



Business & Financial Conference

ELITE SPONSOR



Network & Grow Together





Destination Employer Trends – Compensation & Engagement

APPA Business & Finance Conference
September 16, 2018 | Anaheim, CA

Scott Hamilton | Chris Dustin
Global Managing Director | Managing Director & Senior Advisor
Human Resources & Compensation Consulting | Gallagher Benefit Services, Inc.
Scott_Hamilton@ajg.com | Chris_Dustin@ajg.com
847.599.9820 | 630.536.2044

Program Outline



- Labor Market Overview
- Compensation Trends
- Industry Trends
- Destination Employer Model
- Employee Engagement & Compensation
- Compensation Philosophy
- Pulling It All Together

Tightening Labor Markets: Employers moving more aggressively to Attract/Retain

U.S. Unemployment Rate at 3.9%

- Walt Disney Co
- \$1000 Bonus to All Ee's
 - \$50m Tuition Reimbursement

Apple gives \$2500 in Restricted Stock to all employees

American Airlines \$1000 bonuses to all employees

BancorpSouth: Pay Raises & Bonus for 90% of employees

Southwest Airlines gives \$1000 in bonuses to all employees and increases charitable donations

Capitol One: 10-15% Raises for Entry Level

Comcast: \$1000 Bonuses to 100,000 employees

Humana moves base wage to \$15/hr, increases community investments

Nationwide Insurance gives \$1000 bonuses to 29,000 employees, increases 401(k) match

Advanced Sciences to increase 401(k) Match

AutoNation doubles 401(k) match

BB&T: \$1200 bonuses to 27,000 employees, 25% Pay Raises for Entry Level Jobs

Fiat Chrysler gives \$2000 bonuses to 60,000 employees

Boeing: \$100m for Workforce Development - \$100m for Charitable Donations

ATT give \$1000 bonuses to 200,000 employees

Bank of America gives \$1000 bonuses to 145,000 employees

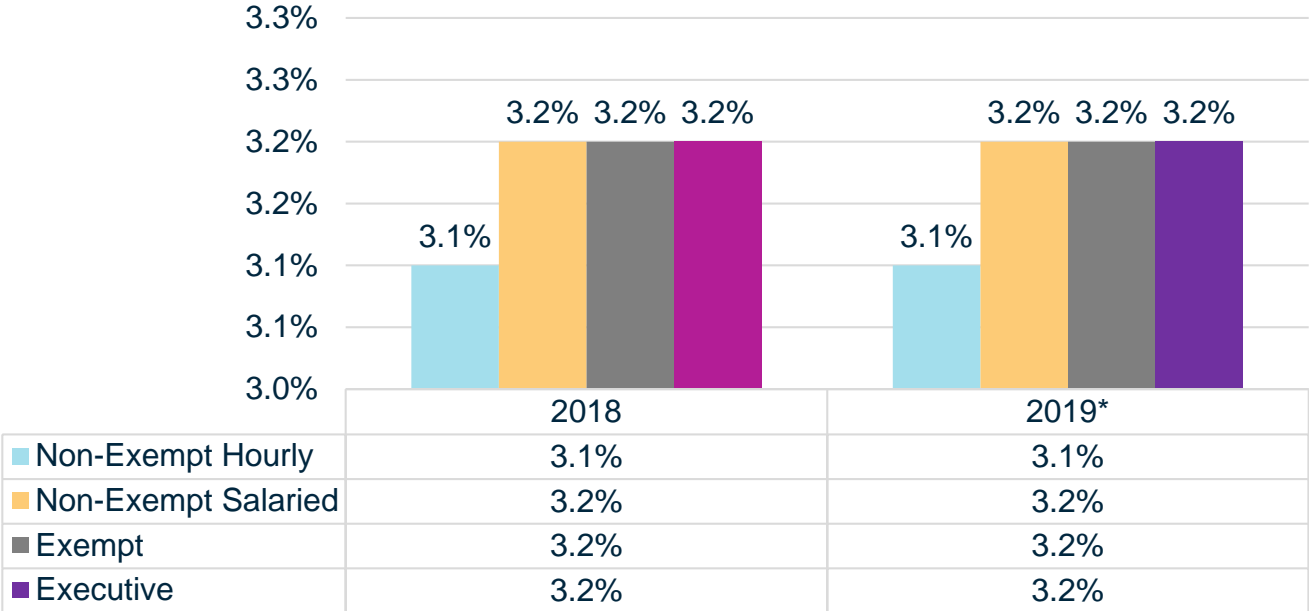
Alaska Airlines \$1000 bonuses to all employees

