MERCER WEBCAST
As HR Joins the Metrics and Analytics Revolution, Where is Compensation?
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Today’s Speakers

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QUESTIONS?
Please type your questions in the Q&A section of the toolbar and we will do our best to answer it.

While in full-screen mode, simply use the Q&A button on the bottom right-hand side of your screen.

While in half-screen mode, use the Q&A panel on the bottom right-hand side of your screen.
Objectives of today’s presentation

• Introduction
• Current state of rewards analytics
• A look at the measurement continuum
• Tackling the metrics and analytics “wish list”
• Tangible steps you can take
• Q&A
HR is asking new questions

What are the implications for rewards professionals?
How do analytics support a company’s **reward strategy**?

Do our current pay programs support retention of the best talent?
Do we have pay compliance risks that need to be addressed?

The era of **BIG DATA**

**HR evolution**

**Human capital EVIDENCE-BASED INSIGHTS**

**Data-driven stories**

**transition** Strategic people agenda
Next Gen workforce and pay analytics

**REWARD STRATEGY**

What risks/benefits are associated with our approach to pay for performance?
Are our structures aligned with internal and external values around the world?

How do I **transition** to more advanced analytics capabilities?
Current State of Rewards Analytics
WorldatWork/Mercer survey results at a glance

Basic analytics remain more common

**BASIC ANALYTICS REMAIN MORE COMMON**

Within the Compensation function, organizations are more likely to use ongoing reports and internal and external benchmarking to guide their decisions, as opposed to more sophisticated techniques such as projections, simulations, and predictive modeling.

**TYPES OF ANALYTICS USED TODAY**

- **Ongoing Reporting**: 87%
- **External Benchmarks**: 95%
- **Internal Benchmarks**: 90%
- **Projections**: 80%
- **Simulations**: 64%
- **Predictive Modeling**: 43%

*Source: WorldatWork and Mercer’s 2012 Metrics and Analytics Survey*
Results at a glance
Metrics and analytics wish list

“What would you like to explore through analytics that you are unable to do today?”

- The majority of respondents said they would like to learn which elements of their rewards strategy most effectively motivate their best performing employees.

SOURCE: WorldatWork and Mercer’s 2012 Metrics and Analytics Survey
Participant Poll
What would you like to explore through analytics that you are unable to do today?

A. Critical drivers of employee retention in your organization
B. Whether current sources of talent will fulfill your future business needs
C. Where you can reduce or reallocate business costs without diminishing the quality of output
D. How your rewards strategy needs to adjust to changing demographics or generational trends
E. How you can effectively segment your workforce to identify critical talent segments
Participant Results
What would you like to explore through analytics that you are unable to do today?

- Critical drivers of employee retention in your organization, 24%
- Whether current sources of talent will fulfill your future business needs, 21%
- Where you can reduce or reallocate business costs without diminishing the quality of output, 27%
- How your rewards strategy needs to adjust to changing demographics or generational trends, 22%
- How you can effectively segment your workforce to identify critical talent segments, 6%
A Look at the Measurement Continuum
First, some perspective
Mercer’s thinking about rewards

- Successful firms have unique business designs, which are supported by unique people strategies
- Rewards influence both who is in your workforce and how they behave; therefore, rewards are a key element of developing a unique talent strategy
- Rewards are more than just pay; think pay, benefits and careers
- The effectiveness of rewards depend on alignment with four perspectives:
  - Employer (strategy, operations)
  - Employee (preferences, engagement)
  - External (market, regulatory)
  - Cost (ROI)
- Because of complex interactions, reward program intentions are not always the same as reward realizations
  - Organizations need to know what they actually reward
  - Analysis of career rewards requires different analytical approaches

Your organization becomes what it rewards.
Careers are an increasingly critical part of rewards

In a tightening economy, career opportunity provides critical – often less costly – leverage with employees. In tightening global labor markets, careers have become a top management concern.

ACCELERATORS OF GLOBAL TALENT

EDUCATION

HEALTH & WELLNESS

CAREER EXPERIENCE

ENABLERS OF GLOBAL TALENT EFFECTIVENESS

People strategy  Culture of talent development  Consistent delivery across organization
Analyzing career rewards
Internal labor market talent flows and rewards

**Hires**

- **Level 8**: 11
- **Level 7**: 72
- **Level 6**: 125
- **Level 5**: 190
- **Level 4**: 312
- **Level 3**: 116

**Promotions**

- Level 8: 168
- Level 7: 517
- Level 6: 640
- Level 5: 830
- Level 4: 963
- Level 3: 383

**Lateral moves**

- Level 8: 38
- Level 7: 81
- Level 6: 186
- Level 5: 341
- Level 4: 234
- Level 3: 45

**Exits**

- **Level 8**: 17
- **Level 7**: 49
- **Level 6**: 123
- **Level 5**: 184
- **Level 4**: 227
- **Level 3**: 86
Advances in **information technology and analytic methods** are making it *possible* for organizations to **manage investments in human capital** in a way that can have a **measurable impact** on **performance**.

