THE FUTURE OF HR

HR 2020: WHAT THE FUTURE HOLDS

DRIVEN BY DATA

EMPLOYEE VALUE PROPOSITION
WHAT SETS YOUR COMPANY APART?

TOTAL REWARDS 2020

GAME CHANGERS ON THE HORIZON
DRIVING DIGITAL ENGAGEMENT
GLOBAL REALITY

Rapid global expansion – often fueled by cross-border mergers, acquisitions and joint ventures – has created an interconnected business environment of unprecedented scope and scale. Few organizations are well prepared to handle the demands of this new reality – especially when it comes to their workforce. Adding to the challenge is the increased competition for talent – a recent Mercer study indicates that 9 out of 10 organizations believe that this trend will impact their business in 2016 and beyond. Talent scarcity and increased competition across borders also means that companies are focused on filling their succession pipelines with internal candidates more than ever before.

Implications for HR: Success in this global environment will increasingly rely on the organization’s and employees’ ability to adapt and accept more frequent change, requiring HR practices that can rapidly create, fill and develop Talent pipelines with top talent. The definition of top talent is changing as well, with an increased focus on inspirational leadership, analytical skills, design thinking and the need for a global mindset (as reported by Mercer’s recent Talent Trends report).

TECH (R)EVOLUTION

The demands of a global reality, combined with revolutionary advances in technology, have shaped a work environment that is more decentralized and requires 24/7 accessibility and nimble decision making. Applications that support flexible/contingent working and the impact of co-creation tools will expand, as well as apps aimed at engaging individuals at work. The transformative nature of technology, particularly in the digital and online arenas, will continue to impact the world of work for years to come. Companies who are breaking the innovation barrier and equipping their workforce to embrace change will emerge as leaders in this new future.

Implications for HR: Around the world, technology is transforming how HR delivers value to the business but Mercer’s Talent Trends study suggests we are a long way off from realizing the benefits. As companies implement new HCM solutions, they should take care to ensure technology drives simplification, not complexity. And as technology enables flexible working and new ways to co-create, a manager’s ability to set goals and build a supportive culture has never become more critical. Leveraging automation in processes such as recruitment, learning & development and succession should free up not only HR, but also managers and employees, from day-to-day operations so they can focus on new value-adding activities.
Globalization and technology have already contributed to significant shifts in the world of work over the last few years and this is just the beginning. The impact of changing demographics, flatter organizational structures, flexible working and a premium on transparency and collaboration— all of these are changing the very fabric of what defines the employer and employee. In response, companies are beginning to shift from “one size fits all” to “one size fits one,” allowing for the generational, gender and cultural diversity of today’s workforce to thrive. As Millennials begin to rise in the ranks and the new “Generation Z” enters the workforce, they are seeking ways to fit work into life rather than the other way around. In this Era of the Individual, employees of all ages expect to have more of a voice about where, when and how they work.

**Implications for HR:** In Mercer’s Talent Trends study, only 4% of employees described their company’s HR processes as “state of the art.” In particular, they highlighted career management and compensation as areas of concern. One way to interpret these results is that performance management—with its traditional pay-for-performance philosophy—may need to evolve to focus more on engagement and careers. The concept of “managing” performance may feel outdated to younger generations—and indeed there is a movement to replace measurement and ranking with impactful conversations. Employees’ desire for a more personalized approach puts line managers in the driver’s seat in shaping the employee experience. They can lead the way in increasing transparency, offering training opportunities and helping their team members to navigate their career journey. HR plays an important role in equipping managers with the right skills and creating an enterprise-wide “manager as coach” culture.

In the same study, 85% of HR leaders indicated that their talent management programs and policies need an overhaul—and many are already underway with changes especially in the areas of talent acquisition, performance management and succession. However, these same HR leaders were quite positive about the current state of their talent reviews and ability to fill critical roles internally. If these processes are working, why are so many organizations planning to change them in 2016? Too much tinkering with the system, especially if it feels like change for change’s sake, can be exhausting. This is an opportunity for HR to take a step back, re-examine its role and define with pinpoint precision the value it brings to organizational success.