JetBlue gives \$1000 bonus to 21,000 employees

WalMart increases base wages 10%

Average Total Salary Increase Trends

- All U.S. – Utilities



* Projected

Source: World At Work 2018/2019 Salary Budget Survey



Industry Overview: Utilities



- Key Trends
 - Lead Issue – Revenue Growth/Cost Control
 - Power Management Innovation
 - Surge in Demand
 - Smart/Managed Energy Use
 - Renewable Energy Targets
 - Energy Reduction Targets
 - M&A Opportunities: Energy Service Management
 - Lag Issue: Talent
 - Age-based Attrition/Knowledge Transfer
 - Changing Work: New Jobs
 - Workforce Confluence:
 - Knowledge Roles
 - Technical Roles

Source: 2017 PWC Power & Utilities Industry Trends

2018 GBS National Benefits Strategy & Benchmarking Survey



Key Findings & Implications

All Participants (United States n=4487)

Top Three Operational Challenges

- Attracting and retaining a competitive workforce (60%)
- Revenue or sales growth (48%)
- Maintaining or decreasing overall operating costs (41%)

Top Three HR Priorities

- Attracting and retaining a competitive workforce (76%)
- Controlling employee benefit costs (48%)
- Increasing workforce engagement and productivity (42%)

The linkage between the top priorities reflects a need to optimize human capital investments – to attract, develop, engage and retain talented people while controlling costs

