Total Rewards Optimization: Aligning reward investments with the employee experience

> **"TRO was the launching point for defining our employee value proposition. The information we gleaned was invaluable – it has helped us challenge some of our preconceived notions. What we learned has been both powerful and actionable."**
>
> **– Vice President, Global Rewards and Talent Acquisition, International Semiconductor Manufacturer**

Introduction

Over the past decade, the HR world has seen a growing trend of treating employees as internal consumers. The employee value proposition has emerged as the organization's offering to an increasingly savvy and demanding population of employees and candidates. To gain insights about the reward preferences of their current and potential talent, leading companies have turned increasingly to market research techniques.

Defining the value proposition that is most compelling to employee-consumers (and most economical for employers to deliver) calls for an analytically rigorous process. The analysis must quantify the critical relationships between reward expenditures and the employee behaviors they are intended to encourage and support. The ultimate goal is a high return on the financial capital the organization invests in rewards *and* a high return on the human capital (knowledge, skill and talent) investment made by employees.

Willis Towers Watson's Total Rewards Optimization (TRO) can identify this value proposition sweet spot.

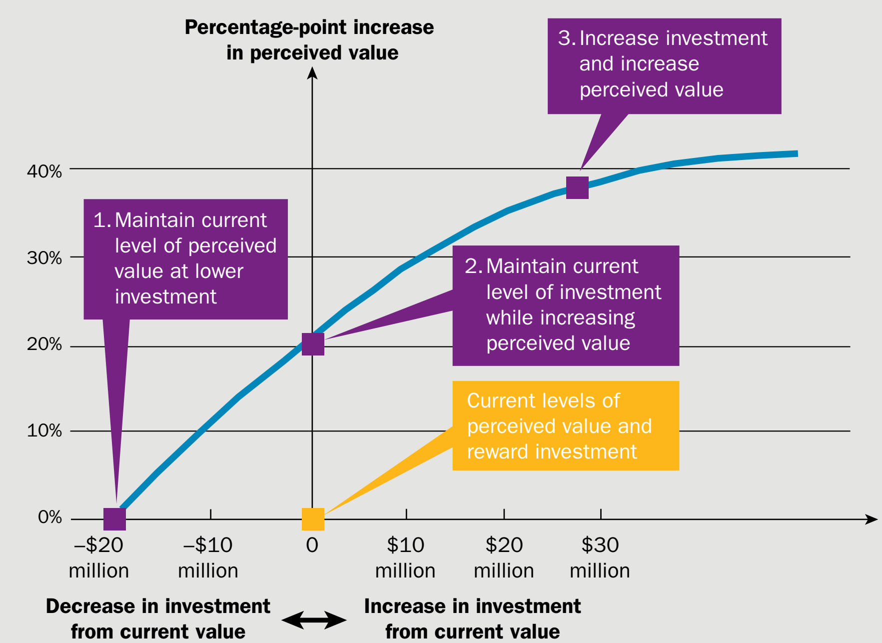
Inside TRO

TRO enables your company to determine which rewards have the biggest impact on employee attitudes and behaviors (through trade-off analysis) and then specify 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 employee rewards of all types?*
- What is the *best allocation of that investment* to maximize the employee behaviors and attitudes we want to influence (e.g., retention, engagement and perceived reward value)?
- How do these answers vary across targeted *employee segments* (e.g., age, job level, critical job function and performance)?

Three potential reward portfolios on the reward value and cost curve

The blue curve (called the efficient frontier) indicates the optimal points at which employee preferences and financial considerations are balanced. Point 1 illustrates the reward mix that maximizes cost reduction without diminishing employee perception of reward portfolio value. Point 2 represents the reward mix that reallocates the current total investment across reward programs in a way that maximizes employees' perceived value. At point 3, both reward investment and perceived value increase but remain in a balanced relationship.



TRO provides rich data on what employees see as the most and least valuable components of their reward packages. These insights help leaders make the right investment decisions to deliver a value proposition likely to foster the desired employee attitudes and behaviors at a cost the organization can afford (see figure).

Client Cases: Demonstrating Meaningful and Quantifiable Results

Example 1: In a fast-growing social media company, the TRO survey revealed that employees placed high value on adding a matching provision to the retirement savings plan. This finding surprised management: Why would a population of Millennials value something as chronologically distant (and frankly, old-school) as a boost to their retirement savings? To test the result, management conducted a series of focus groups to explore employees' underlying rationale. What they found surprised them at first, but then it made sense. As one employee said, "When my parents talk about saving for retirement, I actually listen to what they tell me." Armed with this information, the organization was able to make a simple but powerful change to an unexpectedly important reward.

The key is investing finite employee reward dollars across the 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.

Example 2: A nationwide retailer wanted to identify nontraditional rewards that would boost distribution center employees' perception of the organization's value proposition. To that end, the TRO survey included conventional items like base pay, annual bonus and health plan premiums along with other items such as changes to the attendance policy, modifications to the employee merchandise discount and upgrades to the variety and healthiness of onsite food options. The organization was surprised to learn that, for bonus-eligible employees, expanding onsite food options generated a higher perceived-value score than enhancements to such financial rewards as the bonus and profit-sharing plans and changes to the paid-time-off policy. The organization learned what it had hoped to: In some cases, a comparatively inexpensive factor like onsite food (estimated to be only one-fortieth the cost of a base pay increase) can generate a surprisingly large increment of utility in the minds of employees.

"As we experience tremendous growth in our business and the diversity of our employee population continues to increase, we have been proactive to ensure that we continue to maintain high employee engagement and motivation going forward. Rather than assume we understood the value employees place on our programs, we partnered with Willis Towers Watson and asked our employees directly via a TRO survey. The results have proven to be insightful and actionable, and have certainly challenged some of our preexisting assumptions about our plans as we look forward to enhancing our program offerings."

– Senior Director, Executive Compensation, Biotechnology Company

About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 45,000 employees serving more than 140 countries and markets. We design and deliver solutions that manage risk, optimize benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas – the dynamic formula that drives business performance. Together, we unlock potential. Learn more at willistowerswatson.com.

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