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Why Engagement Matters

The Art & Science of Evaluating Engagement in the Workplace

Chris Dustin — Managing Director & Senior Advisor



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WHAT IS (AND ISN'T) ENGAGEMENT?

The Engagement Impact

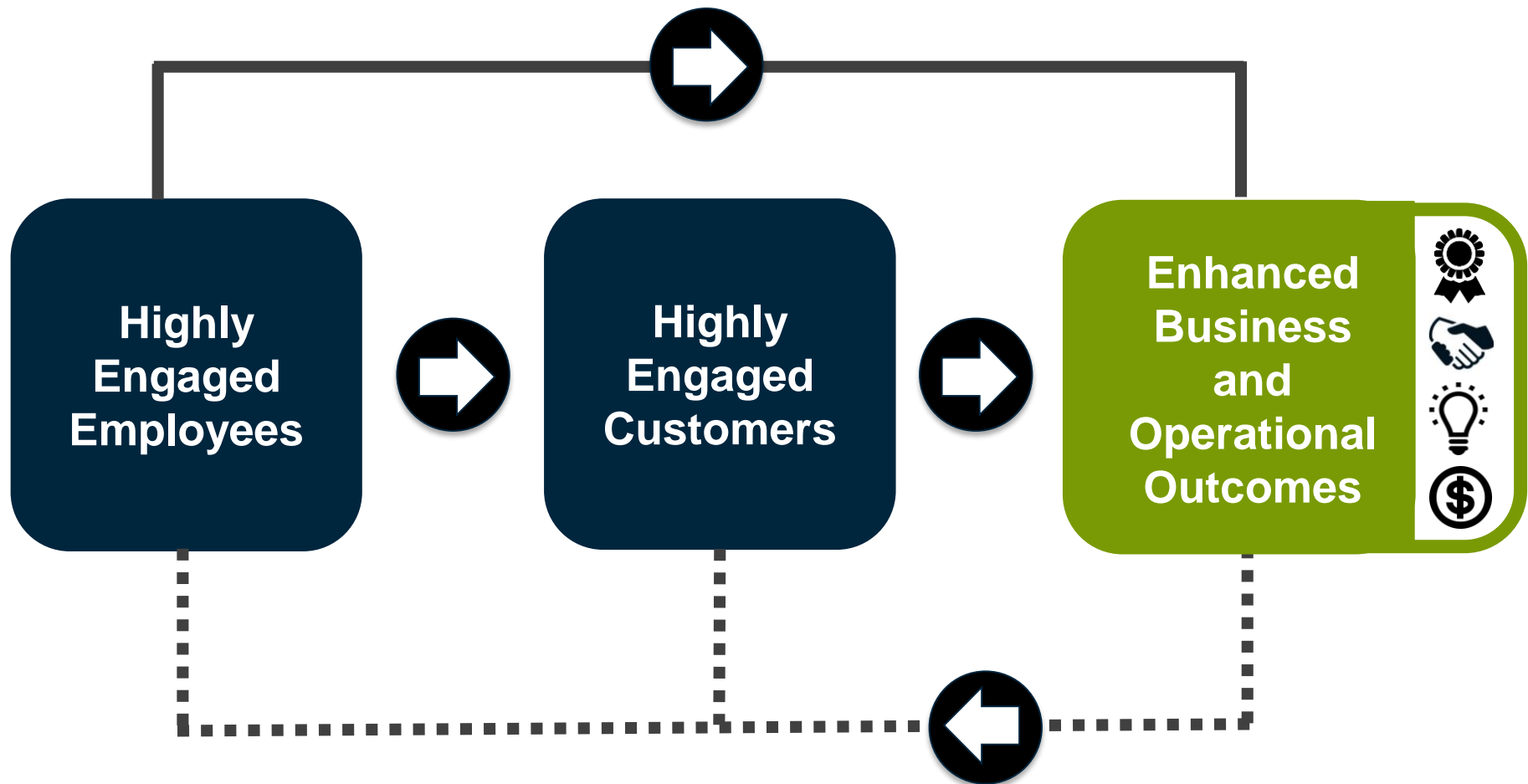
Employee engagement predicts outcomes...

- market penetration
- revenue & profit margin
- employee turnover
- customer satisfaction
- employee safety
- customer safety
- on-time delivery
- employee wellbeing
- productivity & efficiency
- decreased on-the-job injuries
- shrinkage control
- reduced legal cases
- positive social media impact
- brand awareness



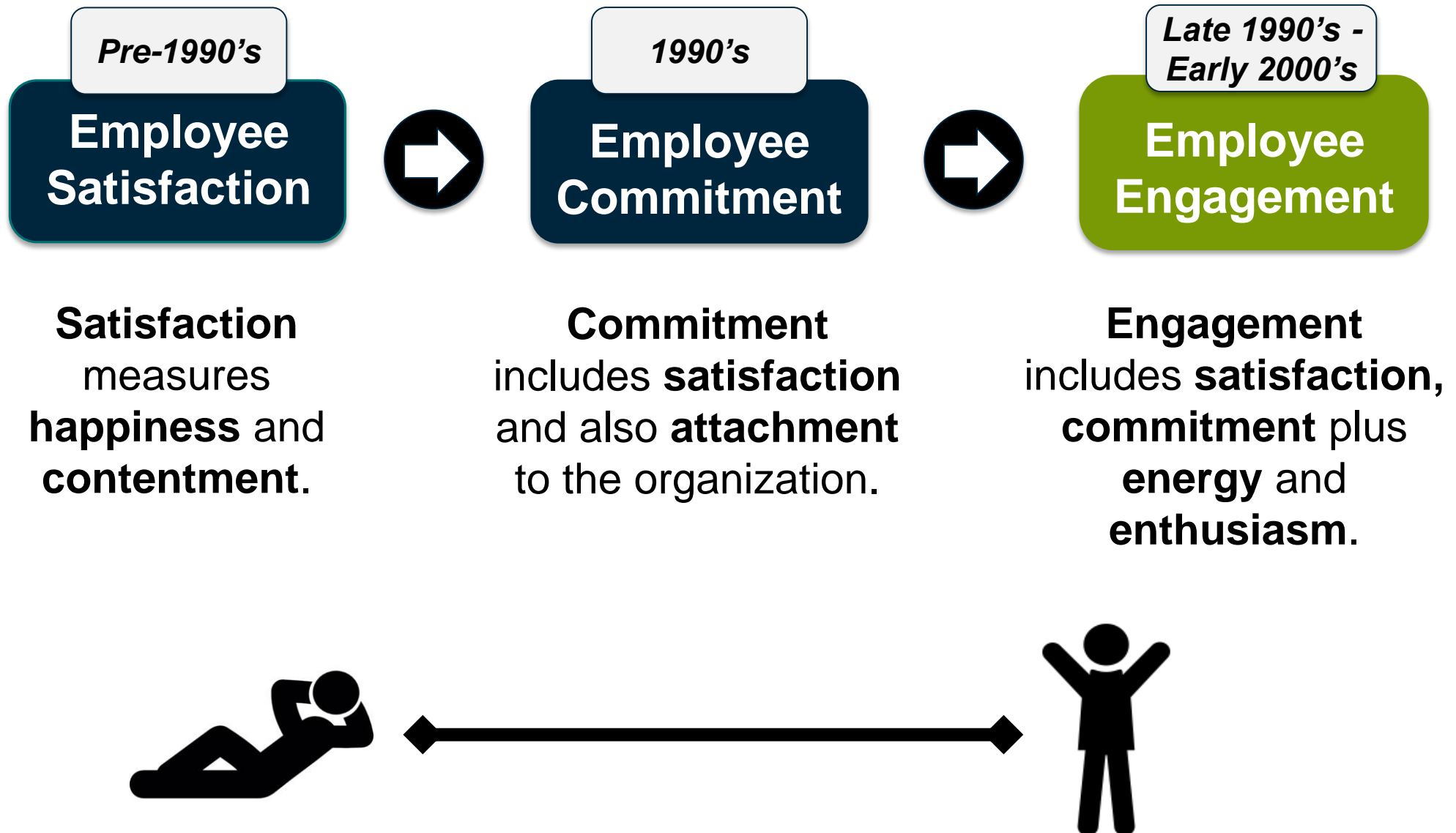
ONLY if it is measured properly

The Service Profit Chain Sequence



Source: *Adapted from* Heskett, Sasser and Schlesinger (1997); Heskett, Jones, Loveman, Sasser and Schelsinger (1994);

The Evolution of Engagement





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NOT ALL ENGAGEMENT METRICS ARE EQUAL

Defining Engagement

Organizations

valued effective emotional excitement pride strategy commitment satisfaction loyalty trust motivation goals stay mission execute fit give commitment satisfaction responsibility enthusiasm best attachment active collaboration connection advocate vision hearts focus

Academics

benefit involvement commitment discretionary energy intense focus effort beyond prepared vigor emotion dedicated purpose absorb satisfaction performance time

Consultancies

focus brainpower accomplish devotion mission achievement goals effort immersed driven energy extra motivation involvement attachment concentration remain learn willing discretionary enhance enthusiasm contribute exceed values perform positive emotional success business beyond passion intensity interest

Defining Engagement

**We define
Employee
Engagement
as...**

A pronounced state of enthusiasm characterized by effort, pride, and passion which fosters a mutually committed relationship between employees and organizations resulting in the enduring pursuit of organizational and personal goals.

Defining Disengagement



Measuring Engagement

We measure employee engagement using the items....

- A willingness to put in more effort than expected
 - Being proud to work for the organization
 - A willingness to promote the organization as a great workplace
 - Not recently considering other job opportunities
 - Feeling a strong sense of job satisfaction
-
- Feeling your work strongly contributes to the organization's success
 - Feeling compelled by the organization's mission

*Recently added Job
Passion items*

Measuring Engagement

- Feeling your work strongly contributes to the organization's success
- Feeling compelled by the organization's mission

*Recently added Job
Passion items*

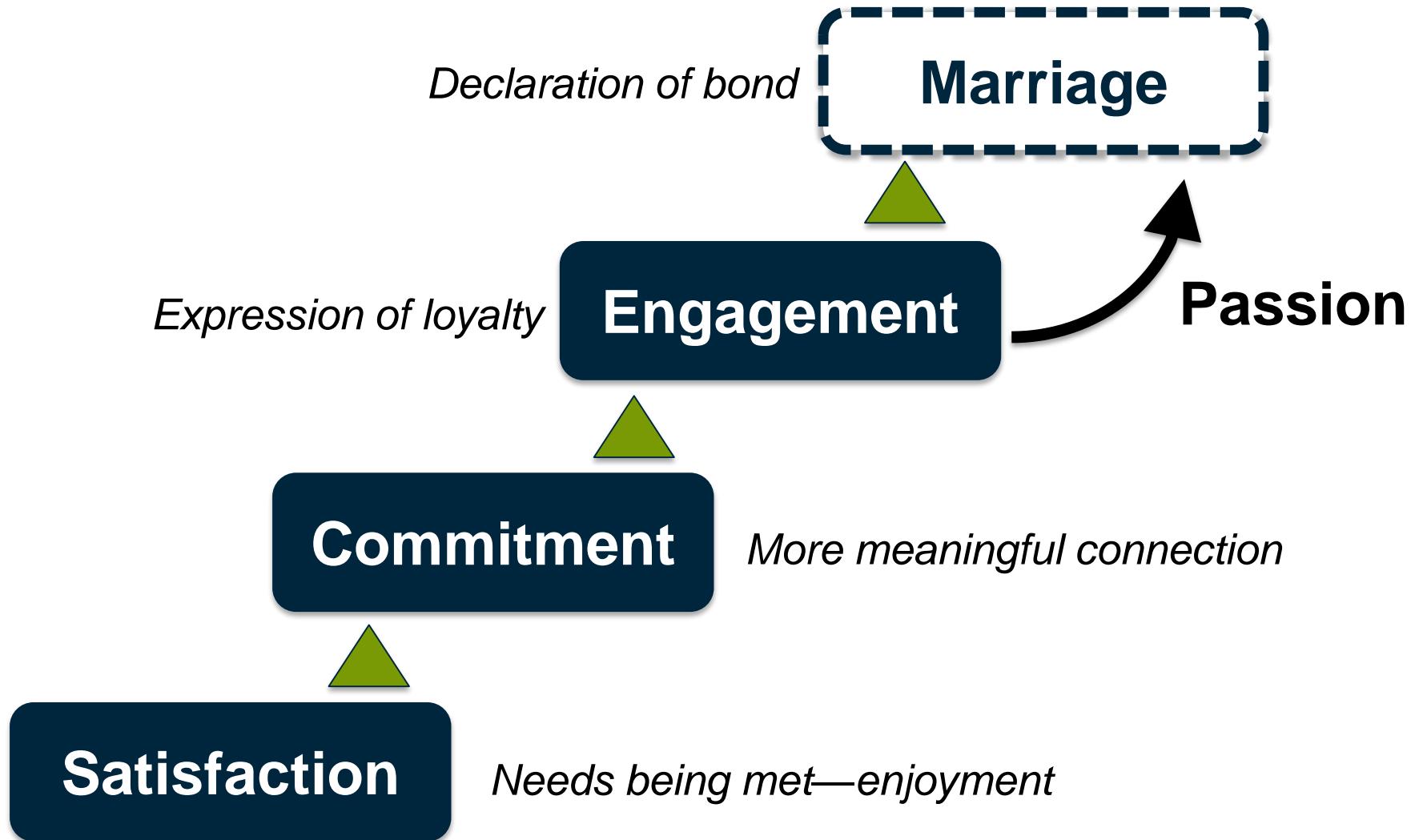
What?

Strong, intense connection between the job and the employee—the employee experiences a deep sense of personal meaning from their job. *(Ho, Wong and Lee, 2011)*

Why?

Job passion can sharpen and stimulate work performance while transferring from passionate to non-passionate employees *(Ho, Wong and Lee, 2011; Cardon 2006)*

Measuring Engagement





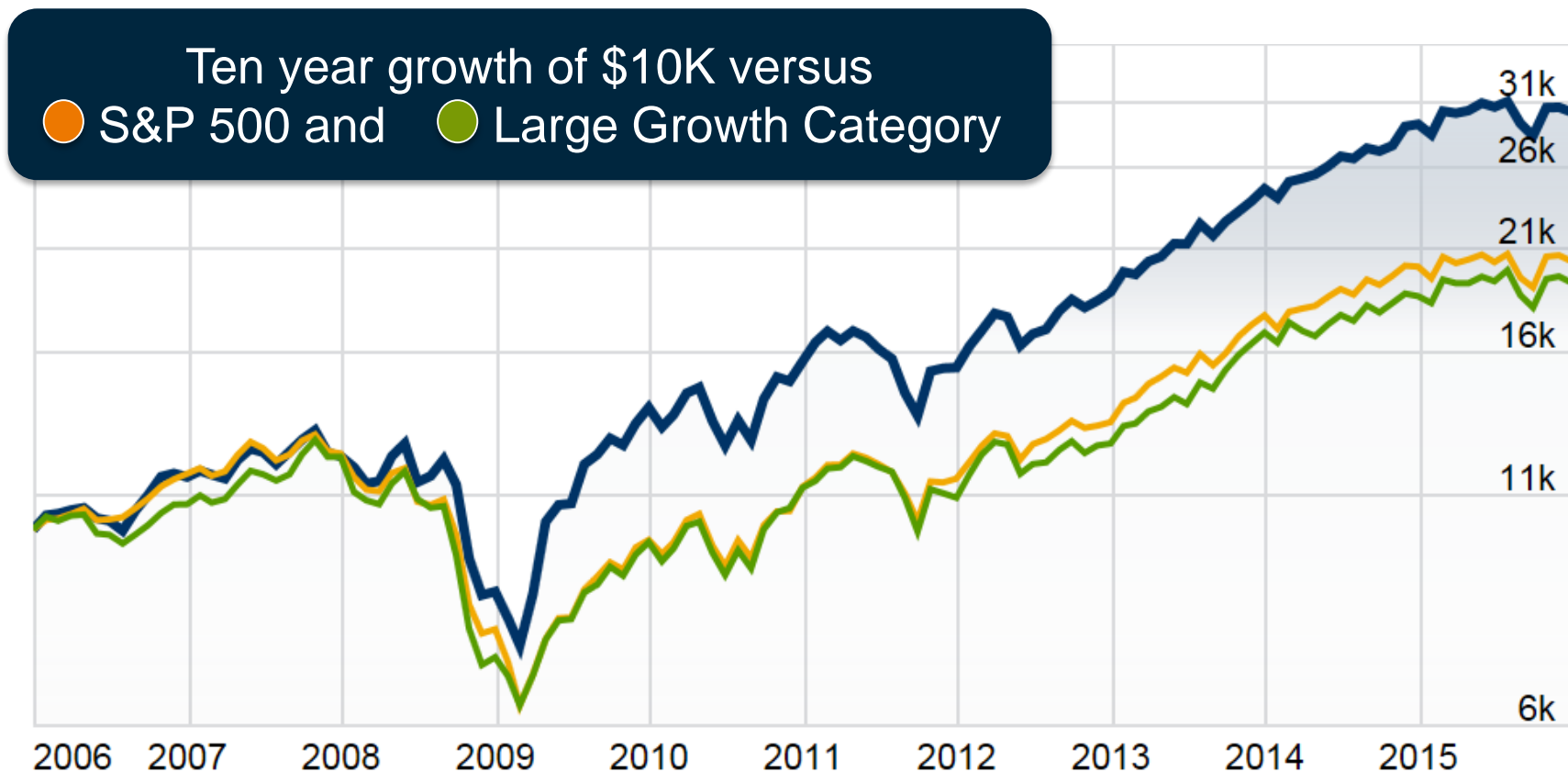
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THE BENEFIT OF MEASURING ENGAGEMENT PROPERLY

The Many Uses of Engagement

Jerome Dodson

- Founder and President of Parnassus Investments
- Portfolio Manager of the Parnassus Endeavor Fund



The Many Uses of Engagement

An excerpt of an
interview with
Jerome Dodson

(USA Today, March 2015)

By focusing on companies that treat employees well....“people told us that we'd exclude some good stocks and not do well, but to me, that's nonsense....how a company treats its employees is the reason it does well....when you treat employees well....it

makes a difference because it gets employees pulling with you and helping you....employees are going to do more than their job and go out of the way to do things that will help the company....it makes all the difference in the world...”