Companies moving up the analytics curve

In the broader HR community, companies are moving up the curve…but where is compensation?

Advances in information technology and analytic methods are making it possible for organizations to manage investments in human capital in a way that can have a measurable impact on performance.
Analytics Value Curve
Ongoing Reports – sample metrics
Analytics Value Curve
External Benchmarking

- Annual or periodic comparisons/reviews of base pay, total cash, total direct compensation, and total remuneration competitiveness
- Assessments of market prevalence or trends for specific policies, practices, program design features
- Assessments of employee rewards preferences and satisfaction against normative data
- Job scope/size (job evaluation results) correlated with market value

![Chart showing analytics value curve for Germany and US by segment with color-coded data]
Analytics Value Curve
Correlations/Projections

- Total rewards cost modeling; growth and shifts in mix, under different company performance scenarios
- Correlations of internal measures of job size/scope and external value—projections of external value
- Performance measurement analytics—correlations of performance measures for incentive design/management
- 3-5 year “career earnings” projections for top performers, high potentials, mission critical job groups compared to others
- Total rewards projections for equity plan participants
- Equity value delivered as a percent of shareholder value generated (historical or projected)
Moving from correlation to causal analysis requires isolating and measuring the impact of a given practice.

*Three conditions* must be met to show that a human capital factor drives a workforce/business outcome:

1. **CORRELATION**
   - The factors are related.

2. **TIME (Directionality)**
   - One precedes the other.

3. **ISOLATION (Controls)**
   - Other factors are ruled out.

The key is to analyse multiple variables, then *isolate* only those that *directly impact* the bottom line.
Analytics Value Curve
Causal Analysis

- Engagement driver analysis (what is the influence of pay and other rewards on employee engagement and productivity)
- Pay / Reward driver analysis (what employee and organizational variables determine pay—base and total cash—in a given organization)
- Turnover driver analysis for critical job groups or high turnover groups (what is the role of various pay programs in retention)
- Performance sensitivity analysis (what firm, industry and market variable influence total shareholder return)

Turnover Driver Analysis

<table>
<thead>
<tr>
<th>Percentage change in probability of voluntary turnover next year</th>
<th>0%</th>
<th>10%</th>
<th>20%</th>
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</thead>
<tbody>
<tr>
<td>N/S</td>
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<td></td>
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<tr>
<td>Base pay rate*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Base pay growth*</td>
<td>0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total pay growth*</td>
<td></td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Received a bonus</td>
<td></td>
<td></td>
<td>N/S</td>
</tr>
<tr>
<td>Large performance bonus</td>
<td></td>
<td></td>
<td>N/S</td>
</tr>
<tr>
<td>LT Grant*</td>
<td></td>
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</tbody>
</table>

*This list is a result of statistical modeling to identify those factors that correlate to employee turnover, including base pay, pay growth, received a bonus, and LT Grant amount.
Pay/Reward Driver Analysis
Understanding what your organization really rewards

- Higher performance rating
- West Coast
- Younger
- Prior industry experience
- Agency / Newspaper
- More prior jobs
- International experience
- Education in Tech field
- Past promotion
- Higher pay level
- Occupation
- Education
- Prior industry experience
- Tight labor market
- Tenure
- Tenured manager
- Position tenure
- Older manager
- Unit size
- International experience
- Education in Tech field
- High pay level
- Sales department non-sales job
- Likelihood of promotion
- Lower
- Higher
Analytics Value Curve
Simulations and Forecasting (Predictive Modeling)

- Multivariate pay equity analysis
- Modeling impact on profitability or other financial/business outcomes, based on changes in compensation or other HR programs
- Modeling impact of turnover for targeted populations based on changes in pay or other HR programs
- Equity scenario modeling
- Equity vesting modeling

Each dot represents an operating unit’s performance for a given year over an eight-year period. Controlled for wages, capital intensity, share of full-time workers, turnover, and case mix complexity.
Moving up the analytics curve requires assessing both what people SAY and what they DO.