Gallagher Better Works Model

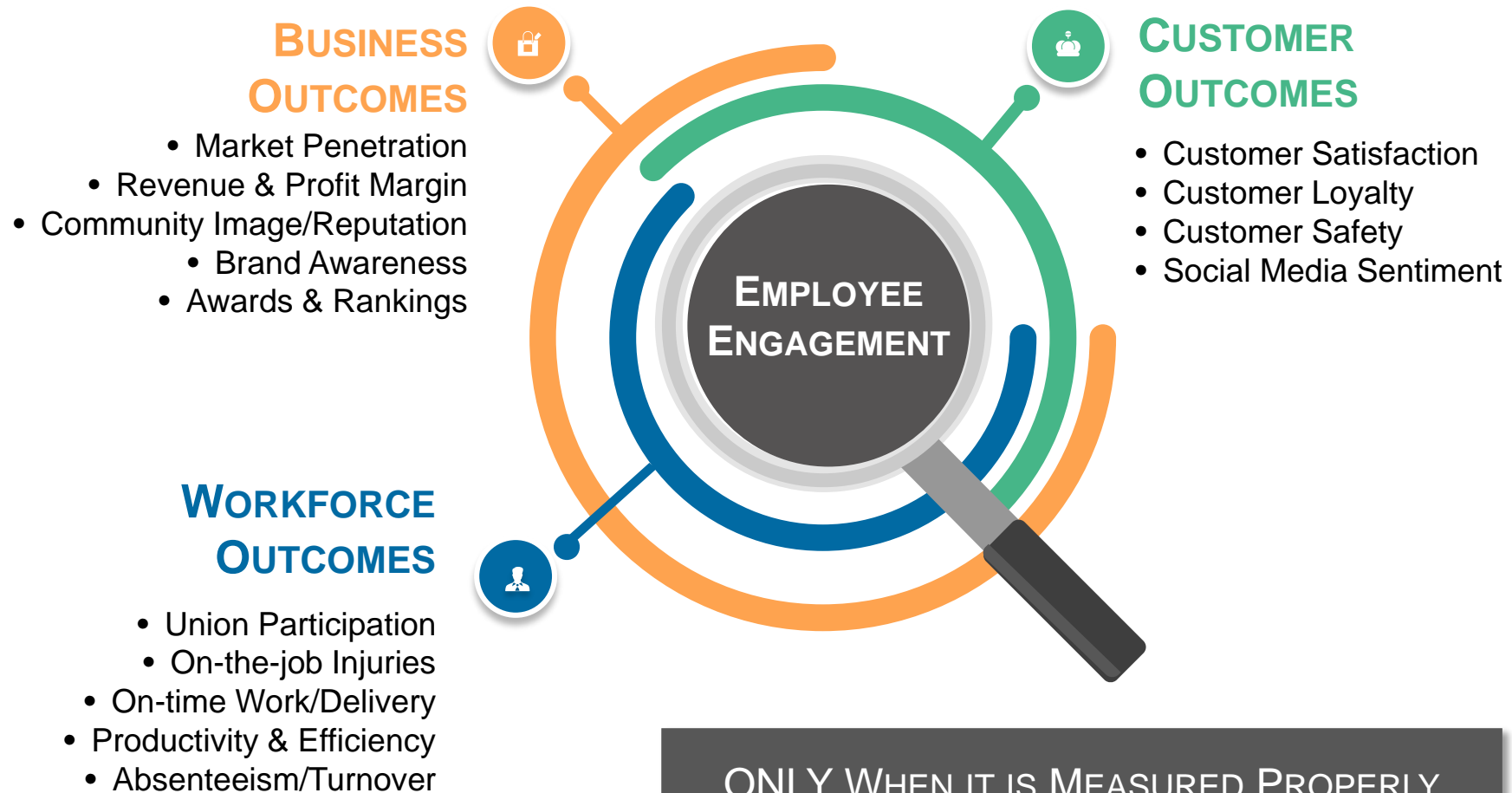




Employee Engagement

The Evolution of Engagement

ENGAGEMENT POWERFULLY PREDICTS AND LINKS TO KEY OUTCOMES....



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

Employee Engagement Index

	EFFORT	Willing to exert extra effort
	PRIDE	Being proud to work for the organization
	PROMOTE	Willingness to promote a great workplace
	COMMIT	Not recently considering other job opportunities
	SATISFIED	Feeling a strong sense of job satisfaction

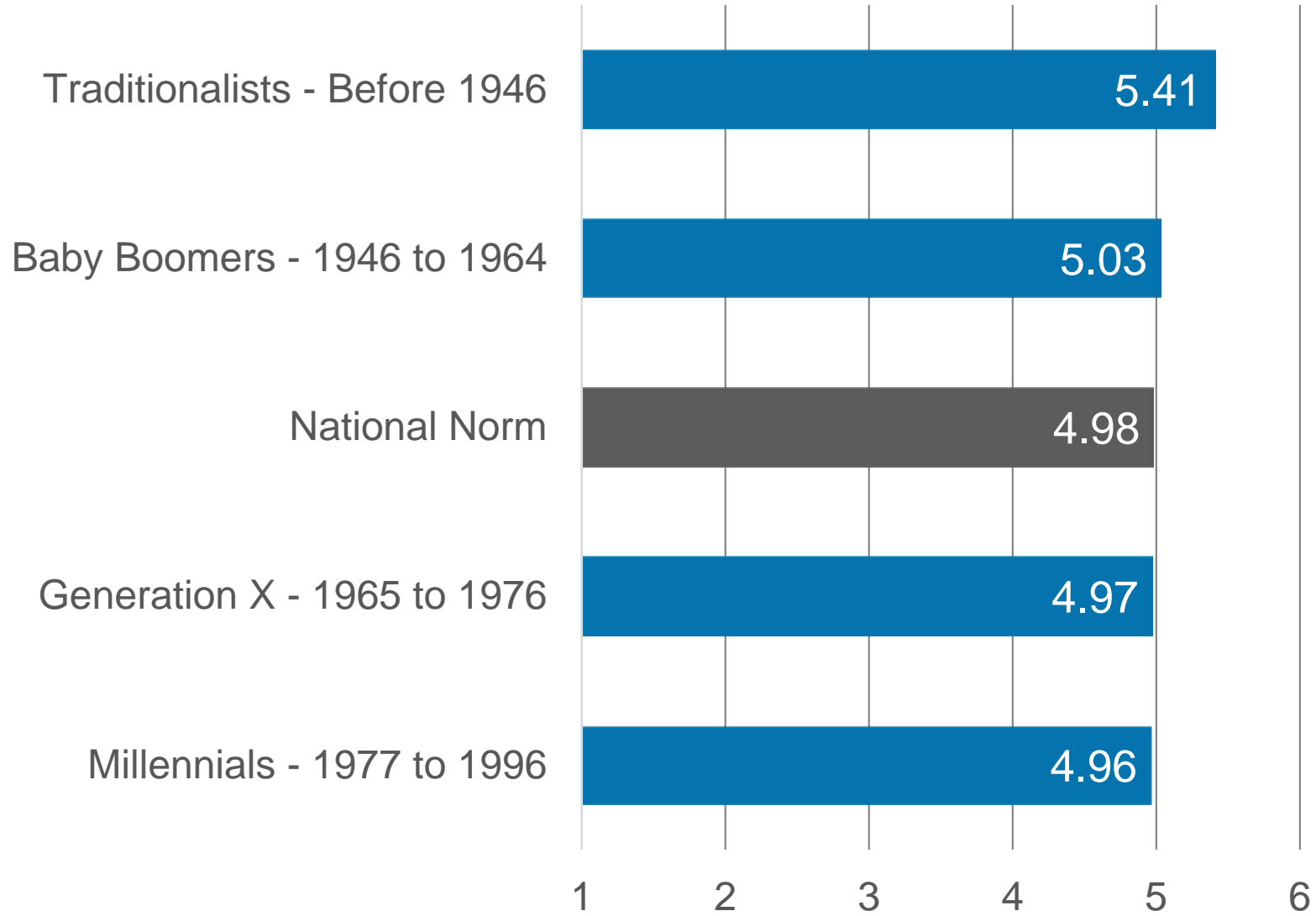
CONTRIBUTE	Feeling your work contributes to organizational success
MISSION	Feeling compelled by organization's mission