So, how does this fund out-perform year-over-year?



By focusing on organizations with highly engaged workforces employees who give their all and care about the company.

The Benefit of our Engagement Metric

Our Employee
Engagement
Metric WITH
“Job Passion”

VS.

Engagement
Metric
WITHOUT “Job
Passion”

2X Including “**Job Passion**” within our engagement metric has **doubled the ability to predict** key performance outcomes. On average, the predictive power is **twice as great** as commonly used engagement metrics.

Most Recent Comparisons of Engagement Metrics

! The predictive quality of engagement on.....

**Customer's Likelihood
to Rate their Overall
Experiences a 9 or 10?**

Traditional
Engagement

19%



Engagement
w/Passion

40%

2.1x

**Customer's Likelihood
to Recommend the
Organization to Others?**

Traditional
Engagement

17%



Engagement
w/Passion

38%

2.2x

**Voluntary Turnover Rate
among Employees?**

Traditional
Engagement

26%



Engagement
w/Passion

42%

1.6x

**Net Profit Margin
Performance**

Traditional
Engagement

18%



Engagement
w/Passion

36%

2.0x

Our Engagement Metric—By the Numbers

The ROI of a
modest
increase in
employee
engagement

15% more customers would rate
their experience a 9 or 10

11% more customers would
definitely recommend the
organization to others

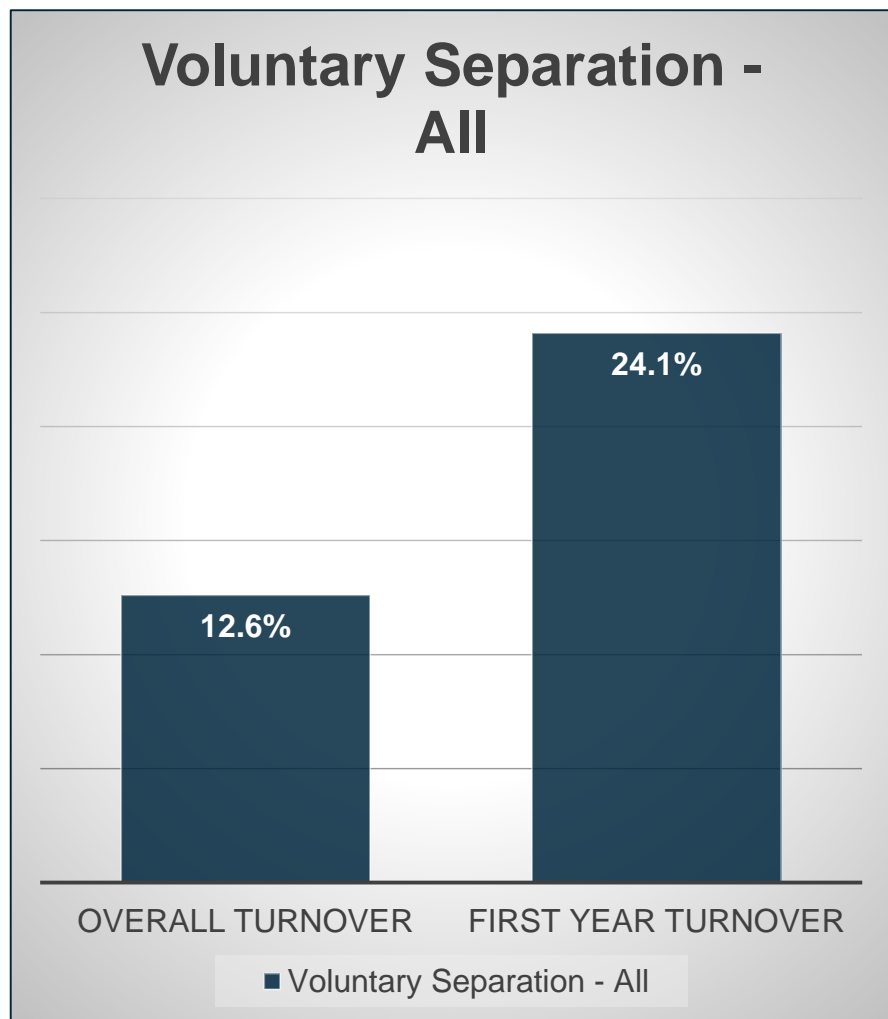
66%

fewer employees will
voluntarily exit the
organization to pursue
other opportunities

\$3.13 (Million)

projected annual savings in
turnover-related costs per
1,000 employees

Turnover & Economical Impact



By reducing turnover a few percentage points it can lead to a significant cost savings...

EXAMPLE SCENARIO

Total Employees	500
First Year Turnover	25%
Average Compensation	\$60,000
Cost of Turnover per employee (1.5 x average compensation)	\$90,000

FIRST YEAR TURNOVER SCENARIOS

Turnover rate	# of employee turnovers	Cost of turnover	Savings realized from reduced turnover
25%	125	\$11,250,000	-
20%	100	\$9,000,000	\$2,225,000
15%	75	\$6,750,000	\$4,500,000



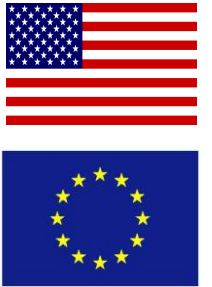
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THE STATE OF ENGAGEMENT

The State of Employee Engagement

The State of Engagement

Recent studies have shown a decline in employee engagement—particularly in the United States and many European Union nations.



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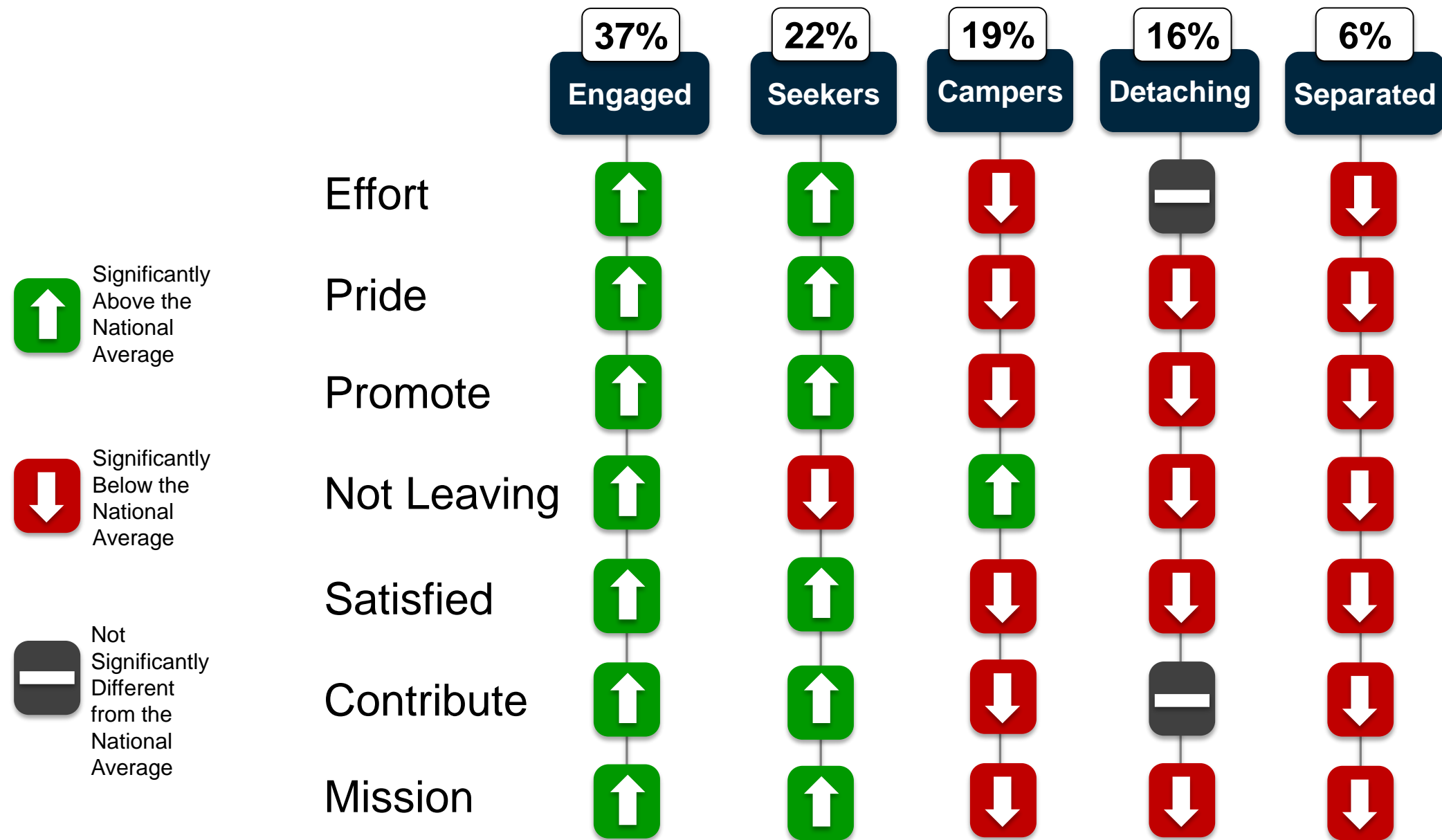
The Prevailing View

Measuring and managing the wrong or incomplete set of engagement drivers is mostly to blame.

Our Employee Engagement Model



Engagement Profiles in Today's Workplace



Exploring Key Drivers of Employee Engagement



What are the most powerful “key drivers” of employee engagement?

Do key drivers of employee engagement change over time?

Yes

How have they changed over time?



2005-2015 in review...

Key Drivers of Employee Engagement: A Decade in Review

2005

Relationship with Immediate Team and Supervisor, Career Growth

2010

Confidence in Senior Leaders, Competitiveness of the Organization, Career Growth

2015

Competitiveness of the Organization, Confidence in Senior Leaders, Career Growth, Relationship with Team and Supervisor

Local, Self Focus

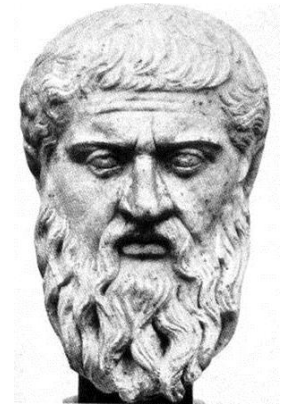
Stewardship and System Health

Hybrid

Generational Impact

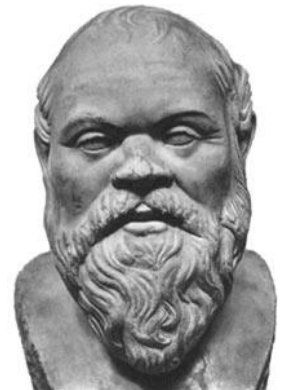
“Today’s youth are disrespectful and undisciplined.”

Plato (428 BC-347 BC)



“Our youth now love luxury. They have bad manners, contempt for authority; they show disrespect for their elders and love chatter in place of exercise; they no longer rise when elders enter the room; they contradict their parents, chatter before company; gobble up their food and tyrannize their teachers.”

Socrates (469 BC-399 BC)

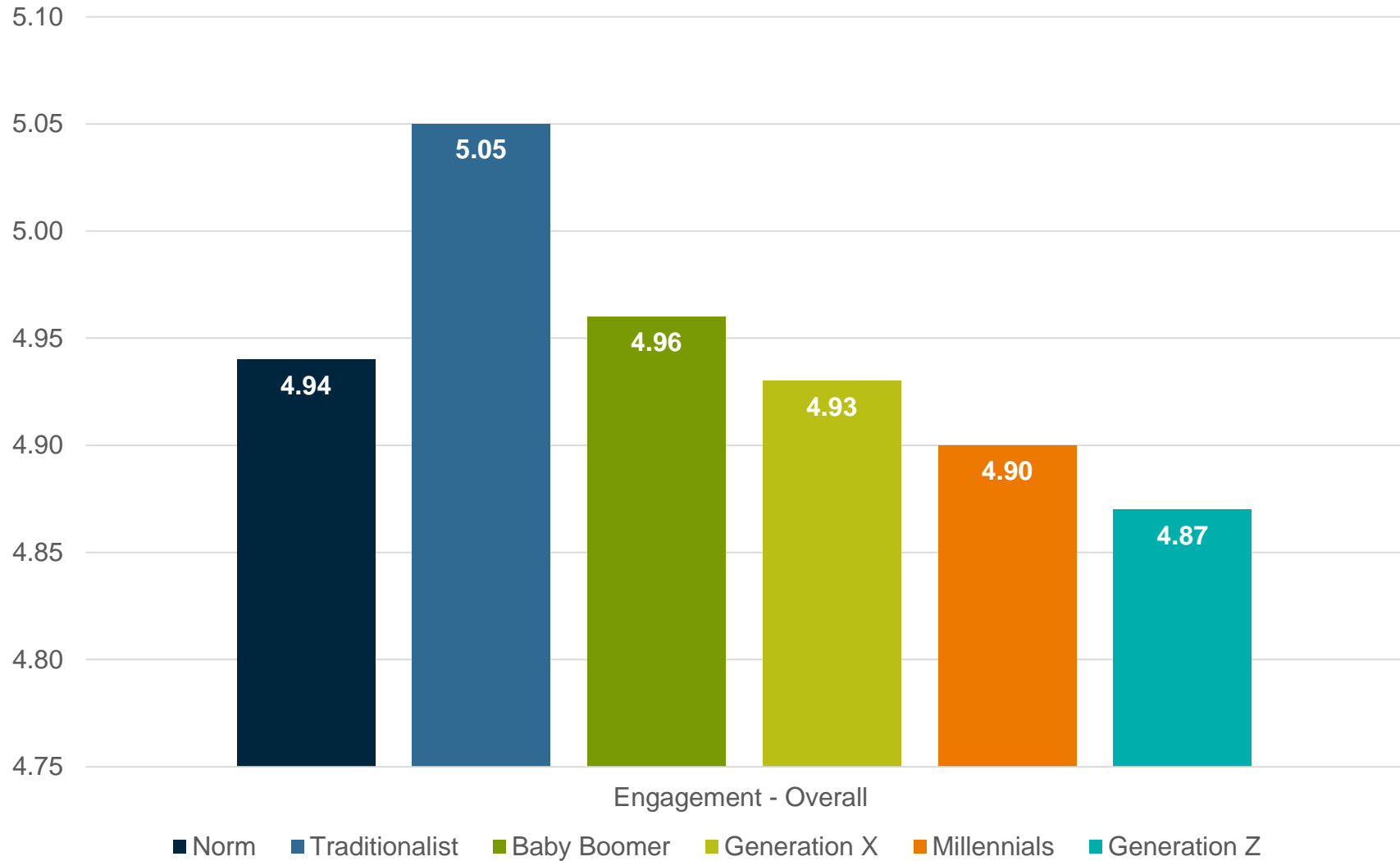


Generational Impact

GENERATION	BIRTH YEARS	DEFINING EVENTS	GENERATIONAL CHARACTERISTICS
Traditionalist	1925 to 1945	Great Depression, Dust Bowl, Hitler's Germany, World War II, Communism	Overly cautious, less likely to take risks, hierarchical, loyal and patriotic, rule makers/followers
Baby Boomer	1946 to 1964	Jet age, national TV, Alaska & Hawaii, Civil Rights Movement, Space Exploration	Economically optimistic, individualistic, prefer achievement over relations, competitive
Generation X	1965 to 1980	MLK, Jr. Assassination, Working Mothers, Nixon & Watergate, Vietnam	Homesick, in need of attention but not used to supervision, prefer non-routines, anti-institution
Millennials	1980 to 2000	Iran Hostage Crisis, Space Shuttle Challenger, Fall of Berlin Wall and Soviet Union, Walkman, Personal Computer, Internet and Email	Technology reliant, image-driven, multi-tasking, open to change, confident, team-oriented, information rich, impatient, adaptable