**Imagine...**

Instead of HR delivering messages that begin with:

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

HR delivers experiences that employees want to use

- “I needed this”
- “This is easier”
- “This makes my life better”
Even though I am satisfied with my organization, I plan to leave in the next 12 months.

We feel confident about filling our critical roles with internal candidates.

Mercer’s 2016 Talent Trends study gathered the perspectives of 1,730 HR leaders and over 4,500 employees across 15 countries on key workplace issues and priorities. One of the key findings was that even satisfied employees are considering a move because they do not see a long term career in their current organization. This is especially worrying given that 82% of the organizations in the study reported an increased focus on “building” versus “buying” talent.
In Mercer’s 2016 Talent Trends study, organizations identified “Big Data” management as one of the top five workforce trends that will impact their business in the next 12 months. HR is often at the center of this discussion and big data – especially predictive analytics – offers a way for HR to deliver value to the business.

There is consensus that many barriers exist and the journey is slow. Rather than offering value-adding predictive analytics, companies are instead still figuring out how to handle large amounts of data and get basic reporting. In fact, only 10% of companies surveyed believe they have the ability to leverage predictive analytics in making human capital decisions and only one third say they can do “cause and effect” analyses of key workforce trends against business outcomes.

Delivering strategic insights requires, first and foremost, quality data. But a major problem plaguing many HR functions today is just this – leading to “garbage-in, garbage-out” concerns. Until this is addressed, the return for the effort required to yield predictive analytics is just not there, and, additionally, the fact that data is often spread across multiple systems means it cannot be easily shared for analysis. Although two-thirds of organizations surveyed have invested in HR technology in the past three years, more are disappointed than pleased with their new HCM implementation and two in five report that they need additional technology to integrate data from across the business. This problem is particularly acute for global organizations, as they are unable to take an enterprise-wide view of their current workforce and mine Talent insights.

The failure to deliver on the promise of Big Data can also be attributed to a skills shortage. While most HR professionals are comfortable with structured data like compensation statistics and engagement surveys, many do not have the same comfort level with unstructured data or the inferential statistics needed for predictive insights. Given that this is a specialty area currently in incubation, organizations may want to consider a dedicated team responsible for workforce analytics and invest in skills associated with analytics and telling a story with data.

CONDUCT QUALITATIVE AND QUANTITATIVE ANALYSES

INTERNAL LABOR MARKET (ILM) MAPS
An ILM map illustrates the flow of talent into, through and out of an organization over time. It offers a powerful “system-at-a-glance” view of key aspects of an organization’s workforce dynamics, including how different diverse talent populations are affected. ILM methodology not only describes current state to identify possible imbalances; it is also used for predictive modeling to examine the consequences of certain levers on future talent flow. Sizing the impact of change can help HR make wiser investment choices and win executive sponsorship.

CROWDSONSCING
HR can explore the potential motivators and drivers of change for a particular group in terms of attraction, promotion, engagement through crowdsourcing.
EMPLOYEE VALUE PROPOSITION
WHAT SETS YOUR COMPANY APART?

The value of work needs to go beyond the sum of pay and benefits – it is the glue that binds people together and the intangibles that make a job, a career.

An Employee Value Proposition (EVP) includes long-term career opportunities, workplace culture, line of sight to the impact of jobs and the rewards associated with value creation. The EVP has to connect to individuals concept of ‘meaningfulness’ and sense of ‘satisfaction’ with what people achieve day to day.
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 as a 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?

THE NEW DEAL

What employees ask of their organization is changing and managers are being challenged to respond in more nuanced ways. As expected, ‘Training’ has a premium across the globe and ‘pay’ is a hygiene factor you can’t afford to get wrong. What is interesting is that ‘flexibility’ and ‘stretch’ are not on everyone’s wish-list and, despite the loud voices from different generations, ‘geography’ dominates over age when looking at what matters to employees.
EVP AND TOTAL REWARDS INFLUENCES ENGAGEMENT, TALENT AND BUSINESS

**DRIVERS**
- Personal/relevance of EVP
- Communication
- Recognition
- Empowerment
- Teamwork
- Leadership

**OFFERS**
- Material rewards
- Intangible rewards
- Career value
- Company reputation

**RESULTS**
- Quality
- Productivity
- Sales growth
- Safety
- Profit

**MEASURES**
- Discretionary effort
- Attraction
- Internal moves
- Promotions
- Turnover
- Absenteeism

**HOW CAN MERCER HELP?**
Take a look at how employees experience your EVP

- BUILD Your Wealth
- UNDERSTAND Your Rewards
- ENVISION Career Possibilities
- ALIGN Purpose and Values
- LEAD Your Team
- MANAGE Your Health

Employee Engagement
Business Performance
Talent Outcomes
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**
The rising cost of healthcare – and not just in the US – changes the rewards & benefits equation.

