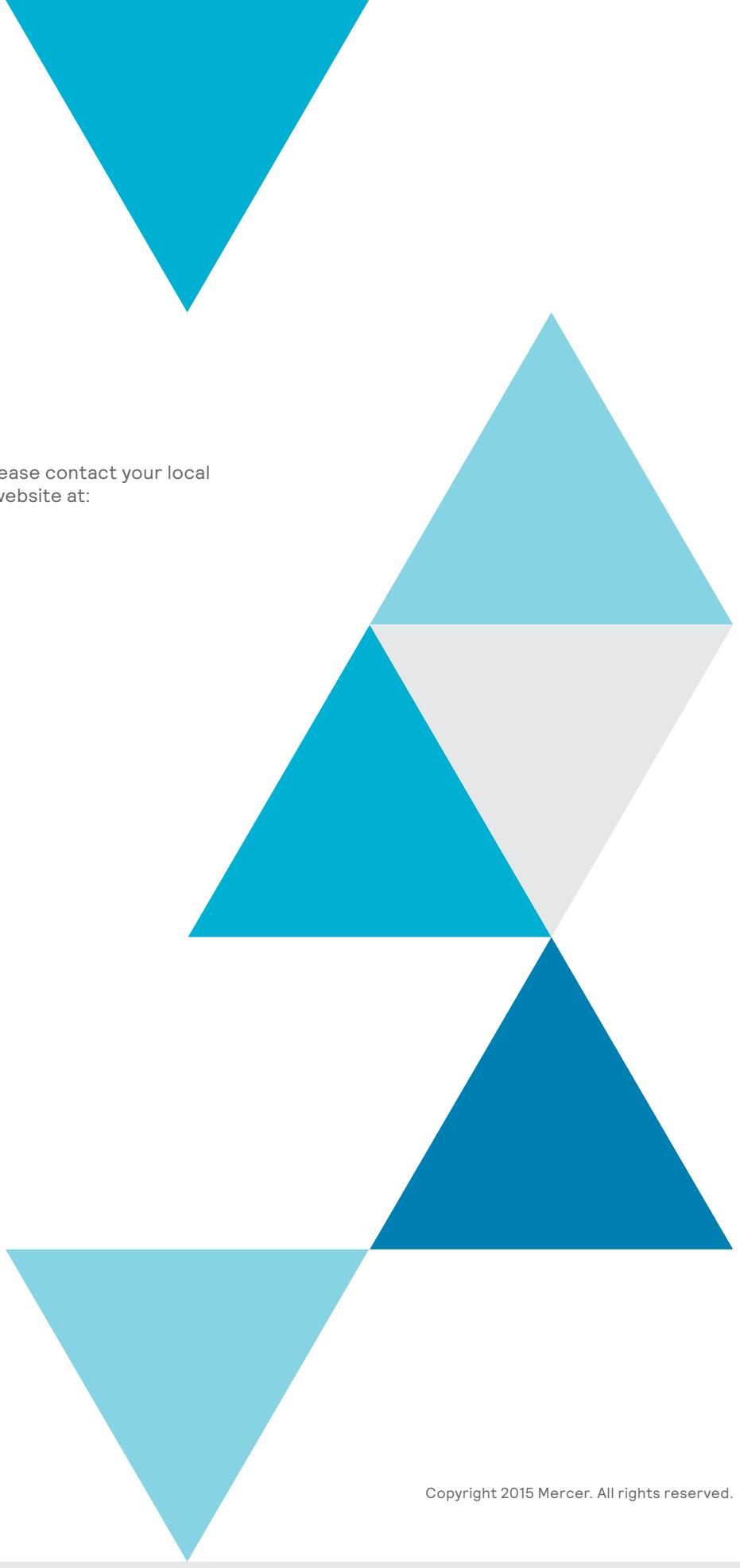
How machine data can intersect and merge with people data to make better compensation decisions impacting decisions.

The impact of end user experience and the merging of personal life and work life, helping employees to make informed benefits decisions.

How mobility, imaging, and 3D content management can impact your workforce, especially expatriates.

Where technology is heading and how automation can make your company better and faster.





For further information, please contact your local
Mercer office or visit our website at:
www.mercer.com