**SAY**
What employees and employers say as measured through
- Focus groups
- Leadership and HR interviews
- Employee surveys
- Company policies
- Comparative/pattern databases

**DO**
How employees and employers actually behave as measured through
- Individual employee records
- Employee turnover
- Business performance measures such as customer satisfaction, growth, profit and productivity

Complete, verifiable understanding of the interplay between employer action and employee reaction.
Some companies rely on what people say; others use conjoint analysis to elicit employee reward preferences from what they SAY.

These three areas are consistently rated as the top three areas of importance by virtually all segments of the population surveyed. Analyses can be segmented by generation to understand generational differences in reward preferences.

Importance scores were scaled so that the average score is 100.
Others rely on analyzing what employees actually DO, like this company. . .

Results from statistical analysis of drivers of actual turnover

<table>
<thead>
<tr>
<th>More likely</th>
<th>Less likely</th>
<th>Likelihood to quit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonus participation</td>
<td><strong>More likely</strong></td>
<td></td>
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<tr>
<td>Broader job experience</td>
<td></td>
<td></td>
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<tr>
<td>Received technical training</td>
<td></td>
<td></td>
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<tr>
<td>Pension vesting within 18 months</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Time away &gt; 90% taken</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tuition reimbursement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Higher pay</td>
<td></td>
<td><strong>Less likely</strong></td>
</tr>
<tr>
<td>Adds week of vacation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sabbatical</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unscheduled absence</td>
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</table>
Tackling the Metrics and Analytics “Wish List”
Can we tell how different elements of our reward strategy affect the best employees?

In this team-oriented environment, analysis showed that increasing differentiation in pay actually hurt performance.

A variety of tools in combination (e.g., engagement analysis, regression analysis) assess how reward elements affect employee performance.
Pay equity modeling can reveal demographic disparities in various components of pay.

The models on which these results are based account for individual attributes, organizational factors, and external influences.

**Disguised case example**
Participant Poll
What kind of analytics are you using for pay equity analysis?

A. Ongoing reporting
B. External benchmarks
C. Internal benchmarks
D. Cohort analysis
E. Correlations
F. Controlled statistical modeling
Participant Results
What would you like to explore through analytics that you are unable to do today?

- Controlled statistical modeling, 3%
- Correlations, 4%
- Cohort analysis, 5%
- External benchmarks, 23%
- Ongoing reports, 12%
- Internal benchmarks, 53%
How can we identify critical talent segments?

Executive survey analytics like the Human Capital Scan can be used to identify critical skills OR mission critical jobs.

Importance for the future

- **Low Criticality, High Proficiency**
  - Drafting skills
  - Instrumentation
  - Green engine design

- **High Criticality, High Proficiency**
  - Discipline & Comp. specialists
  - Design
  - System integration
  - Control system specialist

- **Low Criticality, Low Proficiency**

- **High Criticality, Low Proficiency**

Current Proficiency Level

<table>
<thead>
<tr>
<th>Importance in the Future</th>
<th>Drafting skills</th>
<th>Design</th>
<th>Producibility/ Process definition</th>
<th>Discipline &amp; Comp. specialists</th>
<th>System integration</th>
<th>Materials application</th>
</tr>
</thead>
<tbody>
<tr>
<td>26%</td>
<td>82%</td>
<td>39%</td>
<td>79%</td>
<td>87%</td>
<td>61%</td>
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Current Proficiency

<table>
<thead>
<tr>
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<th>System integration</th>
<th>Materials application</th>
</tr>
</thead>
<tbody>
<tr>
<td>68%</td>
<td>53%</td>
<td>47%</td>
<td>71%</td>
<td>29%</td>
<td>39%</td>
<td></td>
</tr>
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</table>
Tangible Steps You Can Take
Consider an analytics Center of Expertise Owned by the business, driven and facilitated by HR

**Strategic guidance**
- Give strategic guidance and context
- Business scenarios and related workforce solutions
- Manage implementation & communication

**Process facilitation**
- Facilitate workforce analytics & planning process with business managers
- Ensure results, validation & implementation

**Process & quality guidelines**
- Define workforce planning process, provide guidance & templates
- An objective, single source of data in workforce analytics & planning
- Ensure communication and training of all stakeholders (HR & line)
Move toward causal modeling for pay equity analysis where it is still a standard (necessary but not sufficient)

### Data gathering
- **Employee Characteristics**
  - Age
  - Tenure
  - Experience
  - Level
  - Performance
- **Nature of Work & Business**
  - Function
  - Work segment
  - Business area
- **External Conditions**
  - Unemployment rates
  - Area demographics

### Analysis
- **Statistical Modeling**

### Assessment
- **Systemic Evaluation**

#### Pay Review
<table>
<thead>
<tr>
<th>EE ID</th>
<th>Expected pay</th>
<th>Actual pay</th>
<th>Pay smaller than expected?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>s</td>
<td>s</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>s</td>
<td>s</td>
<td>✓</td>
</tr>
<tr>
<td>3</td>
<td>s</td>
<td>s</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>s</td>
<td>s</td>
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Move one step up the curve toward more powerful analytics

For example, if you are focused on benchmarking…pilot **total rewards cost modeling** or **critical talent 3-5 year total direct pay trending and comparisons** (compared to average performers)... if you are at correlations, pilot **multivariate pay driver analysis**
Questions & Answers
For more information...