**Retirement**
Traditional Defined Contribution plans are falling by the wayside.

**Compensation**
Income growth divergence is causing social unrest and minimum-wage pressure.

**Unionization**
The bargaining agenda 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

<table>
<thead>
<tr>
<th>YESTERDAY</th>
<th>2015-2017</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Standardize</strong></td>
<td><strong>Individualize</strong></td>
<td></td>
</tr>
<tr>
<td>How to retire</td>
<td>Confusion about employment relationship</td>
<td>Core employees viewed as crucial for success</td>
</tr>
<tr>
<td>Paternalistic</td>
<td>Transactional employment relationship</td>
<td>Individual accountability for benefits, careers and workplace</td>
</tr>
<tr>
<td>One-size-fits-all</td>
<td>Limited rewards flexibility</td>
<td>Personalized rewards reflecting global cultures and multi-generations</td>
</tr>
</tbody>
</table>

## Progressive Employee Relations

<table>
<thead>
<tr>
<th>YESTERDAY</th>
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<tbody>
<tr>
<td><strong>Authoritative</strong></td>
<td><strong>Participatory</strong></td>
<td></td>
</tr>
<tr>
<td>Employees as interchangeable</td>
<td>Employees as necessary evil</td>
<td>Employees as volunteers</td>
</tr>
<tr>
<td>Formal dress code</td>
<td>Business casual</td>
<td>Anything goes</td>
</tr>
<tr>
<td>Rigid attendance policies</td>
<td>Limited attendance flexibility</td>
<td>Universal paid time off</td>
</tr>
<tr>
<td>Pay is secret</td>
<td>Apps provide an opportunity for pay comparisons</td>
<td>Pay arrangements are open similar to proxy statement disclosures</td>
</tr>
<tr>
<td>Work is performed at the employer site</td>
<td>Broad-band allows work to be conducted outside of the employer site</td>
<td>Work and play over 24/7: employee determines place and time</td>
</tr>
<tr>
<td>Union prominent for major employers</td>
<td>Unions on the continued decline</td>
<td>Unions support raising minimum wage to keep pace with the increasing living wage</td>
</tr>
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## Compensation for the New World Order

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<tr>
<th>YESTERDAY</th>
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<tbody>
<tr>
<td><strong>Internally Based</strong></td>
<td><strong>Externally Based</strong></td>
<td></td>
</tr>
<tr>
<td>Limited employee risk</td>
<td>Employees desire fixed pay</td>
<td>Employees as business partners</td>
</tr>
<tr>
<td>Base pay linked to internal equity (job evaluation)</td>
<td>Market pay becomes common practice</td>
<td>Market pay within global levels</td>
</tr>
<tr>
<td>Pay positioning is at market</td>
<td>Most organizations target pay between P25-P75</td>
<td>Fixed pay is at P25-P50 with P50+ coming from variable cash/equity compensation</td>
</tr>
<tr>
<td>Variable pay is limited to executives and sales</td>
<td>Most organizations offer variable pay</td>
<td>Significant variable pay opportunity is the norm</td>
</tr>
<tr>
<td>Executive compensation is undisclosed</td>
<td>Regulatory and social pressures lead to increased transparency</td>
<td>Linked to total shareholder return and pay ratio benchmark</td>
</tr>
</tbody>
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### DO-IT-YOURSELF BENEFITS