Next Generation: Generation Z

Generational Impact



Generational Impact

GENERATION	KEY DRIVERS
Traditionalist	<ul style="list-style-type: none">• Strong sense of belonging to the organization• Senior leadership is responsive to employee recommendations• Recommend the organization to be a customer
Baby Boomer	<ul style="list-style-type: none">• Recommend the organization to be a customer• Employees are encouraged to report information concerning safety• Value the relationships with employees
Generation X	<ul style="list-style-type: none">• The organization has enriched the employee's career• Value the relationships with employees• Strong sense of belonging to the organization
Millennials	<ul style="list-style-type: none">• Excited about the direction and future of the organization• Practice the mission in their daily operations• Ability to communicate with senior leadership



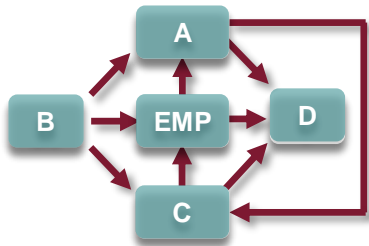
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ADVANCED ANALYTICS

Statistical Analyses—Key Drivers and Linkages

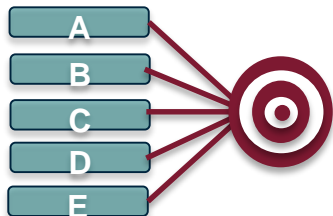
Determining Linkages to Business Outcomes

Linkage Analysis



Based on regression modeling or structural equation modeling, reveals how attitudes of a group (*i.e.*, *employees*) shape attitudes of another (*i.e.*, *customers*)—or business/operational outcomes (*e.g.*, *on-the-job injuries*, *absenteeism*, *financial performance*, *etc.*).























Determining Key Drivers of Engagement



Key Driver Analysis

Based on *regression modeling*, identifies the survey items that most influence engagement—predicts the amount of change in engagement as key drivers improve.

Statistical Analyses—The Power of Linkage Analysis

<i>Example Linkages (Employee Opinions to Business Outcomes)</i>	Building Employee Engagement	Preventing On-the-job Injuries	Reducing Absenteeism	Enhancing the Customer Experience	Optimizing On Time Delivery
<i>Employee Survey Item</i>					
<i>Employee Survey Item</i>					
<i>Employee Survey Item</i>					
<i>Employee Survey Item</i>					
<i>Employee Survey Item</i>					
<i>Employee Survey Item</i>					
<i>Employee Survey Item</i>					
<i>Employee Survey Item</i>					
<i>Employee Survey Item</i>					



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ACTION PLANNING

Action Planning Introduction

Employees who observe organizational improvements resulting from the survey, show engagement levels 2x greater than those who do not



Leaders at renowned organizations focus on engagement year round by constantly role modeling their language and behavior

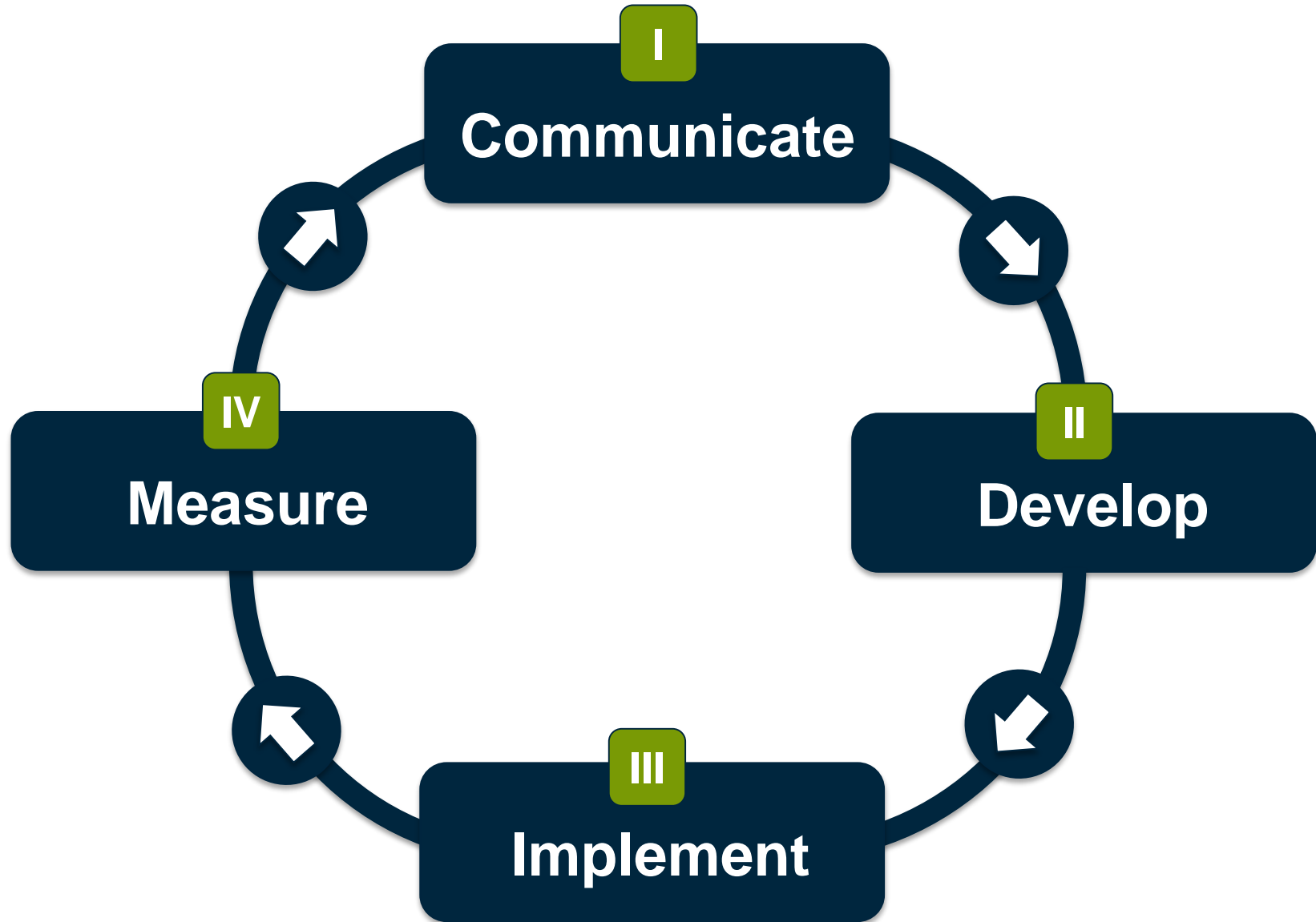


- *Action drives improvement*
- *An engagement survey promotes expectations that employee feedback will be acted upon*
- *A strong relationship exists between taking effective post-survey action and increasing engagement*



Action Planning is not just an “HR responsibility”

Action Planning Model



Essential Takeaways

- ★ Engagement matters profoundly—but ONLY when it is measured correctly
- ★ Engagement is the initial catalyst in achieving and sustaining business & operational excellence
- ★ Engagement metrics differ widely—ours harnesses significantly greater predictive power
- ★ When measured correctly, engagement explains why things happen inside and outside the organization
- ★ Don't just measure engagement—build it correctly to trigger change in an array of key outcomes
- ★ Warning—the key drivers of engagement change regularly....year-by-year and organization-by organization



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Questions and Discussion
Thank You For Your Time Today

Chris_Dustin@AJG.com ----- 630.536.2044

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*Talent Investment Allocation
That Maximizes ROI*

Managing Human Capital to Drive Organizational Strategy Through Engaged Talent

NAW | KEITH FRIEDE | NOVEMBER 2, 2016

Total Rewards

is

Everything that employees value
in the employment relationship

Total Rewards Management

is

The art and science of managing

What rewards to offer

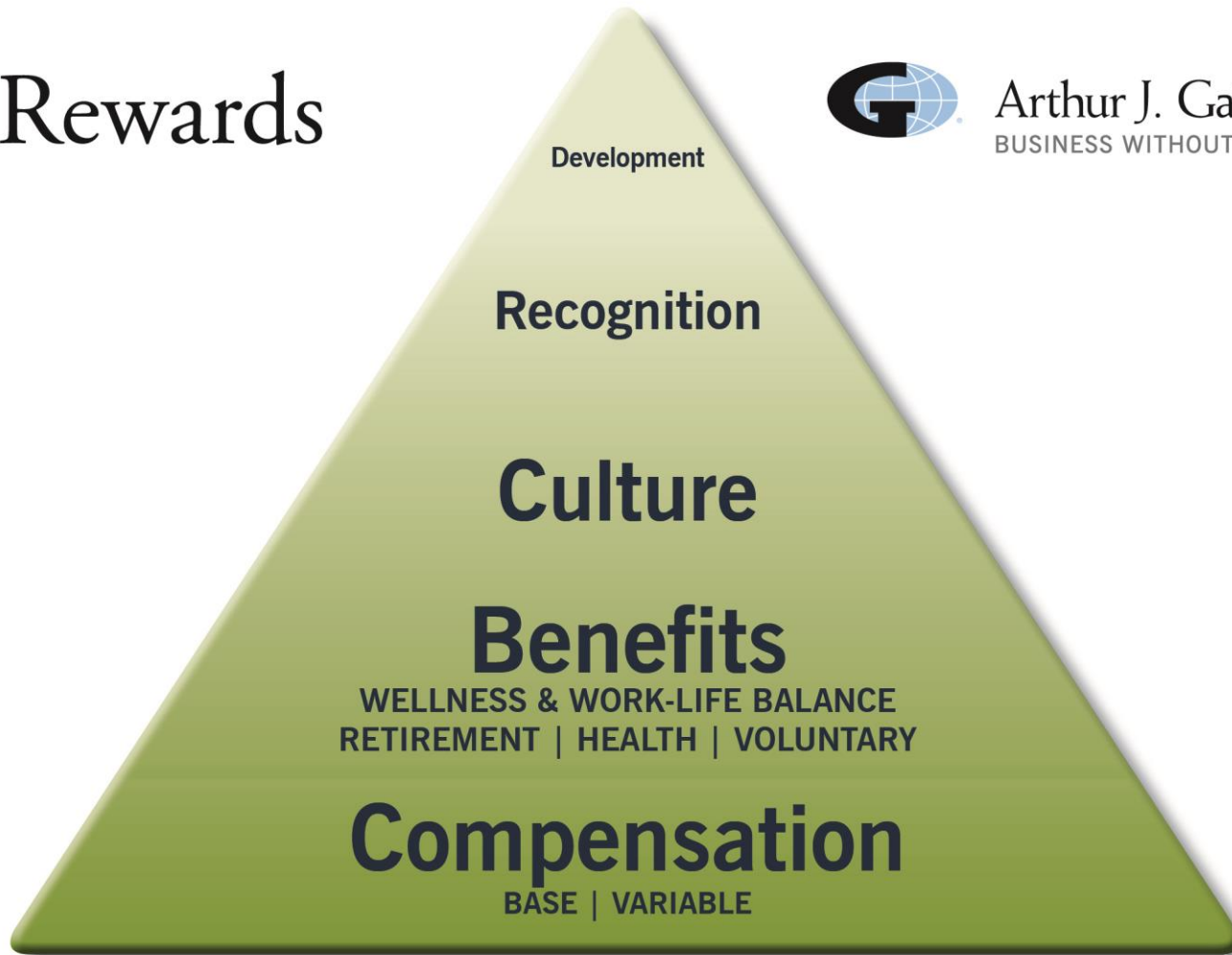
How much to allocate to each type of reward

To maximize return on talent investment

Total Rewards



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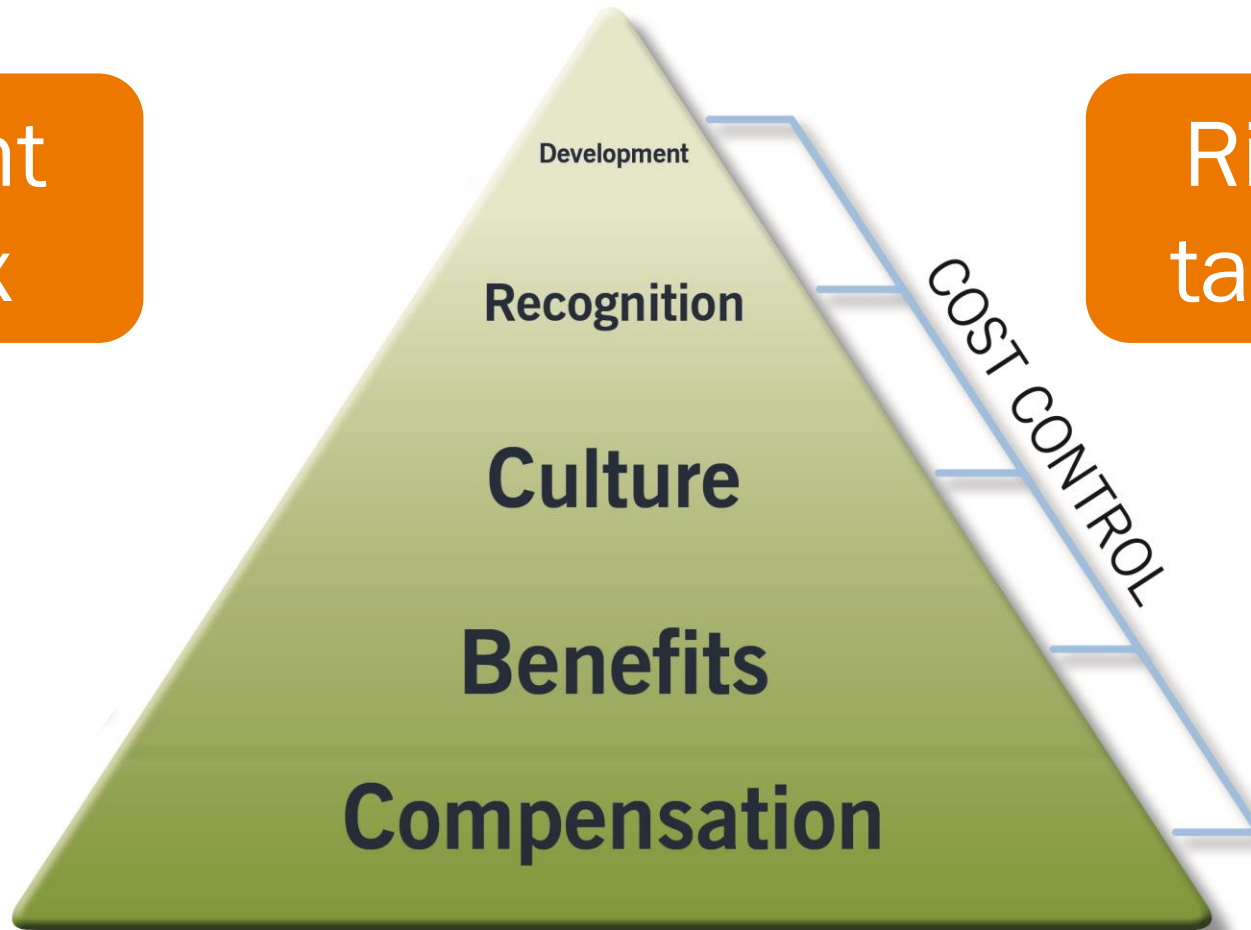


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Right
price

Right
mix

Right
talent



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Traditional
siloed rewards
management
process