**OUR METRIC IS DIFFERENT—
RECENT RESEARCH REVEALS THE
IMPORTANCE AND POWER OF “JOB
PASSION”**

Defining Disengagement



Employee Engagement by Generation





The Impact of Engagement

Our Engagement Index – By the Numbers

THE ROI OF A
SINGLE SCALE
POINT
INCREASE IN
EMPLOYEE
ENGAGEMENT

Customer
Experience
15%

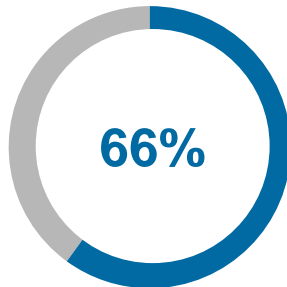


Increase in customers
rating their experience a
9 or a 10

Customer
Recommend
11%



Increase in customers reporting
they would “Yes-definitely”
recommend the organization to
others who need
services/products

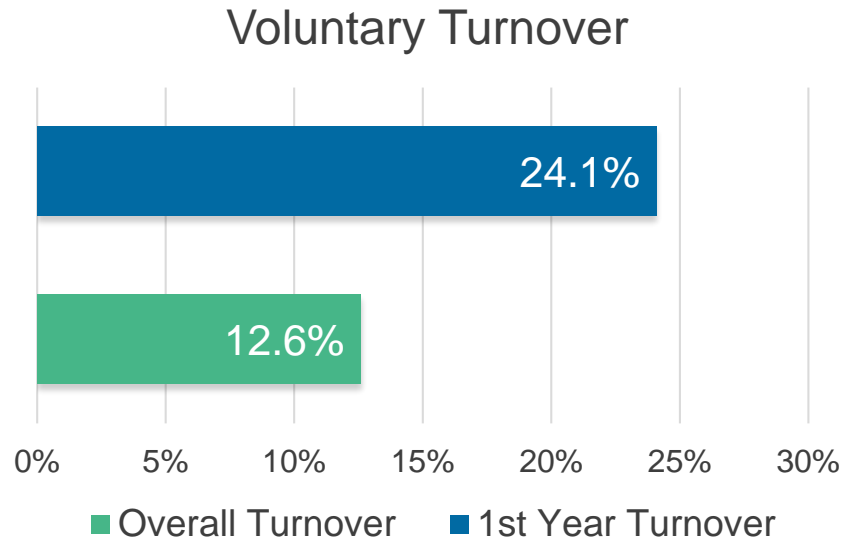


Drop in employees
voluntarily exiting the
organization to pursue
other job opportunities



