Getting Rewards Right: A balancing act

Using Total Rewards Optimization to allocate reward investments for maximum return
It should come as no surprise that the recession has had a profound impact on workforce attitudes and organizational responses. Both employers and employees have been forced to revisit fundamental assumptions about their implicit and explicit “deal” with one another.

Employers have had to make increasingly difficult decisions about their workforce investments, not only taking a hard look at compensation and its relationship (or lack thereof) to performance, but also continuing to shift more cost and risk to employees in terms of managing their health and health care, and ensuring a stable retirement. Employees, for their part, are expressing increased anxiety about their future security, and are more focused than ever on job security and a stable set of rewards — which many see as increasingly difficult to achieve.

These factors have set the stage for a growing gap between what employees want and expect from the employment relationship, and what employers can afford to deliver in a highly competitive business climate. In fact, research conducted by Towers Watson among employees around the world in late 2009 through early 2010 (see sidebar) indicates that the recession has driven the final wedge into the basic social contract, or “deal,” that has traditionally underpinned the employment relationship.

About the 2010 Global Workforce Study

The Towers Watson 2010 Global Workforce Study builds and expands on global employee research we have conducted for more than 10 years. The current survey covers more than 20,000 full-time employees of large and midsize organizations in 22 markets around the world. It was fielded via an online questionnaire between November 2009 and January 2010. It is the most comprehensive analysis of post-recession employee attitudes available today.

The study is designed to help employers better understand their employees by gauging changing attitudes that directly impact performance, attraction, retention and engagement, and providing insights to inform workforce investments, practices and programs. Among key insights:

- Employees see security as a fast disappearing part of the employment relationship, or deal — something that’s increasingly difficult or impossible to achieve.
- Employees understand they are solely or chiefly responsible for ensuring their futures and their long-term financial and physical health and well-being. But most express doubts about their ability to take on this role fully and confidently.
- Employees are focused on the practical aspects of the deal, notably pay and flexibility in work arrangements. This is most pronounced in the mature economies.
- Mobility is at a decade-long low point, both globally and across many individual countries, especially in Europe and North America.

For more information about this study, or to get a copy of the full report, visit www.towerswatson.com/global-workforce-study or call your local Towers Watson consulting office.
If this expectation gap continues to widen, it could have serious implications for a company’s ability to retain top talent, sustain workforce productivity and reengage critical performers. The flip side of this challenge, however, is opportunity:

To define and implement a new deal appropriate for a highly competitive global business environment, underpinned by a set of reward programs that give employers sufficient flexibility to manage costs and drive growth, while affording employees the support and baseline level of security required to sustain their engagement and performance.

Acting on this opportunity demands, first and foremost, a clear, comprehensive and analytically rigorous process for identifying, designing, implementing and communicating the “right” reward program. What do we mean by right? Put simply, a program that delivers the desired return in key areas — such as employee retention, engagement and performance — on the total amount of the investment. A program that allocates monies where they will have the most impact. A program that considers the overall level of investment from a holistic perspective to ensure that all the component parts are aligned and working in concert to deliver the needed results.

Towers Watson’s Total Rewards OptimizationSM (TRO) meets these criteria. It is designed to help companies identify ways to invest finite reward funds across the workforce in a way that best balances organizational and employee interests. The goal is to help the organization generate the highest possible perceived value for employees at the most economic cost for the enterprise. More specifically, the TRO process helps identify:

• The relative importance employees place on rewards at key stages of the employment life cycle, to ensure the mix is appropriate depending on whether the company is focused on attracting, retaining or engaging employees. Our global research confirms that employees look at very different things at different points in their careers or employment situation
• Where a reduction in costs would have the least (or the most) negative impact on employee engagement or performance
• How to redirect investments to deliver the best results to those employee segments most critical to driving growth, such as those in pivotal roles, top performers and high potentials
• How to design, implement and communicate rewards in a way that addresses employees’ sense of fairness and need to clearly understand the deal, particularly the increased responsibility and risk they bear for their own current and future financial security
• How best to meet the different needs and expectations of an increasingly diverse workforce. Here, too, our research with employees is clear — the value they place on various rewards differs markedly, not only across nationalities and cultures, but also across age, gender, job level and a host of other factors. Identical reward program investments can yield widely different levels of value and satisfaction for employees

Inside TRO

TRO allows your company to determine the rewards that have the biggest impact on employee attitudes and behaviors (using conjoint analysis) and then create reward portfolios that deliver the highest return on investment to the organization (using portfolio optimization). Using TRO, we help determine the answers to three critical questions:

• What is the right level of total investment in employees?
• What is the best allocation of that investment to maximize the employee behavior we want to drive (e.g., retention, engagement)?
• How do these answers vary within targeted employee segments (age, rank, seniority, job function, location, performance level, etc.?)
We then assess how to build workforce engagement, or achieve other results, with a more strategic investment of reward dollars by designing reward programs that better resonate with employees. Specifically, we use the TRO framework to help individual companies:

- Measure the impact of a reward change on a specific employee behavior
- Calculate the ROI of different reward strategies (cost versus behavior) in a rigorous and reliable way
- Determine the value that specific groups of employees attach to various financial and nonfinancial rewards
- Decide which strategy produces the optimal combination of financial cost to the organization and perceived value to employees

**How TRO Works**

At the heart of TRO are **conjoint analysis and portfolio optimization** — two complementary processes that incorporate specific, quantitative employee feedback about the value of rewards alongside real-time financial data and modeling.

Through conjoint analysis, we identify employee reward preferences — segmented by key factors like job level and demographics — to rebalance the current reward mix at the current or reduced cost, and to direct rewards in ways that matter most to employees.