Integrated
total
rewards
process

Traditional
benchmarking
("sameness")



Rewards &
employER value
proposition
distinctiveness

Myopic focus on
singular rewards
budget line items



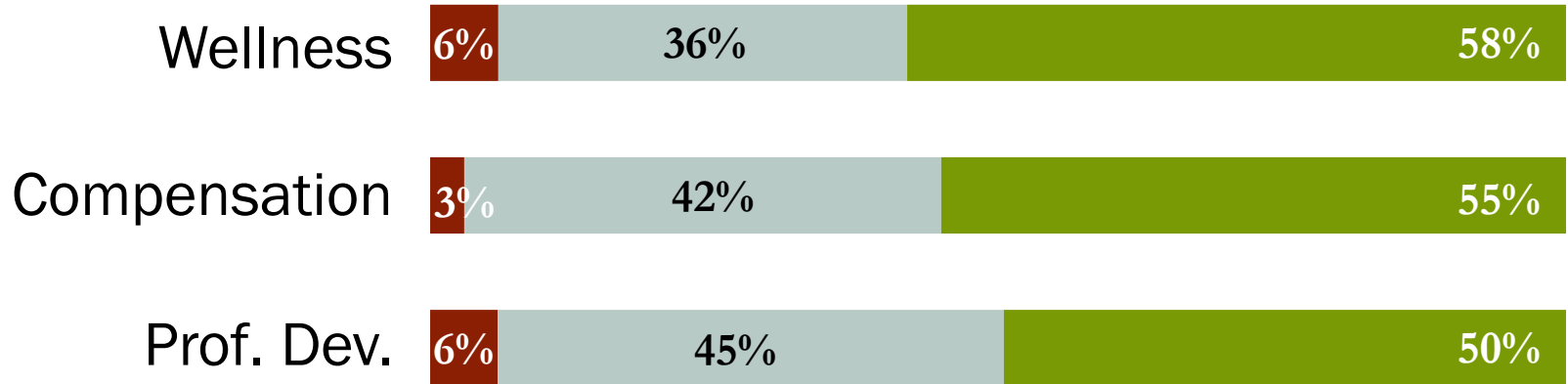
Integrated, *ROTI*-
focused rewards
portfolio that
drives strategy