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

Turnover & Economical Impact

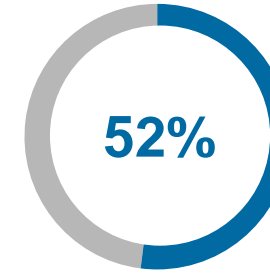
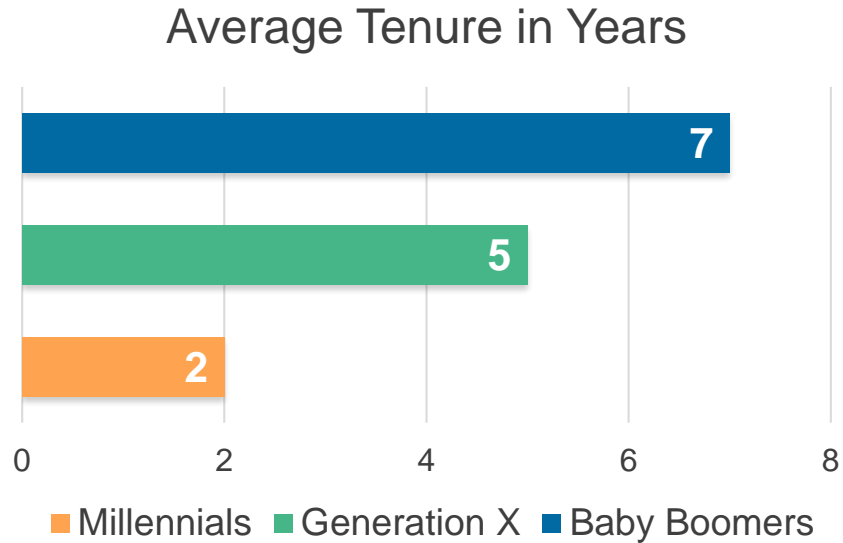


By reducing turnover a few percentage points it can lead to a significant cost savings...

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

Generational Impact



Millennials say opportunities for career progression is the most desirable quality in a workplace



Millennial turnover costs organizations \$30.5 billion per year



The Key Drivers of Engagement

Our Employee Engagement Model



Key Employee Engagement Drivers

RANK	KEY DRIVERS
1	I would recommend this organization's products/services to a friend or family member.
2	This organization's executive team does a good job leading this organization.
3	I have plenty of opportunities to use my skills and abilities at this organization.
4	I understand what I need to do to excel in my job.
5	This organization has an environment that allows me to grow and develop
6	This organization's executive team is focused on the improvement of the quality of products/services we provide.
7	Important information about this organization is communicated effectively.
8	I understand this organization's human resources policies
9	The actions taken by the executive team demonstrates their commitment to the mission/vision/values of this organization.
10	Employees at this organization treat each other with respect.

Source: Gallagher Employee Engagement National Database



Where's Compensation On The List?

Common Positions and Findings Regarding Compensation and Engagement

- A vast body of literature tells us NOT to select pay as area of focus if the goal is to build engagement.... Right?