• **Related interviews**
  – Patterns of Use and Value Survey 2012 interview
  – Workforce analytics: Critical role in organizational success interview

• **Mercer “be in the know’ blog**
  – Mercer subject matter experts and guests will help you discover tips and trends, and will offer advice to questions you may have.

• **Mercer Analytics website**
  – Solution that combines disparate data and Mercer’s intellectual capital, consulting services and technology.

• **Mercer Webcast series**
  – April 16th – Metrics and Analytics for Your Workforce: Insights from the Globe's Leading Companies
## Resources Available – Mercer Workshops


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<tr>
<td>4/22</td>
<td>NYC</td>
<td>Moving from Data Smog to Cloud 9: Assembling a Relevant Data Engine</td>
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<tr>
<td>4/23</td>
<td>NYC</td>
<td>Workforce Analytics and Planning Execution: Building a Center of Expertise</td>
</tr>
<tr>
<td>5/13</td>
<td>Chicago</td>
<td>Workforce Metrics and Analytics: Driving Business Results with Data</td>
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<tr>
<td>5/20</td>
<td>Wash D.C.</td>
<td>Strategic Workforce Planning: Defining and Fulfilling Business Requirements</td>
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<tr>
<td>6/7</td>
<td>San Fran</td>
<td>Workforce Analytics and Planning Execution: Building a Center of Expertise</td>
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<tr>
<td>7/1</td>
<td>San Fran</td>
<td>Moving from Data Smog to Cloud 9: Assembling a Relevant Data Engine</td>
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<tr>
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<td>Wash D.C.</td>
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**Client On-Site Workshops – [http://www.mercer.com/mercer-workshops](http://www.mercer.com/mercer-workshops)**

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<td>5/1</td>
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<td>Driving Business Results with Data</td>
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Speaker Biographies – Jeanie Adkins

Jeanie is a Partner in Mercer's Louisville office and a U.S. Rewards Practice Co-Leader. She works with clients in developing rewards strategies, and designing and implementing plan designs which are consistent with organizational culture and reward strategy. Recent areas of focus include reward strategy, reward and career frameworks, and new pay for performance approaches and models.

Her recent client work includes experience in global leveling, job evaluation and structure design. Recent client assignments include work with a variety of employers in consumer products, manufacturing, financial services, higher education, and healthcare.

Her master's program at Cornell University focused on compensation strategy, human resource strategic planning and labor economics. Before returning to graduate school, she served in a variety of human resource positions including compensation manager. She is a frequent speaker on compensation and human resource issues.

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Haig R. Nalbantian is a Senior Partner and Co-founder/Leader of Mercer’s Workforce Sciences Institute. A labor /organizational economist, he has been instrumental in developing Mercer’s unique capability to measure the economic impact of human capital practices, including rewards. Those capabilities have been applied in numerous projects he has directed for leading companies in the U.S. and abroad across a broad range of industries, including high technology, manufacturing, financial services, media and information services, energy, telecommunications, and professional services. He has also consulted to organizations in the public and not-for-profit sectors.

Haig came to Mercer from National Economic Research Associates which he joined in 1989. Earlier, he was on the faculty of economics at New York University and was a research scientist at its C.V. Starr Center for Applied Economics. He is an internationally recognized expert in incentives, human capital measurement and management and their links to organizational performance. He has published widely on these topics in books and articles in leading academic and professional journals, such as the American Economic Review, The Journal of Labor Economics, The Harvard Business Review, Compensation and Benefits Review, WorldatWork, among many others. His HBR article, "Making Mobility Matter," received the Academy of Management’s 2010 award for "Outstanding Practitioner-oriented Publication" in 2009.

Nalbantian co-authored the prize-winning book on human capital measurement and management, Play to Your Strengths (McGraw Hill, 2004). He is also editor of and chief contributor to the book, Incentives, Cooperation and Risk Sharing and is a frequent speaker before industry groups, professional associations and academic audiences.

Haig earned his BA in English and Economics at New York University and his graduate degrees in economics from Columbia University. He is a member of the American Economic Association.

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