Budget-driven
rewards
strategy



Strategy-driven
rewards
budget

Total Rewards Mix Adjustments

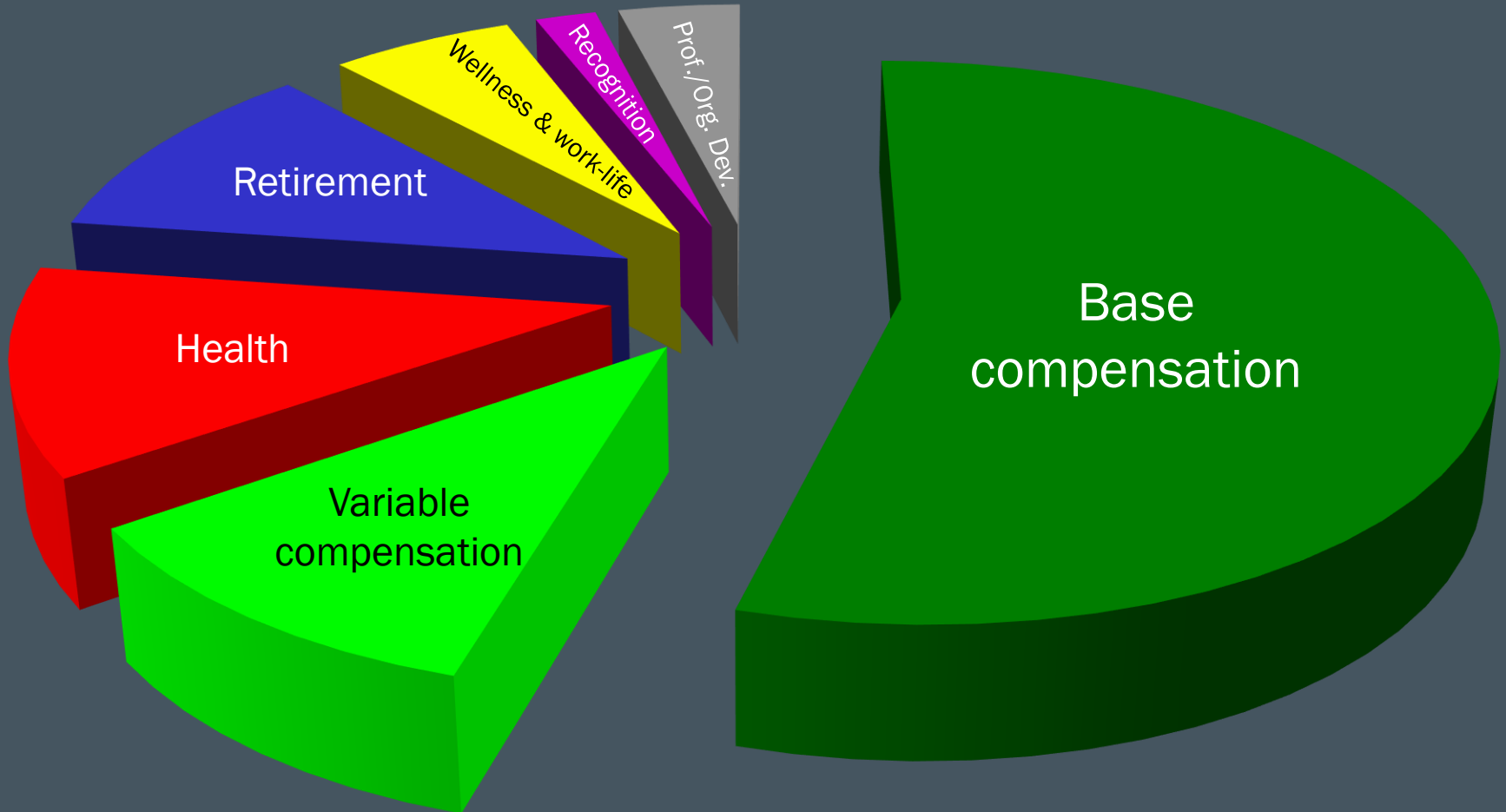


Less

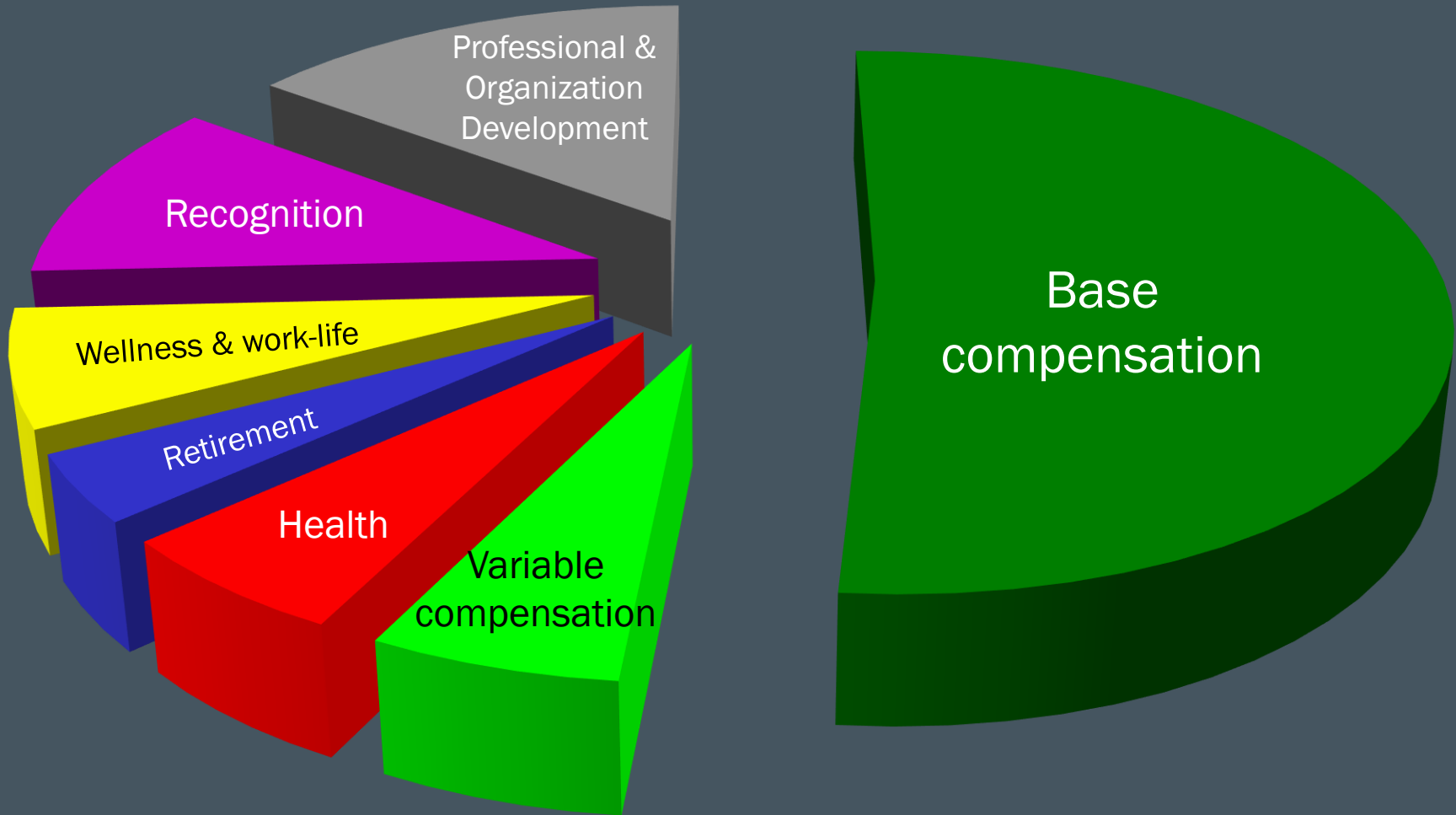
No Change

More

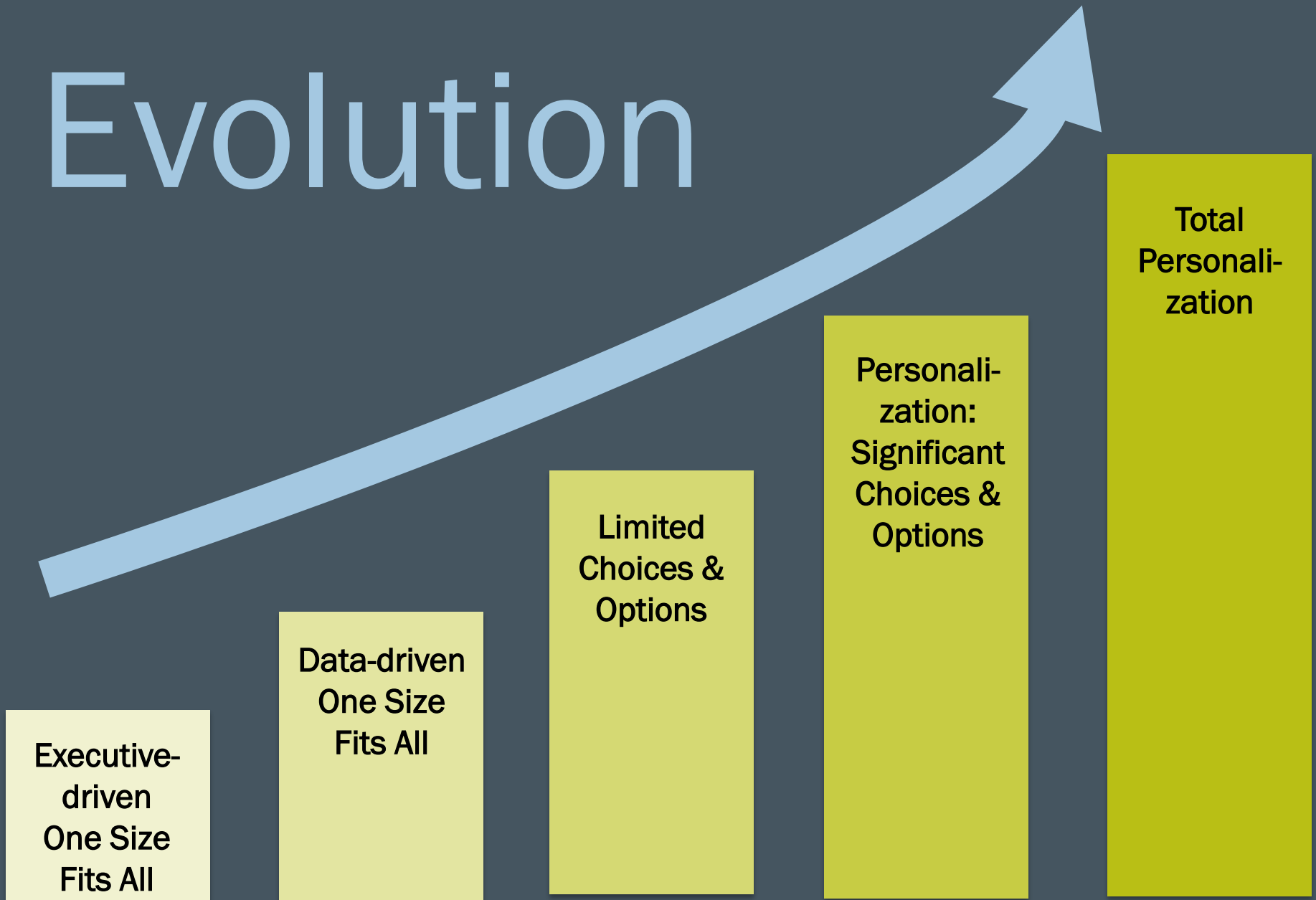
Actual Distribution

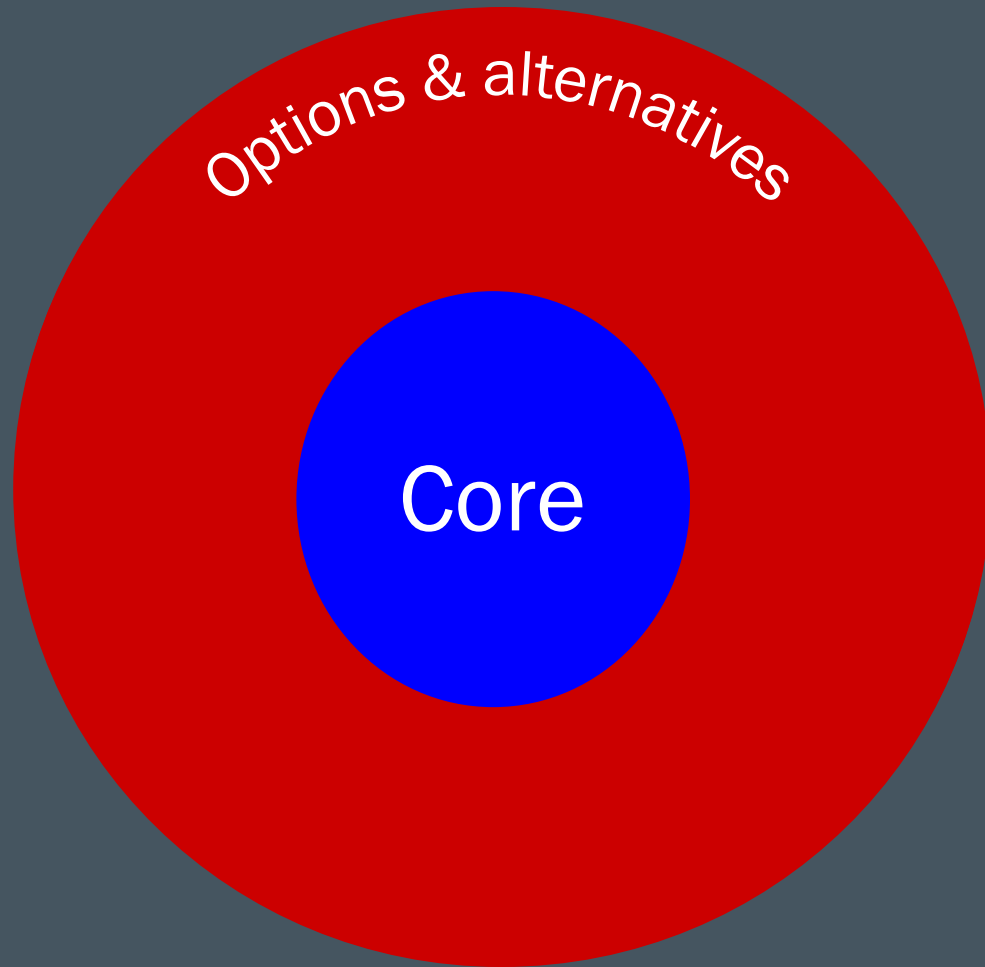


Employees' Preferred Distribution



Evolution

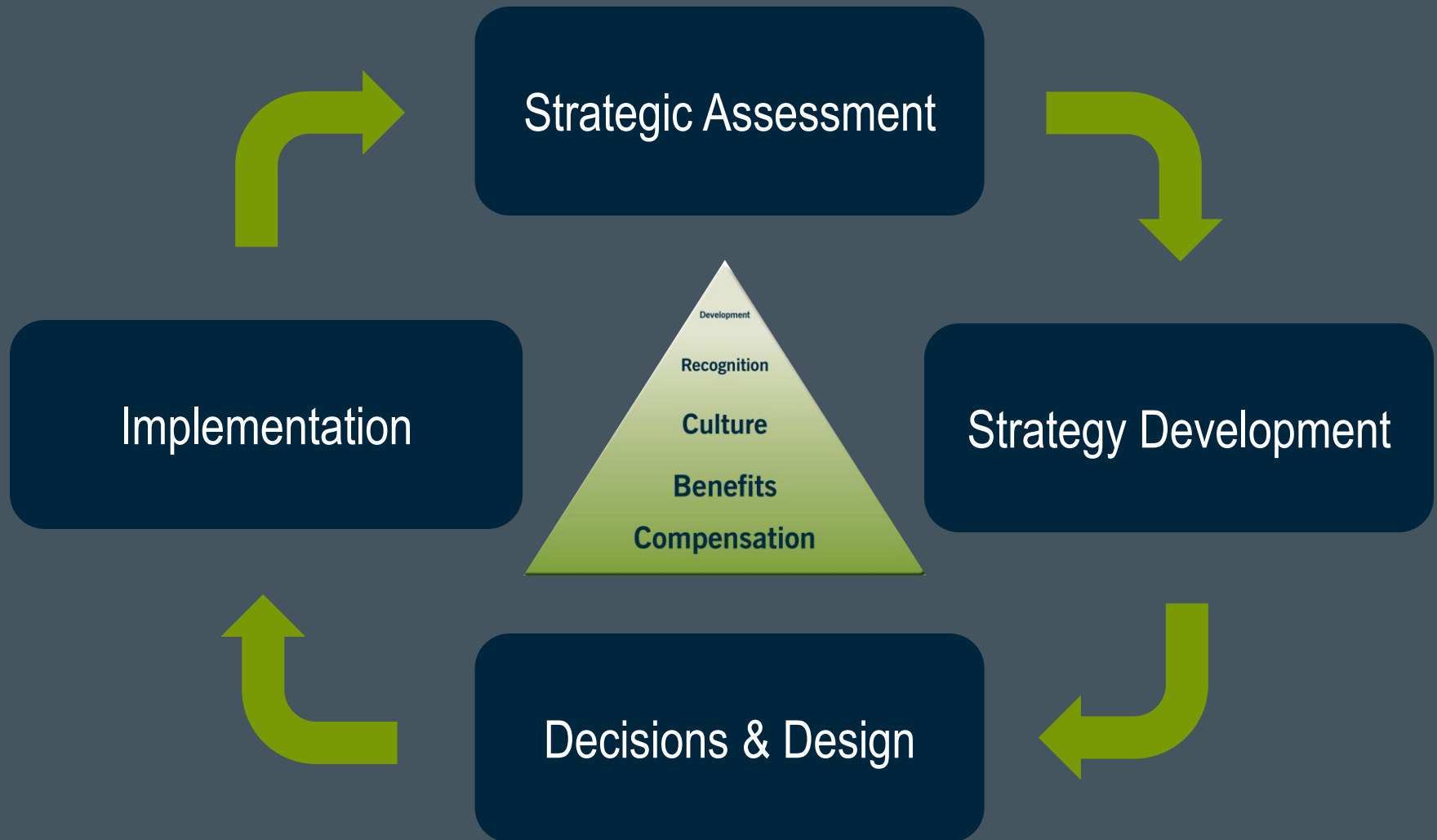






The Organizational Fingerprint

Total Rewards Management Process





8

Human Capital Investment Management Process

Actions

Benefits

WELLNESS & WORK-LIFE BALANCE
RETIREMENT | HEALTH | VOLUNTARY

Compensation

BASE | VARIABLE

“Play”: Higher Employer Subsidy



Health plan cost



Assessable payments



Cash comp



Plan enrollment (risk?)



Tax & FICA

“Play”: Lower Employer Subsidy



Health plan cost



Assessable payments



Cash comp



Plan enrollment (risk?)



Tax & FICA

“Play”: Leaner Coverage



Health plan cost



Assessable payments



Cash comp



Plan enrollment (risk?)



Tax & FICA

“Pay”: Drop ER-Sponsored Health Benefits



Health plan cost



Assessable payments



Cash comp



Plan enrollment (risk?)



Tax & FICA



Health ins. subsidies

Cash compensation



Development

Recognition

Culture



Key
Drivers

Organization

Senior
Executives

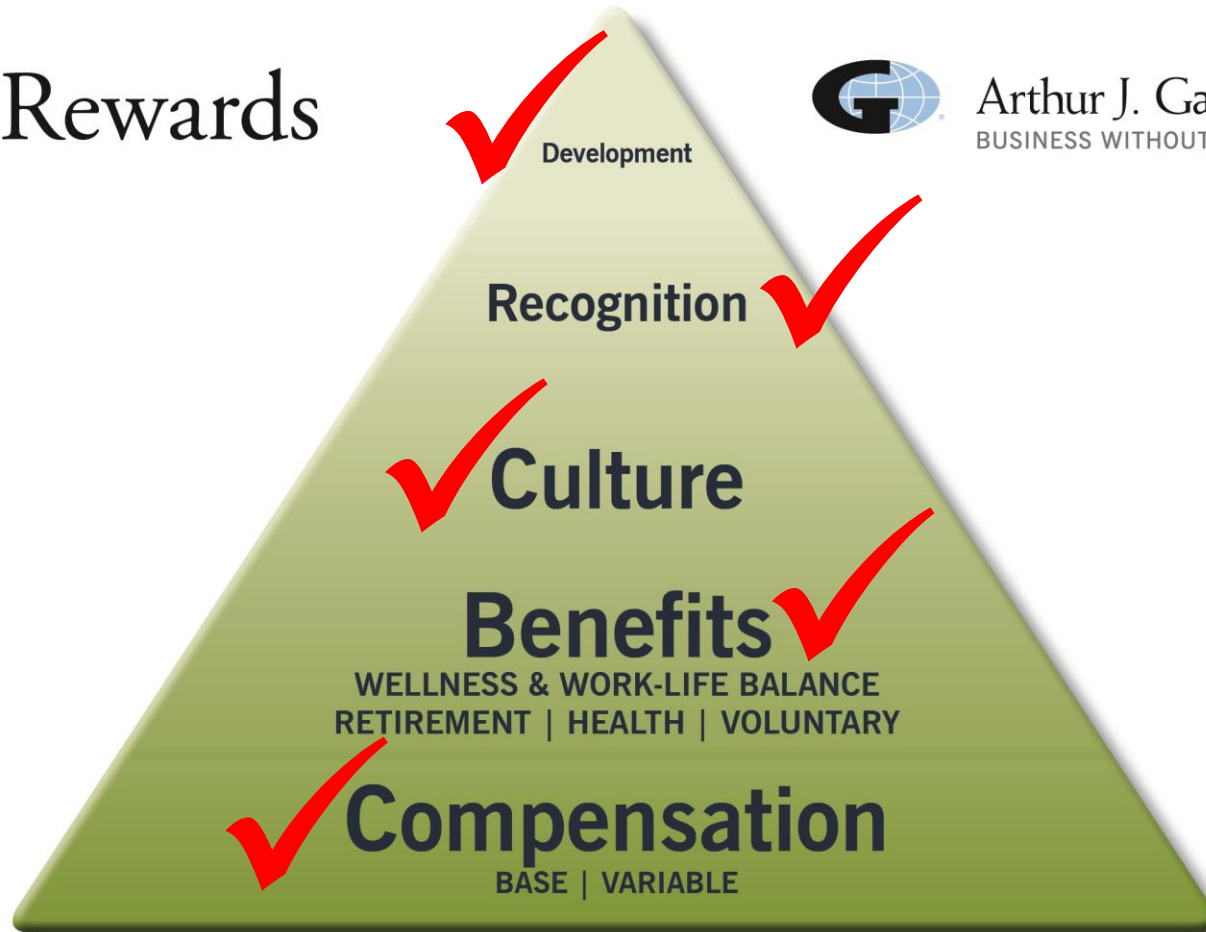
Managers



Total Rewards



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Strategy

Alignment



Return on Talent Investment

Metrics

Business case is important

84%

Do more to evaluate ROI

It's impossible!

49%

47%

HR pros don't have the skills



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The Gallagher Way

Shared values at AJGCo. are the rock foundation of the Company and our Culture. What is a Shared Value? These are the concepts that the vast majority of movers and shakers in the Company passionately adhere to. What are some of AJGCo.'s Shared Values?

1. We are a Sales and Marketing Company dedicated to providing excellent Insurance Risk Management Services to our clients.
2. We support one another. We believe in one another. We acknowledge and respect the ability of one another.
3. We push for professional excellence.
4. We can all improve and learn from one another.
5. There are no second class citizens - everyone is important and everybody's job is important.
6. We're an open society.
7. Empathy for the other person is not a weakness.
8. Suspicion breeds more suspicion. To trust and be trusted is vital.
9. Leaders need followers. How leaders treat followers has a direct impact on the effectiveness of the leader.
10. Personal business relationships should be built.
11. We pull and own together. We are all on the same wheel.
12. No department or person is an island.
13. Professional courtesy is expected.
14. Never ask someone to do something you wouldn't do yourself.
15. I consider myself support for our Sales & Marketing. We can't make things happen without each other.
We are a team.
16. Loyalty and respect are earned - not dictated.
17. Fair is worth-of.
18. People skills are a key to success at AJGCo.
20. We run to problems - not away from them.
21. We adhere to the highest standards of moral and ethical behavior.
22. People work harder and are more effective when they're turned on - not turned off.
23. We are a warm, close Company. This is a strength - not a weakness.
24. We must continue building a professional Company - together - as a team.
25. Shared values can be altered with circumstances - but carefully and with tact and consideration for one another's needs.
When accepted Shared Values are changed or challenged, the emotional impact and negative feelings can damage the Company.

Robert E. Gallagher - May, 1984

No. 20
We run to problems —
not away from them

ROI

$$\text{ROI} = \frac{\text{Financial Gain}}{\text{Investment}}$$

Macro

Organizational
Financial Gain

$$\text{ROTI} = \frac{\text{Organizational Financial Gain}}{\text{Talent Investment (Total)}}$$

Micro

$$\text{ROTI} = \frac{\text{Targeted Financial Gain}}{\text{Talent Investment (Targeted Initiative)}}$$

Macro Metrics



micro metrics





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Keith_Friede@ajg.com



www.linkedin.com/in/keithfriede



@KeithFriede

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Managing Human Capital to Drive Organizational Strategy Through Engaged Talent

Talent Investment Allocation That Maximizes ROI

National Association of Wholesaler-Distributors
Fall 2016 Billion Dollar HR Roundtable.
November 2, 2016
Chicago, IL



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Managing Human Capital to Drive Organizational Strategy Through Engaged Talent

Talent Investment Allocation That Maximizes ROI



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Keith A. Friede
Area V.P., Talent & Organization Development
North Central Region Practice Leader
3600 American Boulevard, Suite 500
Bloomington, Minnesota 55431
952.356.0700
keith_friede@ajg.com
www.linkedin.com/in/keithfriede
@keithfriede



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Human Capital Investment Management and the Organizational Fingerprint

Total Rewards

Overview of Total Rewards

Total Rewards

is

Everything that employees value
in the employment relationship

Total Rewards Management

is

The art and science of managing
What rewards to offer
How much to allocate to each type of reward
To maximize return on talent investment

Total Rewards

Developing the Most Cost-Effective Employer Value Proposition

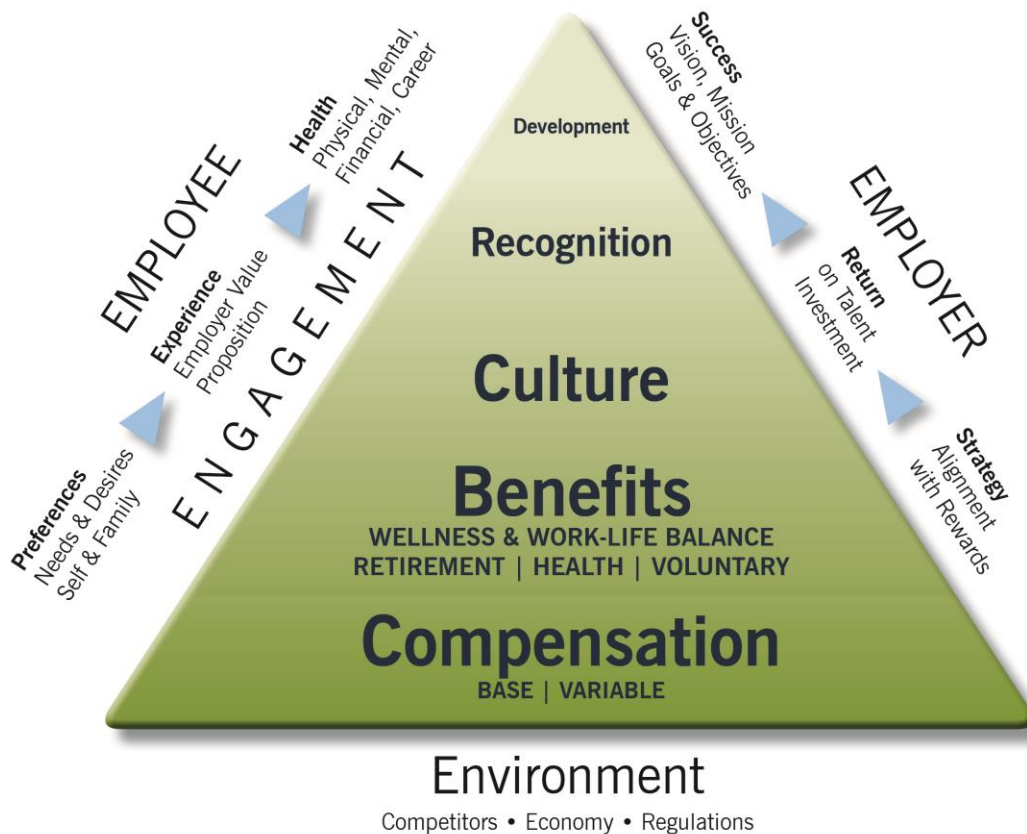
A strategically-oriented organization develops the most cost-effective employer value proposition it can . . . one that allows it to achieve its strategic organizational objectives effectively, without spending more than necessary. At its core, this is a **total rewards** issue.