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<tr>
<th>YESTERDAY</th>
<th>2015-2017</th>
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</tr>
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<tbody>
<tr>
<td><strong>COMPANY RISK</strong></td>
<td><strong>EMPLOYEE RISK</strong></td>
<td></td>
</tr>
<tr>
<td>Paternalistic</td>
<td>Organization role continues to decline</td>
<td>Individual accountability through self-service</td>
</tr>
<tr>
<td>Organization provided health care, retirement, etc.</td>
<td>Cost shifting and abandonment of employee benefits</td>
<td>Organizations provide group purchasing power without being the sponsor</td>
</tr>
<tr>
<td>Defined benefit pension plans</td>
<td>Defined contribution</td>
<td>Retirement plans with and without employer match</td>
</tr>
<tr>
<td>Health care for employee and dependents</td>
<td>Constant cost shifting</td>
<td>Opportunity to participate in exchanges</td>
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### ACTIVE TALENT MANAGEMENT

<table>
<thead>
<tr>
<th>YESTERDAY</th>
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<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PASSIVE TALENT MANAGEMENT</strong></td>
<td><strong>AGGRESSIVE TALENT MANAGEMENT</strong></td>
<td></td>
</tr>
<tr>
<td>Unlimited supply of talent</td>
<td>Labor markets tightening</td>
<td>Constant struggle to retain skills and millennials</td>
</tr>
<tr>
<td>New hire training</td>
<td>Buy experienced talent</td>
<td>Continuous training and development to support EVP</td>
</tr>
<tr>
<td>Hierarchical career path</td>
<td>Career progression being defined</td>
<td>Well-defined lattice career growth</td>
</tr>
<tr>
<td>Numerous job levels for each function</td>
<td>Collapsing excess job levels</td>
<td>Stepping stone roles to promote fluidity and movement</td>
</tr>
<tr>
<td>Annual performance management process</td>
<td>Healthy experimentation</td>
<td>Frequent &amp; informal conversations with light-touch annual process</td>
</tr>
<tr>
<td>Leadership reflects home country</td>
<td>Global mobility is encouraged</td>
<td>Leadership is multicultural</td>
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### DIVERSITY AND PAY EQUITY ARE REALITIES

<table>
<thead>
<tr>
<th>YESTERDAY</th>
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<tbody>
<tr>
<td><strong>GOOD IDEA</strong></td>
<td><strong>MANDATORY PRACTICES</strong></td>
<td></td>
</tr>
<tr>
<td>Diversity goals in most organizations</td>
<td>Organizations struggle to meet goals</td>
<td>Employers match the multiple cultures that they serve</td>
</tr>
<tr>
<td>Employers don’t know how to develop diverse talent</td>
<td>Experimentation is rampant</td>
<td>Analytics drives good decision-making</td>
</tr>
<tr>
<td>Pay equity is afterthought</td>
<td>Pay inequality and promotion progression parity is measured</td>
<td>Pay fairness is assured through analytics. Diverse talent pools are able to thrive</td>
</tr>
</tbody>
</table>
GAME CHANGERS ON THE HORIZON
DRIVING DIGITAL ENGAGEMENT

1. WEARABLE COMPUTING
2. THE AGE OF CONSUMERISM
3. INTERNET OF THINGS
4. AUGMENTED REALITY
Where wearable tech is potentially heading:

- Providing employees information they need the moment they need it.
- Monitoring productivity to create optimal work schedules.
- Measuring and preventing safety risks.

In the Era of the Individual, the use of social media is influencing employee expectations and there is increased demand for collaborative platforms and personalized content.

Interactive tools like the Mercer Career View app and the Mercer Belong portal are meeting this demand by giving employees the ability to explore their organization, understand where their role fits in and identify roles or paths they’d like to pursue.
An increasing number of everyday tasks are being completed through the internet and this presents exciting opportunities for HR; from an increased ability to hire, on-board and manage employees, to making business decisions real time, using data comprised of multiple business dimensions as they update and model new outcomes.

Expatriates in their host country receive “just in time” bite-sized culturally-relevant advice based on their location (e.g., supermarket, school, boss’s house, etc). Talk to Mercer about Mercer Match, Realistic Job Previews and Mercer Culture Passport.

Job seekers point their phone at a building/office and immediately see available positions, compensation ranges and benefits packages. They can then play a series of short games to see if they’re a good fit, or go for a “virtual test drive” of a particular role.
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