**We Achieve Results For and With Our Clients**

In dozens of total rewards projects, we’ve helped our clients to achieve meaningful, quantifiable results, either as part of a total rewards strategy, or using TRO on a stand-alone basis.

For example:

- For a health care system incurring turnover costs of more than $7.5 million annually, TRO analysis showed that spending money on an improved work environment, learning and development opportunities, and benefits — not pay — was the best way to reduce turnover among clinical staff and would produce the greatest return on investment. Using TRO data, the health system introduced improvements in its medical and dental benefits, implemented more predictable work schedules and provided paid time off for employee training. In the first full year of operation, these improvements reduced employee turnover by 25%, saving almost $2 million.

- For a technology business with more than 36,000 diverse customer-facing employees, turnover was reaching more than 150% annually. Using conjoint analysis, we worked with the client to identify an alternate set of rewards, the optimal investment level in these rewards and which rewards should be implemented first based on immediate impact. This business enjoyed a decrease in turnover of more than 25%, with a net return of more than five times its investment.

- A large manufacturing company faced strong cost pressures and had related concerns regarding its pension and savings plans, health care costs and compensation costs. Using conjoint analysis, we identified the reward mix that employees perceived as most fair, as well as areas where reallocation would have a transparent effect. Based on our findings, the client was able to launch pension program changes for new hires, redesign its retiree medical approach and rethink its distribution of stock options with minimal impact on active employees.

- For a large grocery chain, competition and profitability pressures created a need to reassess its total rewards investment. Using TRO analysis, we quantified the impact of specific employee behaviors on the organization’s strong desire for customer loyalty, among other key reward preferences, and their impact on turnover. Using our results, the client reduced its reward expenditures by $50 million in a way that created no adverse impact on employee retention.

“Conjoint analysis modeling is available online, enabling you to compare responses of various employee groups and tailor rewards accordingly.”
"The key is investing finite employee reward dollars across a workforce in a way that best balances organizational and employee interests, generating the highest-possible perceived value for employees at the most economical level for the enterprise."

Specifically, the conjoint survey asks employees to evaluate and make trade-offs across their full portfolio of programs, as opposed to looking at each program separately. It’s tailored to your organization, typically developed through a combination of employee focus groups, client project team input, management input and Towers Watson’s reward program expertise. The survey is thorough, testing between 12 and 15 reward elements with two to five reward alternatives each. This provides the most accurate assessment of employee reward preferences.

At the same time, we use portfolio optimization to examine the combined costs and savings associated with various reward program changes, allowing clients to construct a series of program mixes that achieve desired employee goals (e.g., retention, engagement) within various cost constraints. The results depict an “efficient frontier” that can serve as a primary input into reward program redesign.

The rigor of these combined measurement processes lets us quantify and assess the direct relationship between various reward changes and employee engagement and retention by employee segment.

At the end, you will understand the full impact of proposed reward changes — both from a financial and an employee perspective — and can make decisions that ensure your organization manages people more effectively to improve performance.

Our Track Record as a Trusted Advisor

We realize it takes more than tools and methodologies to develop the right approach to rewards.

Towers Watson takes an innovative but practical approach to reward design and implementation, combining deep technical expertise in HR and reward issues with business acumen to help clients optimize the cost-to-value relationship in both individual reward programs and in the full HR portfolio.
Drawing on extensive employer and employee surveys, including our Global Workforce Study (see sidebar on page 2), we provide data-driven insights into the factors that drive employee attitudes and behavior — and the role of rewards in attraction, retention and engagement — along with insights that can identify links between programs, employee behavior and business results.

We offer time-tested processes and a best practices framework for evaluating program effectiveness, as well as change management capabilities grounded in HR domain expertise to support the implementation process.

Most important, we work hand in hand with our clients to help strike the right balance between cost and opportunity. We partner with clients on the high-level strategy as well as the nuts and bolts of delivery — helping to challenge long-held assumptions, build the business case for change and do the heavy lifting as programs and plans shift in more strategic ways. Along the way, we provide valuable counsel. At the end, we provide results.

The Bottom Line

While good planning is always important in delivering rewards in a cost-effective way, today there is more at stake. An effective total rewards strategy is a critical element in creating a more engaged workforce and in meeting recruiting and retention goals. Total rewards is one area that companies must get right. Fortunately, that’s a very achievable goal. Please call us to talk about your specific reward challenges, and how our innovative workforce planning and total rewards resources can help.

Defining and Optimizing Rewards

The challenge HR faces is ensuring that the organization invests its limited reward dollars where they will produce the greatest benefit among a workforce with varying levels of contribution and performance. In other words, what will yield the highest-possible level of employee engagement within the company’s overall budgetary constraints?

Towers Watson’s total rewards effectiveness approaches, including Total Rewards Optimization, help answer the following questions...

...About cost
- How can we reduce benefit cost to more competitive levels — and do it quickly?
- How do we reduce volatility in our cost structure?

...About talent
- How do we understand and address the emerging needs of the workforce?
- How do we create a reward package that is appropriate for the new talent we will recruit?

...About risk
- How do we avoid business disruption caused by a workforce dealing with significant change?
- How do we prepare employees for greater participation in the financial risks associated with our programs?

...About structure
- How do we create a focus on the role rewards play in delivering on business objectives?
- What implementation approach will more effectively support our employees and streamline our processes?

...About performance
- Is business unit differentiation in the reward package critical to supporting performance objectives?
- Are there talent segments that should have different rewards?
About Towers Watson

Towers Watson is a leading global professional services company that helps organizations improve performance through effective people, risk and financial management. With 14,000 associates around the world, we offer solutions in the areas of employee benefits, talent management, rewards, and risk and capital management.