Total Rewards

Attract • Retain • Develop • Engage
Talent



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Two Areas of Necessary Focus

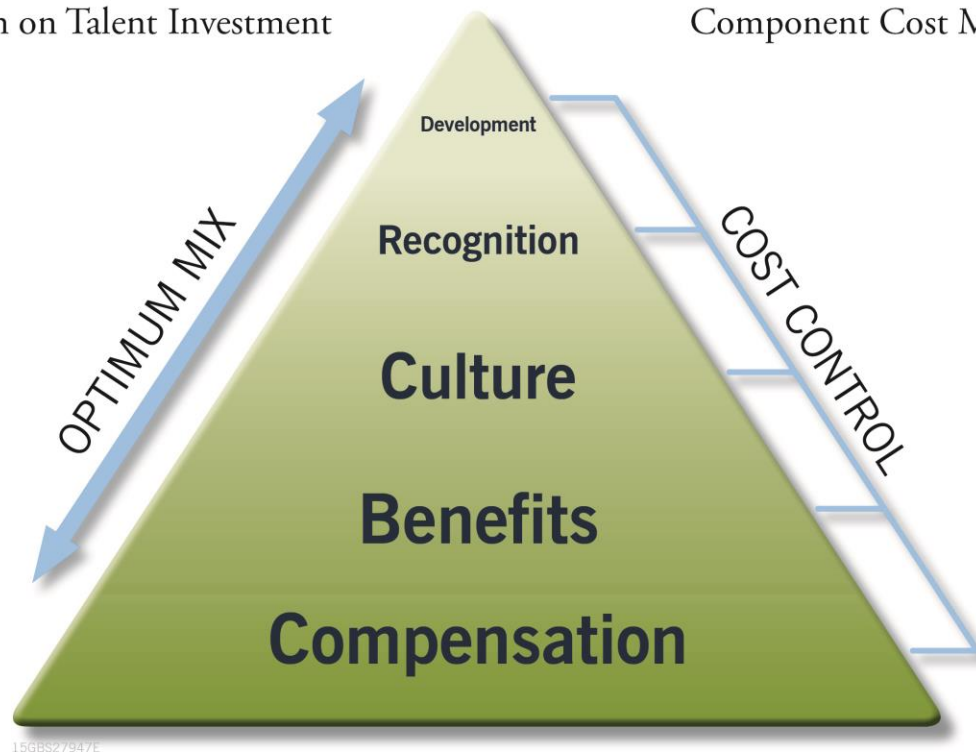


Total Rewards Asset Allocation

Overall Return on Talent Investment

Rewards Component Cost Control

Component Cost Minimization



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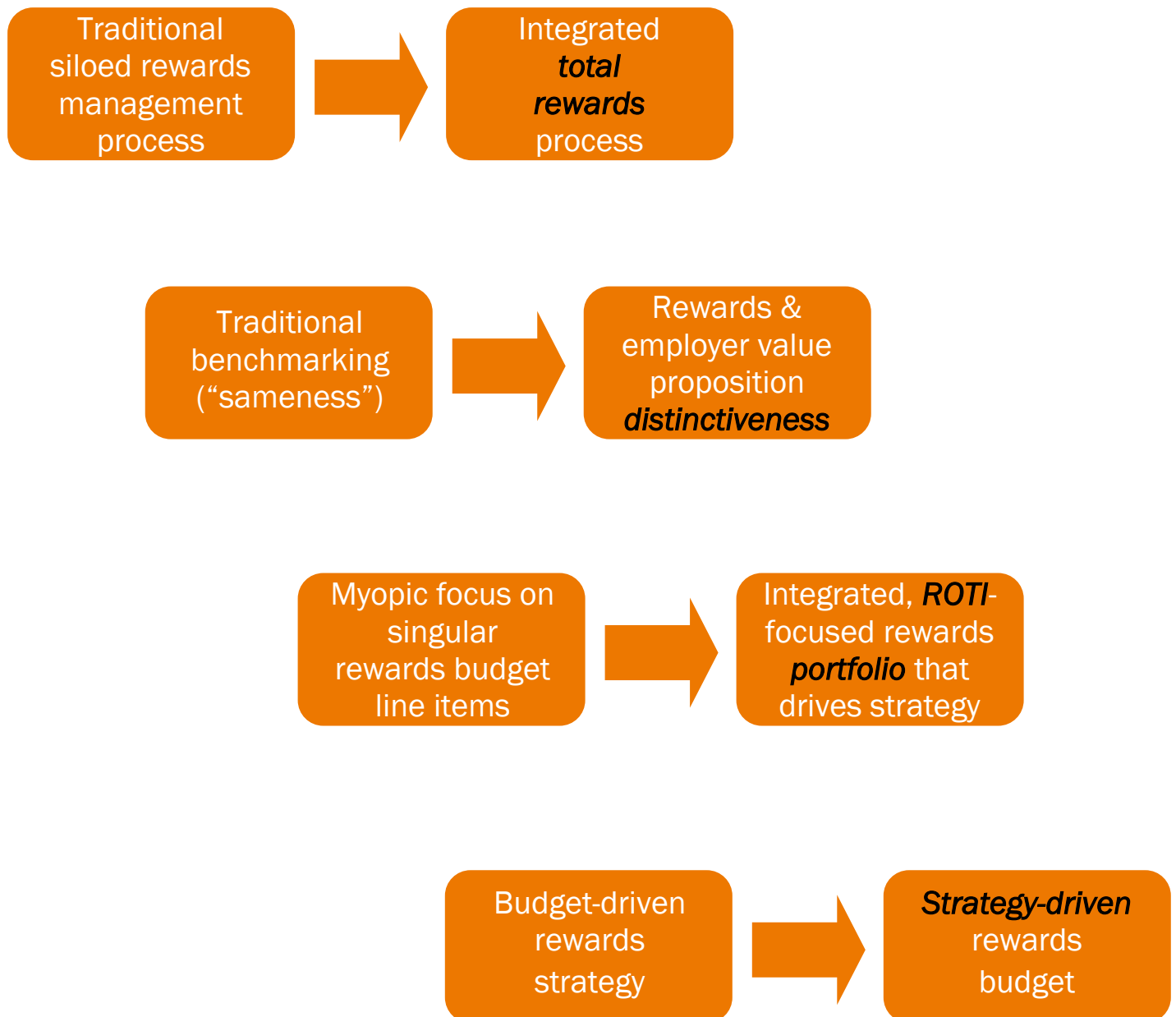
Objectives:

Right
mix

Right
talent

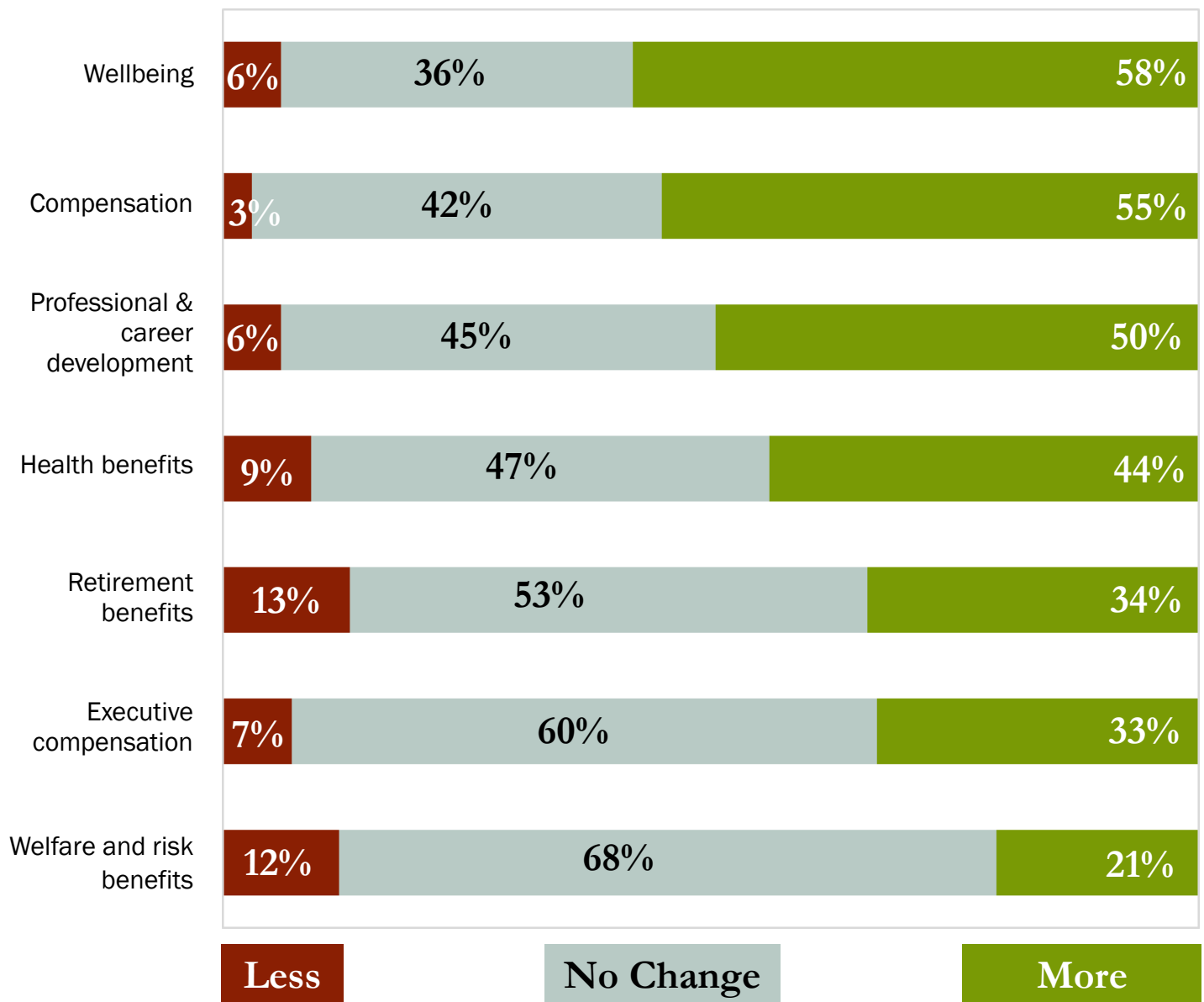
Right
price

Four Transformations



Human Capital Investment Mix Trends

Expected Changes

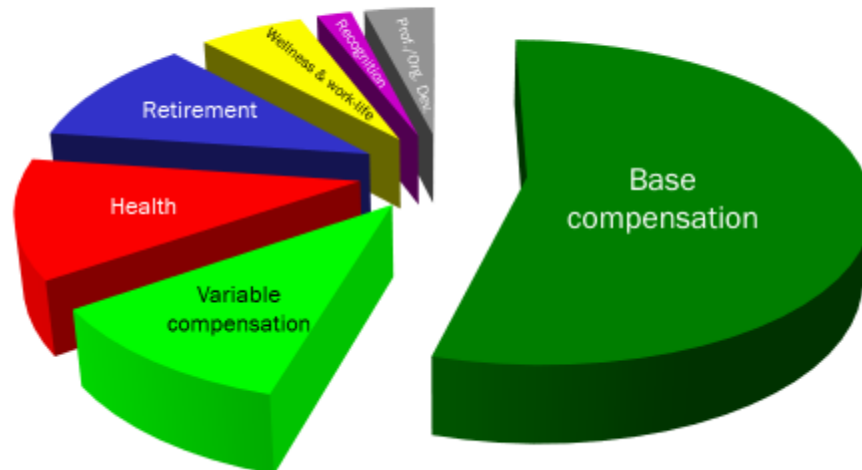


Source: International Foundation of Employee Benefit Plans, 2014

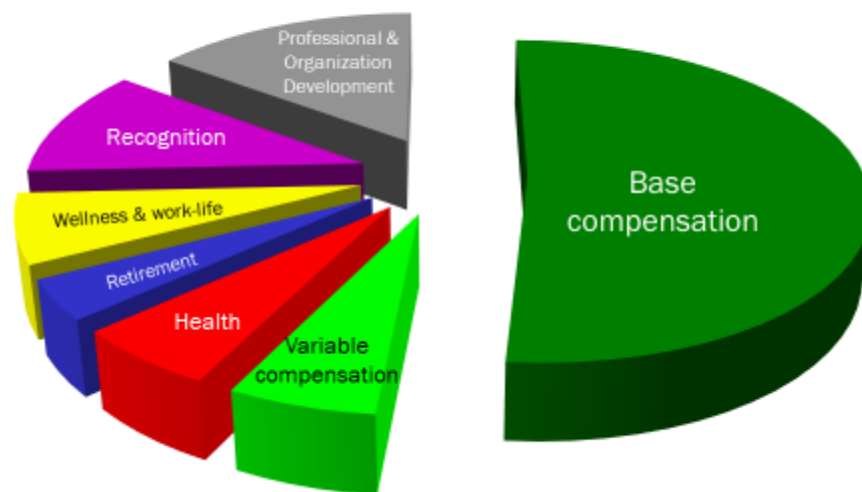
Human Capital Investment Asset Allocation

Actual vs. "Preferred"

Actual Distribution



Employees' Preferred Distribution

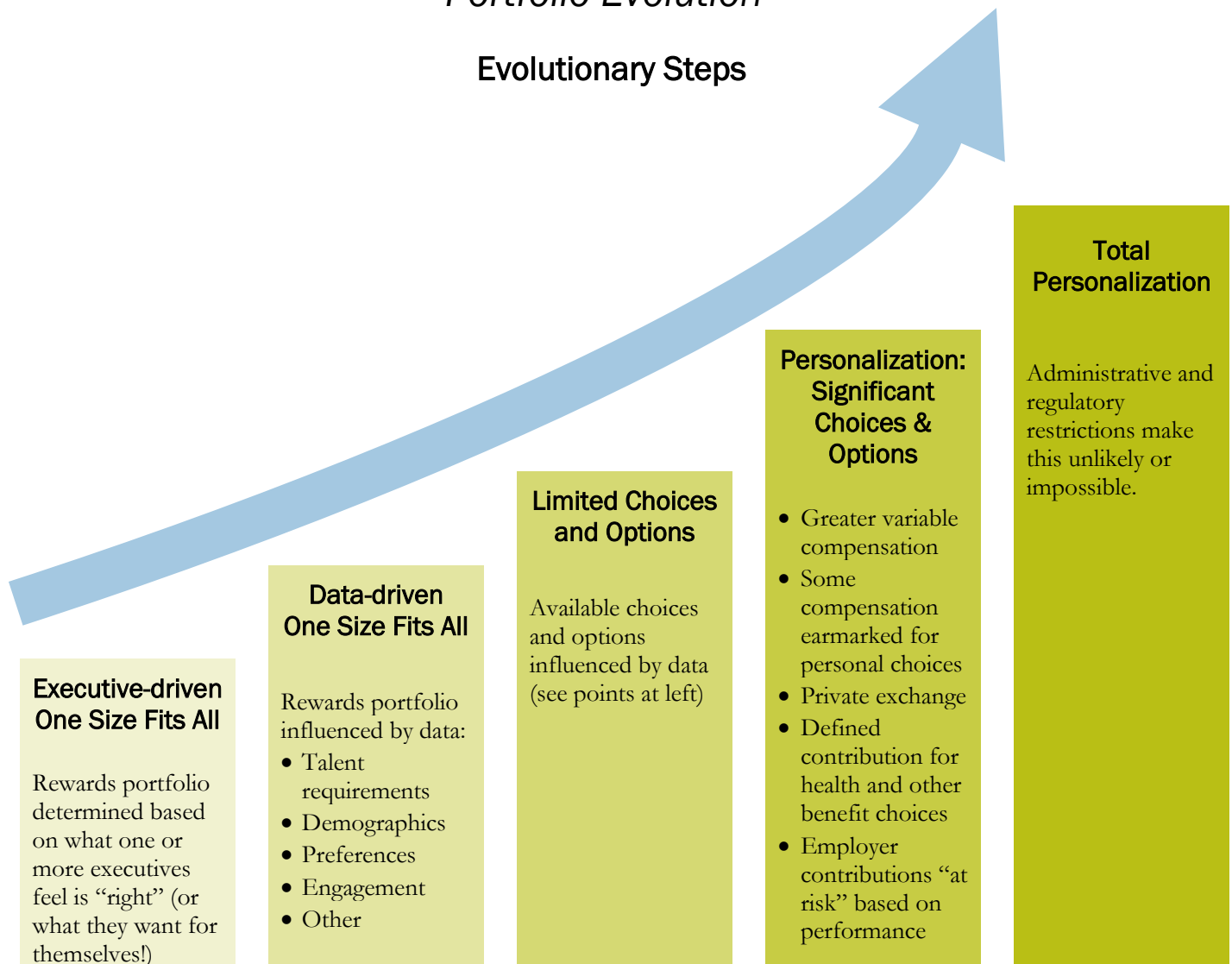


These are only examples!

Rewards Asset Allocation

Portfolio Evolution

Evolutionary Steps



(Where are you in this evolution?)

Rewards Asset Allocation

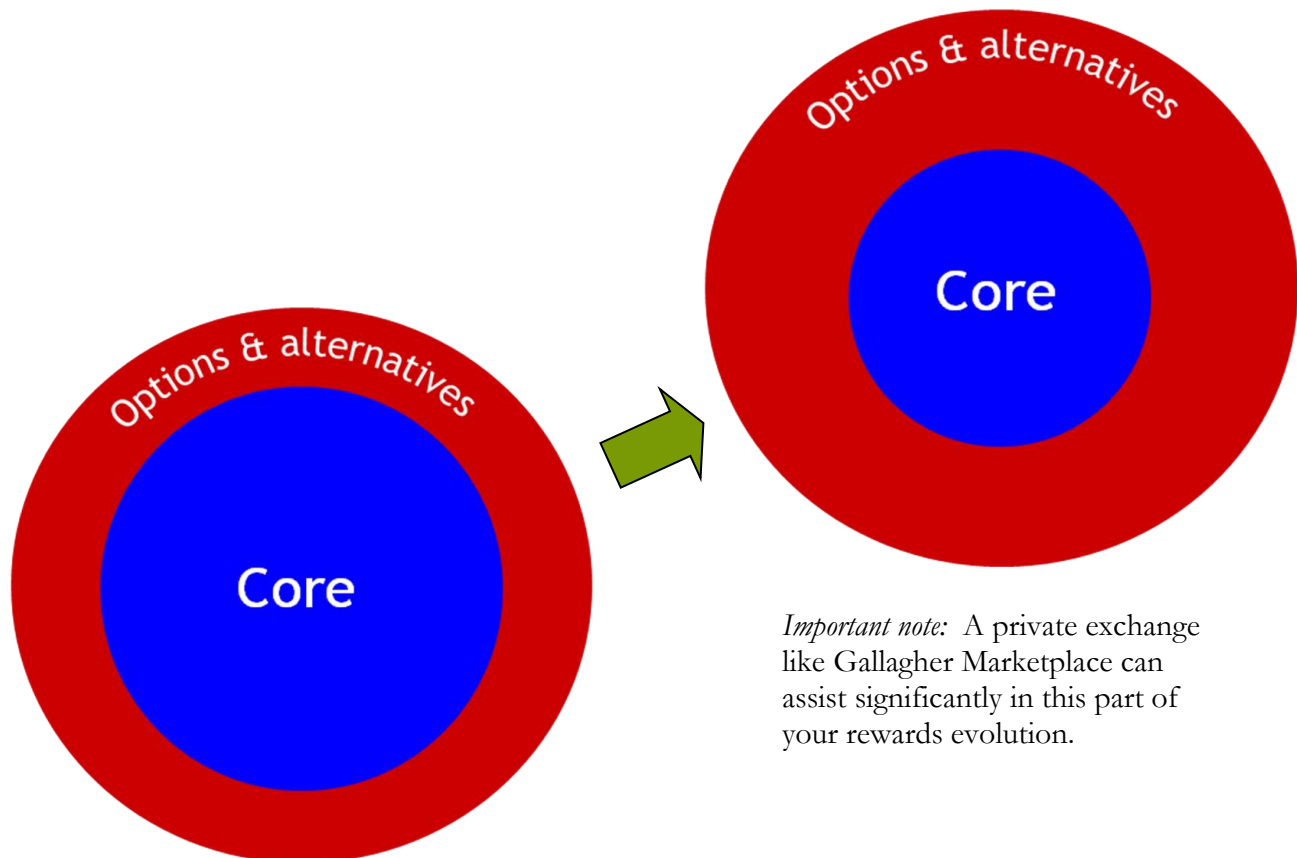
Portfolio Evolution

Maximum Personalization Drives Much of Allocation

The logical extension of rewards allocation is to allow each employee to choose as much of the allocation for himself/herself as is possible & reasonable. This approach would maximize the employer value proposition and ROTI. (As we discussed earlier, there are legal and administrative challenges to a *pure* personalization approach.)

Establishing a core, or baseline level, of compensation and benefits, and expanding the options and alternatives available to employees enables them a greater degree of personalization of rewards. More rewards “at risk” based on individual, team and organizational performance can incent strategically-focused behaviors and outcomes?

These objectives can — and should — be sought out by organizations that truly seek to create a distinctive employER value proposition in an era where choice “rules.”



The Objective . . .

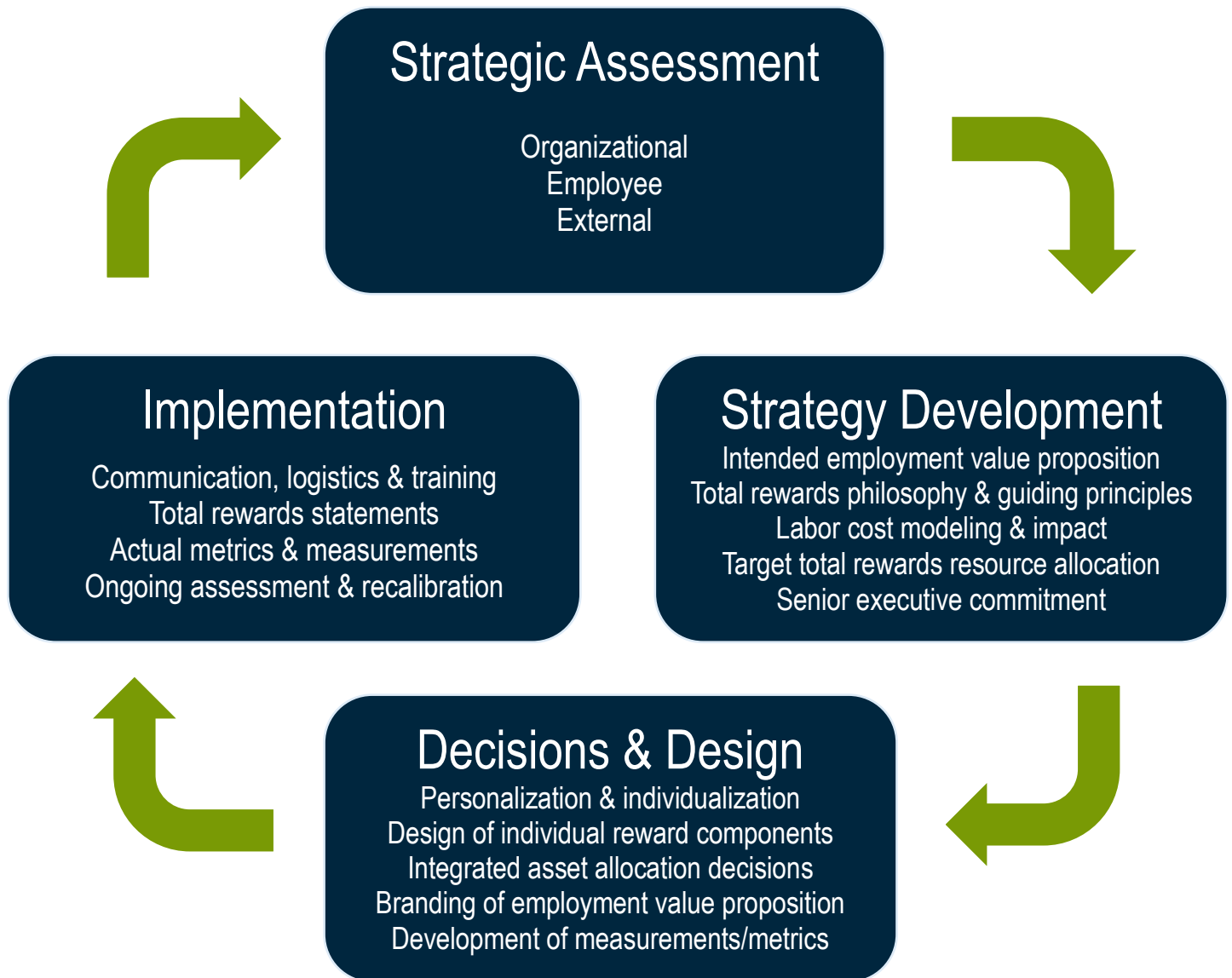
Distinctiveness!



The Organizational Fingerprint

Human Capital Investment Management Process

A Comprehensive Approach



Eight Actions You Can Start Talking *Now*

Strategic Capabilities

The first element of developing a strategically sound total rewards program & employer value proposition is to identify the organization's key strategic capabilities.

What is it from a talent perspective that makes your organization unique & distinctive (and competitive) now?

What talent segments are particularly challenging in terms of attraction, retention and engagement now? What do you anticipate that your talent requirements will be in the next 5 years? 10 years? Is there a talent segment that, if you "cornered" the market over the next few years on it, would make you invincible?

Intended Employment Value Proposition

What do you *want* your employment value proposition to be? How do you want to be viewed internally and externally as an employer organization? Your employer value proposition is a brand. And just like any other branding process, this should be an intentional process, not an accident. If you don't actively manage and communicate your EVP brand, the outside world will make it up for you – and it may not be what you want.

The EVP brand needs to be authentic and realistic, while still reaching for your organization's aspirations. A clearly inauthentic EVP brand will strike dissonance, be seen as inaccurate, and have negative reputational consequences.

As a focal point for attraction, retention and engagement, your EVP should also move beyond "sameness" and a drift to the benchmarking midpoint, to achieve strategic distinctiveness.

Assessments

High-performing organizations commit to an ongoing dialogue with employees regarding interests, satisfaction and *preferences*. Accurate data-gathering is key.

- What elements of your total rewards program are working? What elements are not working? What elements are working better than others (ROTI)?
- What elements of your total rewards program are most preferred/valued by your employees? What elements are not highly valued?
- This will require sophisticated data collection and analysis.
- External benchmarking should be only one of many types of data compiled – and benchmarking should be done in an *integrated* fashion (benchmarking one rewards element without the balancing effects of other elements is incomplete).

Organizational assessment is also important. Are you doing ongoing cultural assessments? Engagement assessments? How is the organization's employer value proposition viewed by existing employees? How does the outside world assess your organization's employer value proposition?

Asset Allocation/Integration

One of the most important aspects of strategic total rewards management is the integration of the various reward components through targeted asset allocation. Some considerations:

- Optimal "mix," considering talent and organizational objectives, and budgetary limitations.
- Internal equity and key talent differentiation.
- Greater focus on performance-based pay and intrinsic drivers.
- Alignment with organizational strategy and influence on desired organizational outcomes.
- Key objective: moving beyond "sameness" and a drift to the midpoint, to achieve strategic distinctiveness.

Eight Actions You Can Start Talking *Now*

Diversification & Personalization

Recognizing the increasing diversity of talent within organizations, a number of key elements should be incorporated into your employment value proposition:

- Involvement by and choices for employees whenever possible.
- Core reward elements (available to all).
- Flexibility (options – some available to all employees, others only available to certain employee groups).
- Differentiation of rewards elements and process to appeal across demographic groups, including age & generations, life stages, gender, income, tenure, etc.
- Private health plan exchanges
- Greater personalization of rewards packages.

Strategically Key Talent Differentiation

This is an emerging and increasingly critical element to total rewards and talent management. Executed effectively, it can result in dramatic long-term strategic impact for your organization. It includes:

- Identifying key strategic competencies
- Identifying key “strategic impact” positions
- Identifying “A” players in these positions
- Differentiating rewards by making a disproportionate investment in the “A” players in strategic impact positions

Internal Partnership: HR, Finance & Managers

In order to achieve a truly strategically-distinctive, differentiated, and cost-effective total rewards-driven employer value proposition, human resource and finance professionals must forge a true partnership.

The role of the line manager should include formal and informal assessment, assisting in rewards decision-making and management, and communicating rewards issues to employees. For many organizations, this may be a big change. It also may be the key difference between a rewards program and EVP perceived as really great versus just average.

Metrics

As you design and evaluate rewards components individually, and the total rewards program in its entirety, you will need to have objective measurements that drive your decisions and are good indicators of rewards success or failure. Rewards must be matched with business goals and strategic objectives. How do *you* measure return on talent investment? Here are some possibilities:

- High level indicators, such as $\text{revenue} \div \text{FTE}$ or $\text{EBITDA} \div \text{FTE}$
- Trend indicators, such as labor (total rewards) cost growth as a function of EBITDA growth
- Labor cost indicators, such as dividing FTEs into total labor cost, salary costs, benefit costs and/or retirement costs
- Metrics focused on human resource goals:
 - Turnover impact indices (i.e., turnover and/or turnover costs as a function of other goals)
 - Workforce planning metrics
 - Engagement

The Foundation of the Total Rewards Pyramid

The Big Bucks of Strategic Human Capital Investment

Affordable Care Act & Fair Labor Standards Act

Search for Neutral Outcome or Epic Opportunity for Change?

The simple, myopic and siloed response to the PPACA employer shared responsibility requirement is to “avoid assessable payments (penalties).” Depending on specific circumstances, a singular focus on avoiding assessable payments could result in higher costs to the employer.

“Simple” Illustration: Cash Compensation vs. Health Subsidies

“Play”: Higher ER Subsidy	“Play”: Lower ER Subsidy	“Play”: Leaner Coverage	“Pay”: Drop ER- Sponsored Health Benefits
Higher underlying health plan cost to employer	Lower underlying health plan cost to employer	Lower underlying health plan cost to employer	No health plan cost to employer
Fewer \$3,000 federal assessable payments	More \$3,000 federal assessable payments	Fewer \$3,000 federal assessable payments	\$2,000 federal assessable payment for each FTE (after first 30)
Lower (taxable) cash compensation	Higher (taxable) cash compensation	Higher (taxable) cash compensation	Much higher (taxable) cash compensation to replace lost benefit purchasing power
Movement to the plan increases aggregate cost to employer & changes the risk profile	Movement from the plan decreases aggregate cost to employer and changes the risk profile	Movement to/from the plan changes costs and risk profile	
Tax & FICA effects	Tax & FICA effects	Tax & FICA effects	Tax & FICA effects

This simple analysis includes only two rewards categories – base (cash) compensation and health insurance benefits (subsidies), and assumes just one health plan option.

A truly comprehensive analysis would include **all** rewards components and more health plan options.

Affordable Care Act & Fair Labor Standards Act Search for Neutral Outcome or Epic Opportunity?

A similar dynamic exists with the changes effective December 1, 2016 under the Fair Labor Standards Act. Most of what is being discussed regarding these changes appears to be aimed at a neutral cash compensation outcome.

Again – the simple response is to examine each currently exempt employee earning less than \$47,476 per year, and consider the cost and productivity effects of the following choices:

- raise employee's salary above the minimum threshold (assuming employee continues to meet the duties test) and continue to classify him/her as **exempt**, keeping in mind that this threshold will increase annually
- or
- reclassify employee as **non-exempt** so that he/she is overtime-eligible
 - adjust employee's wages to reflect the potential for overtime pay; and/or
 - manage employee's hours to achieve the overall hours/hourly wage/overtime pay combination you seek.
 - establish policies and procedures for approval of overtime work and disciplinary action for those not following the rules

(Remember – state/local law may differ from and be more protective than the FLSA.)

But is this the **best** response to the situation?

In reality, this is (and must be) a **total rewards** issue. You should be taking into account all the various investments you make to attract, retain and engage talent. Making a strategic assessment of talent investment allocations will be a critical precursor to any decisions your organization makes. This needs to be an analytical process driven by data such as **employee preferences**.

Though this is, again, only a two-dimensional graphic – what is the **right** combination of cash compensation and health insurance subsidies for your organization? And how much can you allow employees to choose what combination is best for **them**?



Looking for simple, neutral cost and impact solutions – what most employers will limit themselves to – may well miss an epic opportunity to re-formulate your organization's total rewards strategy and talent investment allocations to realize a higher return on talent investment. Now, perhaps more than any time in recent history, is the time for you to make a comprehensive, strategic assessment of your total rewards

Bottom line – **how can you make your employment value proposition** (“organizational fingerprint”) **truly distinctive**?

A comment on benchmarking:

When we use compensation benchmarking – how much of it is integrated with other rewards elements?

gher & Co.

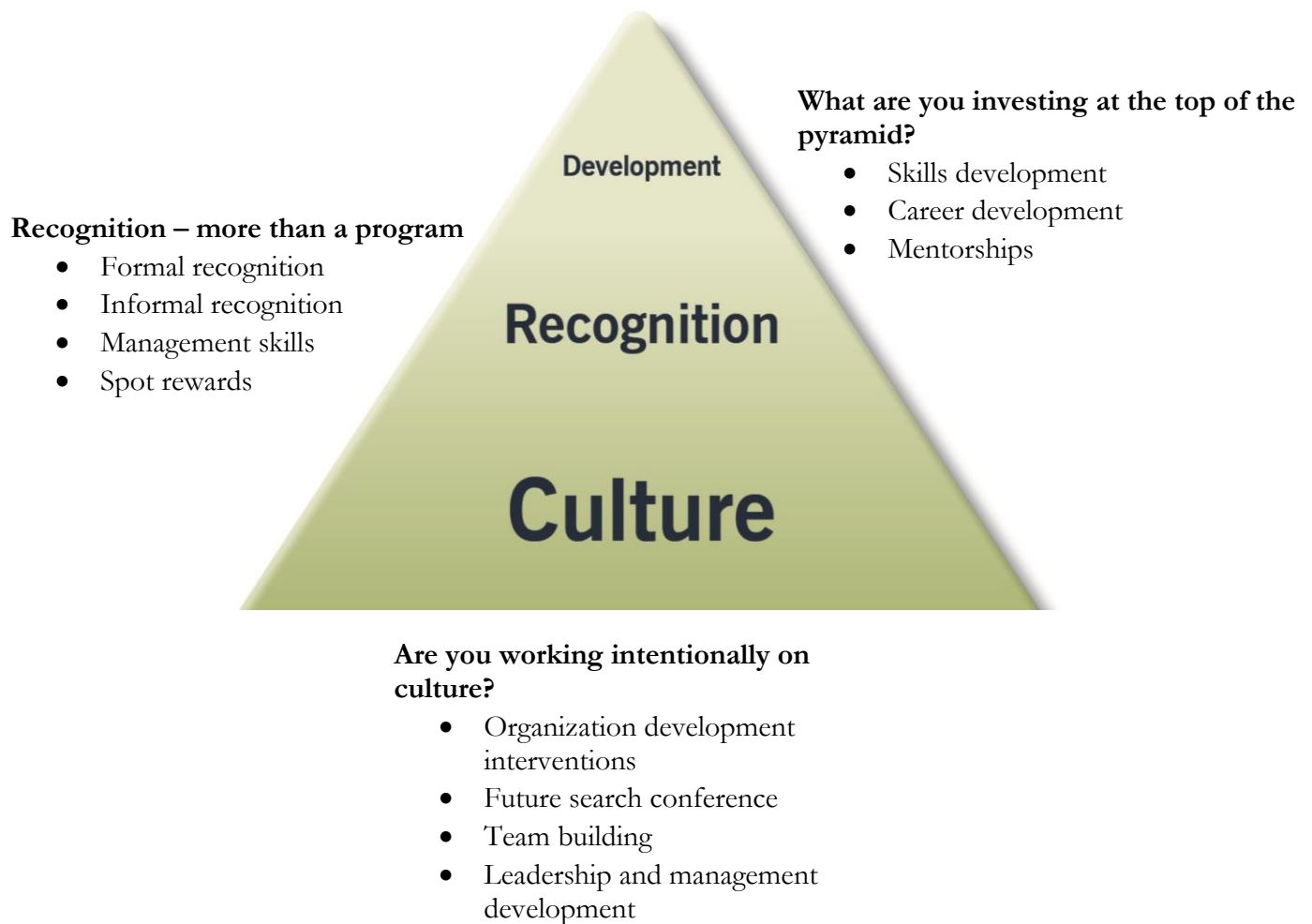
The Top of the Total Rewards Pyramid

Huge Leverage for Strategic Human Capital Investment

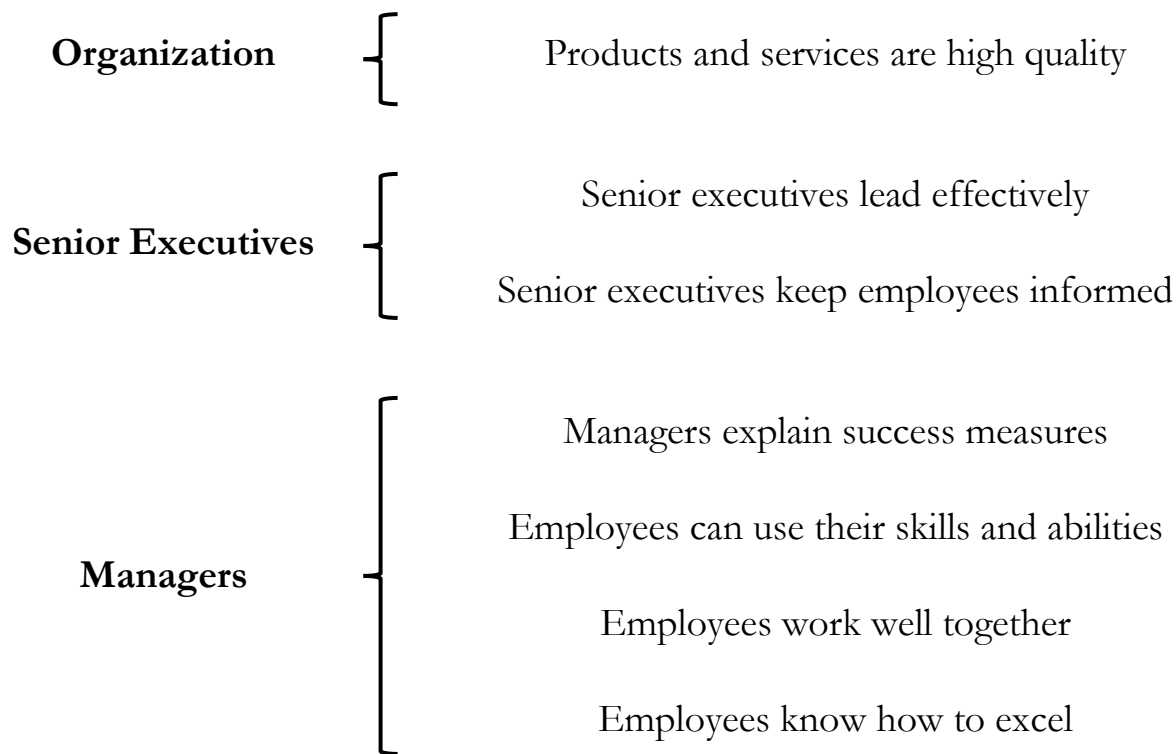
Culture – Recognition – Development

Big Impact – Small Price Tag

Most studies show that what really retains and engages employees is not cash and benefits – it's things like culture, mission, relationship with a manager, recognition, professional development, career development, etc. What are you doing intentionally to develop and promote these elements of the rewards spectrum? Initiatives aimed at these rewards components are not free – but they can deliver tremendous impact for relatively small investments.



Key Drivers of Employee Engagement — 2015

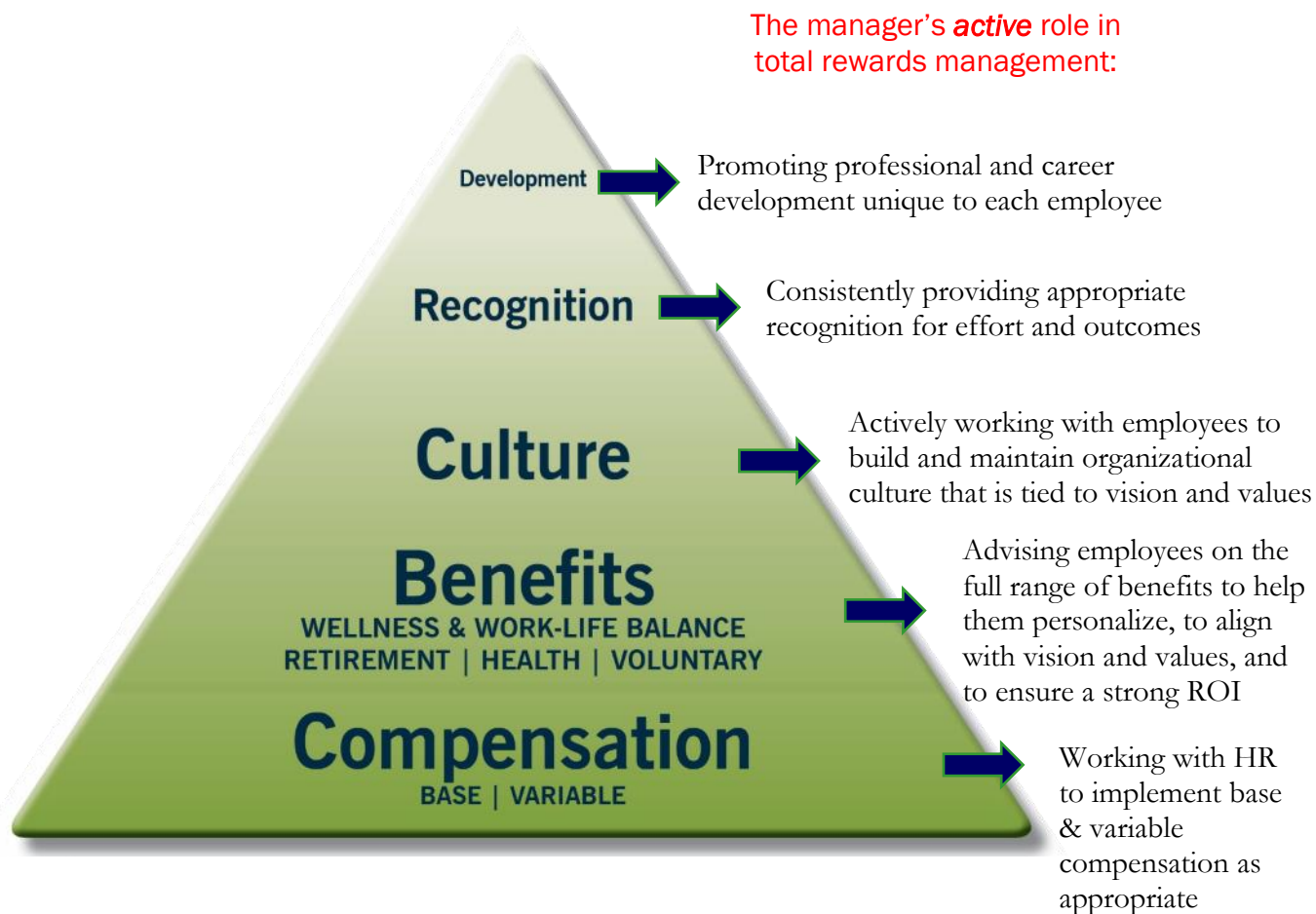


The key point here:

Managers and managerial behavior have a *significant* impact on employee engagement

The Manager's Role in Total Rewards

The components of an organization's total rewards offerings are the building blocks of its "organizational fingerprint" and the levers it uses to promote and improve employee engagement. Every organization makes conscious and deliberate decisions about how it invests resources of time and money in talent – and in particular, how it allocates those resources between the components. As a manager, you have an active role to play in the effective, successful functioning of the organization's total rewards.



The Key:
Taking an **active** role in customizing and **personalizing** rewards for each employee – i.e., taking rewards to the **individual** level!

Total rewards, including each of its components, are provided and managed for a **strategic** purpose, **aligned** to the organization's vision, mission and core values

Total Rewards Metrics

Measuring Total Rewards Performance

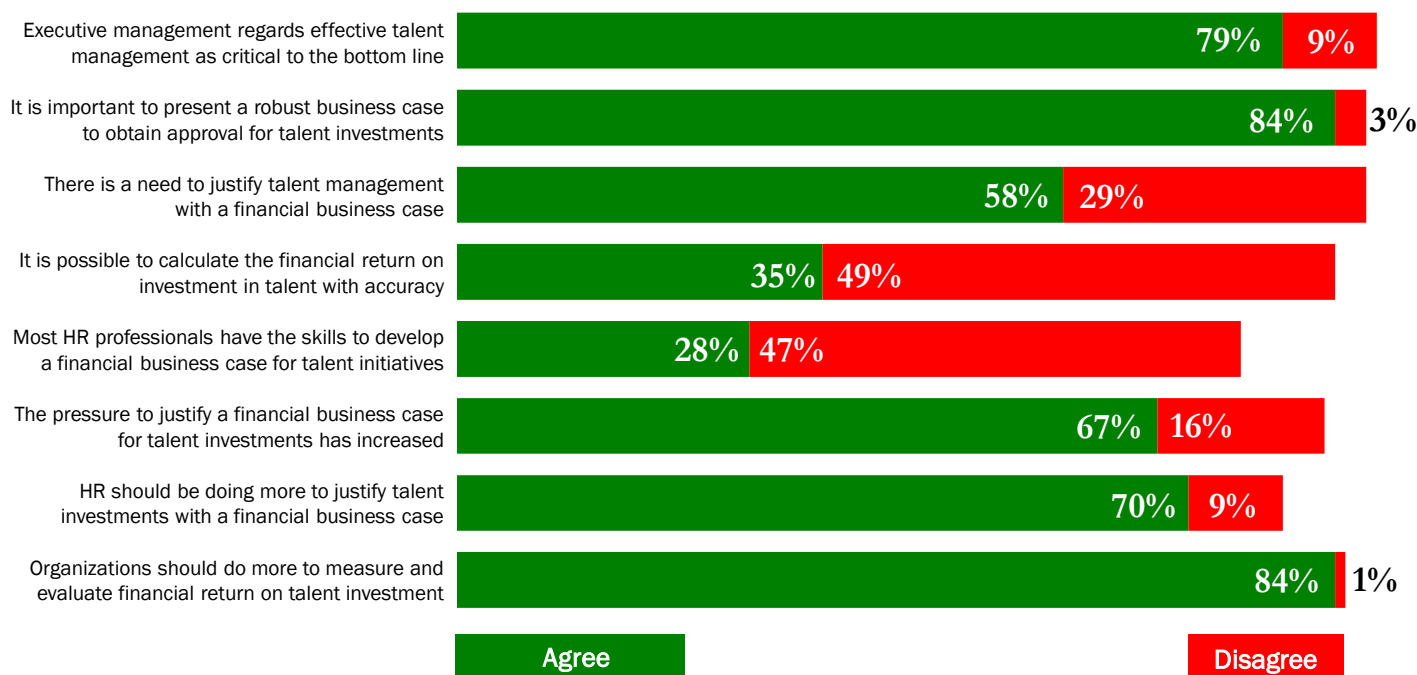
Return on Talent Investment

Managing Rewards Like Any Other Financial Portfolio

Looking at your organization's portfolio of talent investments, what's getting good returns and what's getting weak or even negative returns? Do you know? Yes, this is in many respects more complicated than stocks, bonds, mutual funds and the like – ***but we believe that is possible, and necessary, for employer organizations and executive management teams to manage talent investments like any other portfolio of investments.***

Here are some interesting statistics taken from a recent study by two British talent management and leadership development consulting firms (consulting worldwide) on talent investments and financial measurement:

Talent Management — Talent Investment — Financial Measurement



Return on Investment

A Primer

$$\text{Return on Investment} = \frac{\text{Financial Gain}}{\text{Investment}}$$

Return on *Talent* Investment

Macro Metrics

$$\text{ROTI} = \frac{\text{Organizational Financial Gain}}{\text{Total Talent Investment}}$$

Total rewards investments:

- Compensation (base & variable)
 - Base
 - Variable
- Benefits
 - Health
 - Retirement
 - Voluntary
 - Wellness & work-life
- Culture
- Recognition
- Development
- Other?

Micro Metrics

$$\text{ROTI} = \frac{\text{Targeted Financial Gain}}{\text{Cost of Targeted Initiative}}$$

Example:

A targeted initiative aimed at reducing turnover – ROTI is a function of:

- Expenditures of initiative
- Cost savings and/or revenue generation attributable to initiative

Human Resource Metrics

An Overview

Historically, a lot of HR metrics work has focused on costs. This is not in itself a bad thing – controlling costs is important and ***should*** be an important focus. But from a business perspective, it has and will become increasingly important for HR professionals to make a ***business*** case for its efforts, initiatives and expenditures. This means going beyond a pure cost focus to identify the ***business impact*** of initiatives and rewards expenditures – and this means measuring the cost-effectiveness of those initiatives and expenditures.

Some of the most common measures used for talent-related metrics include:

- Retention metrics
- Performance ratings
- High potential employees in the organization
- Succession ratios

Common cost-focused rewards metrics

- Trend over time of salary/compensation costs per FTE
- Trend over time of health benefits costs per FTE
- Trend over time of retirement benefits costs per FTE

Moving to business impact metrics

- Trend over time of revenue per FTE
- Trend over time of EBITDA per FTE
- Trend over time of revenue or EBITDA ***growth*** as function of labor (rewards) cost ***growth***
- ***Financial impact*** of customer service measurements over time
- ***Financial impact*** of market share changes over time

Other talent-related metrics

- Voluntary turnover ***financial impact***
 - By tenure
 - By performance level
 - By critical or strategically key position
 - By “A/B players” versus “C players” in critical or strategically key position
 - By compa-ratio
- ***Financial impact*** (showing trend over time) of “preventable” turnover
- Workforce planning metrics
 - Internal promotion rates
 - Changes and trends in 5-year turnover rates by key position and/or “A” players in key positions
- Engagement & satisfaction
 - Trend over time of employee engagement measurements
 - Trend over time of job satisfaction measurements
 - Trend over time of pay & rewards satisfaction

Action Plan

This image shows a single sheet of white paper with horizontal blue ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.