Our Emerging Research

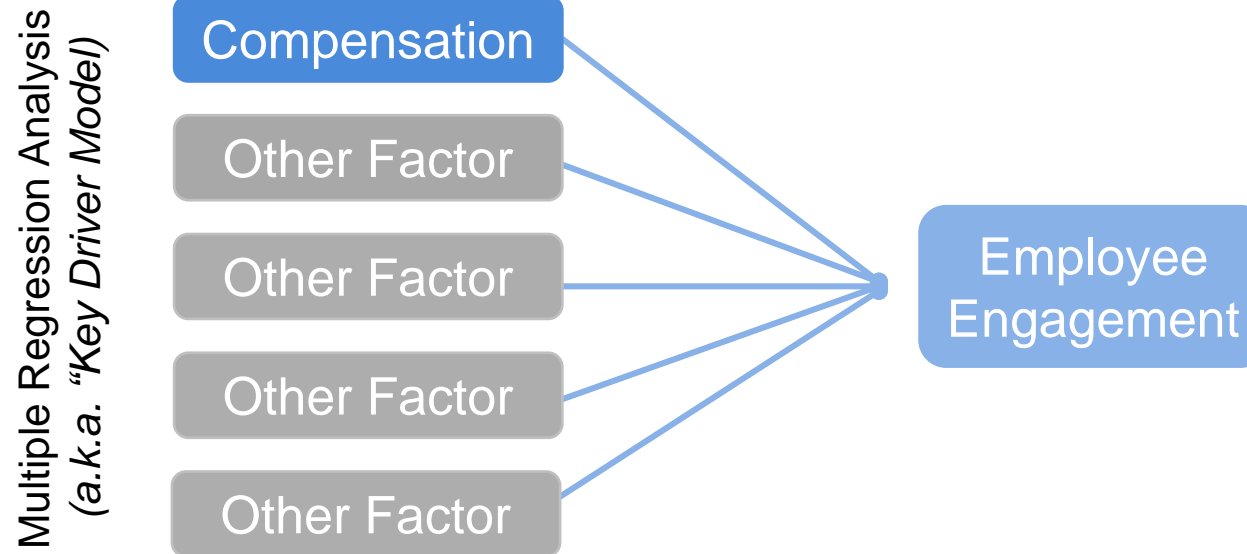
Our most recent findings suggest that researchers may have been thinking about the relationship between pay and engagement in the wrong way.

and a new position on compensation & engagement

Pay has almost exclusively been explored using statistical techniques that DO NOT reveal the more complex relationship between employee engagement and compensation

Case Study 1:

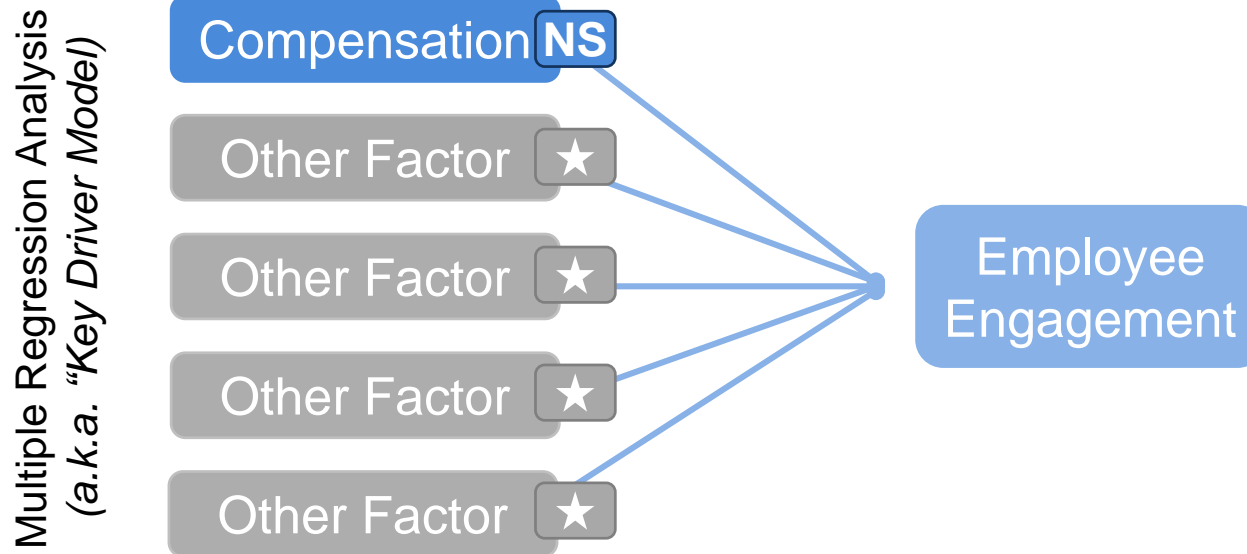
- A Typical Key Driver Model to Derive Engagement Drivers



Based on a sample of 18 organizations spanning the Midwest U.S. Census Region (2017)

Case Study 1:

- A Typical Key Driver Model to Derive Engagement Drivers

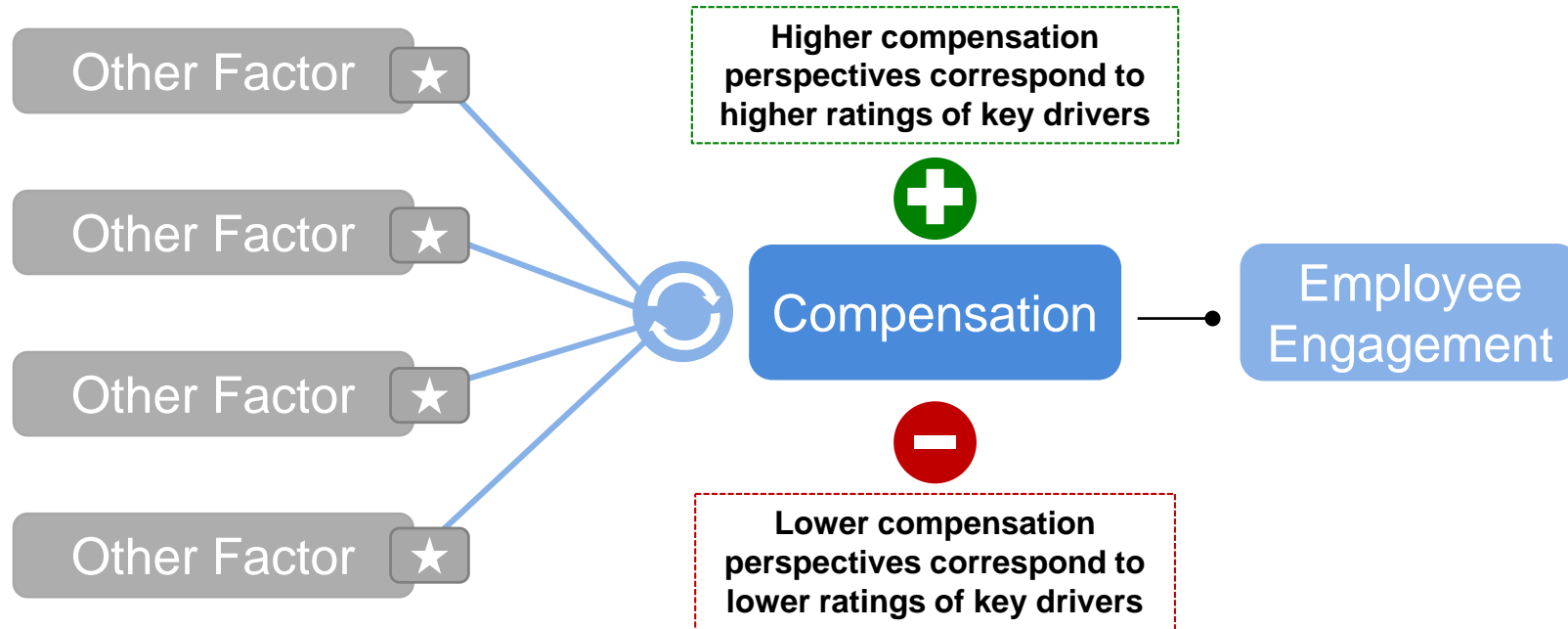


Moderation occurs when the relationship between variables is significantly dependent on another variable

Based on a sample of 18 organizations spanning the Midwest U.S. Census Region (2017)

Case Study 1:

- A Moderated Model of Compensation and Engagement



Result: Compensation is not a direct driver of engagement, but exerts a moderating effect—*enriching engagement indirectly by directly influencing its key drivers*—this relationship can not be observed through a traditional key driver analysis.

Based on a sample of 18 organizations spanning the Midwest U.S. Census Region (2017)

Case Study 1:



- A Moderated Model of Compensation and Engagement



When employees perceive their compensation as **competitive**, it significantly increases the likelihood they will feel more favorable about the drivers of employee engagement—triggering a significant optimization of engagement



When employees perceive their compensation as **non-competitive**, it significantly increases the likelihood they will feel less favorable about the drivers of employee engagement—triggering a significant dampening of engagement



Key drivers of engagement predict engagement....but are more predictive of engagement when views on pay are considered



Our results support a need to shift the view of compensation as a non-factor in building engagement to a foundational trigger that enables engagement to be built more efficiently

Based on a sample of 18 organizations spanning the Midwest U.S. Census Region (2017)

Case Study 2:

- A Moderated Model of Actual Compensation and Engagement

Measuring Pay Perceptions in Surveys

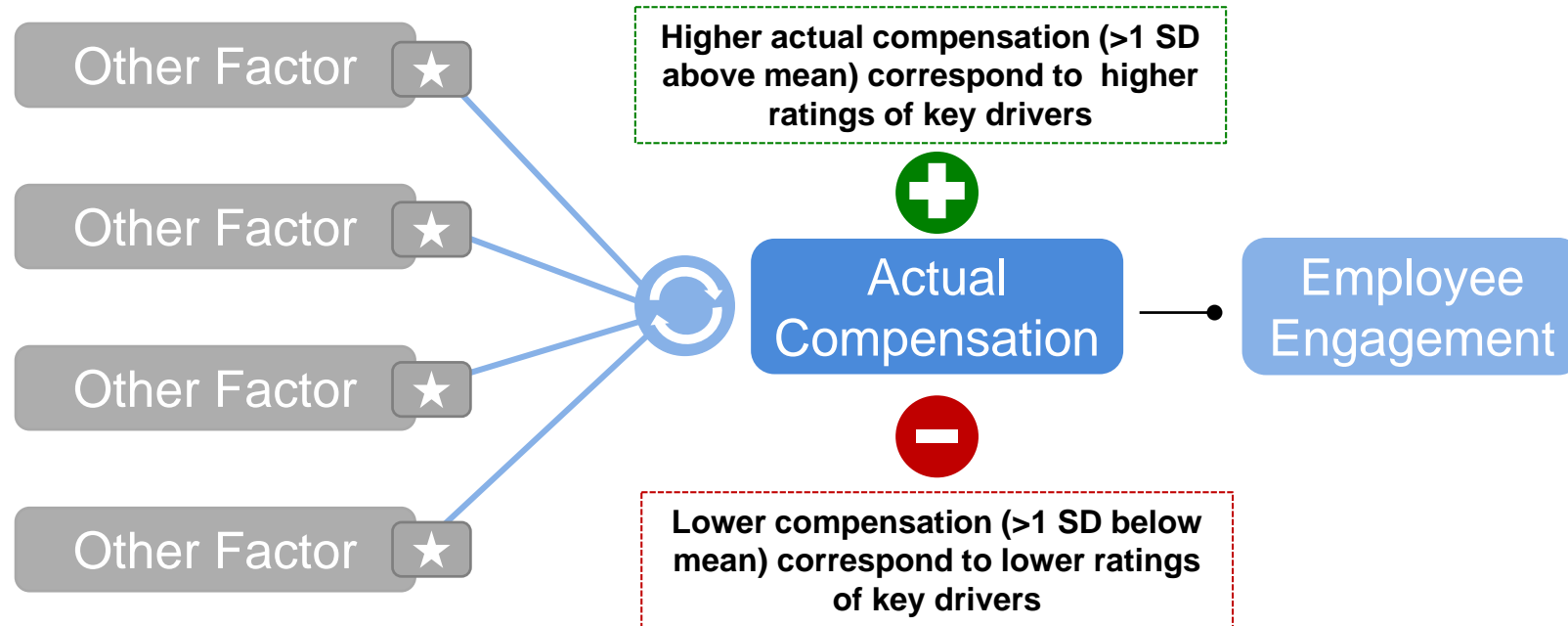
Some researchers have proposed that there is a fear among employees that assigning positive ratings of pay items will prevent the organization from offering pay increases

To further test our previous finding we tested a second variation of the moderated model of Compensation and Engagement by using Actual Pay rather than perceived competitiveness of pay

Based on a subset of 18 organizations spanning the Midwest U.S. Census Region (2017)

Case Study 2:

- A Moderated Model of Compensation and Engagement



Result: Actual compensation also exerts a moderating effect—enriching engagement indirectly by directly influencing its key drivers.

Based on a sample of 18 organizations spanning the Midwest U.S. Census Region (2017)

Case Study 2:

- A Moderated Model of Actual Compensation and Engagement

Echoing the findings of Case Study 1...



Employees paid **one standard deviation or more** than other employees in their same position category were significantly more likely to assign higher favorability to the drivers of employee engagement—triggering an optimization of engagement



Employees paid **one standard deviation or less** than other employees in their same position category were significantly more likely to assign lower favorability to the drivers of employee engagement—triggering a significant dampening of engagement

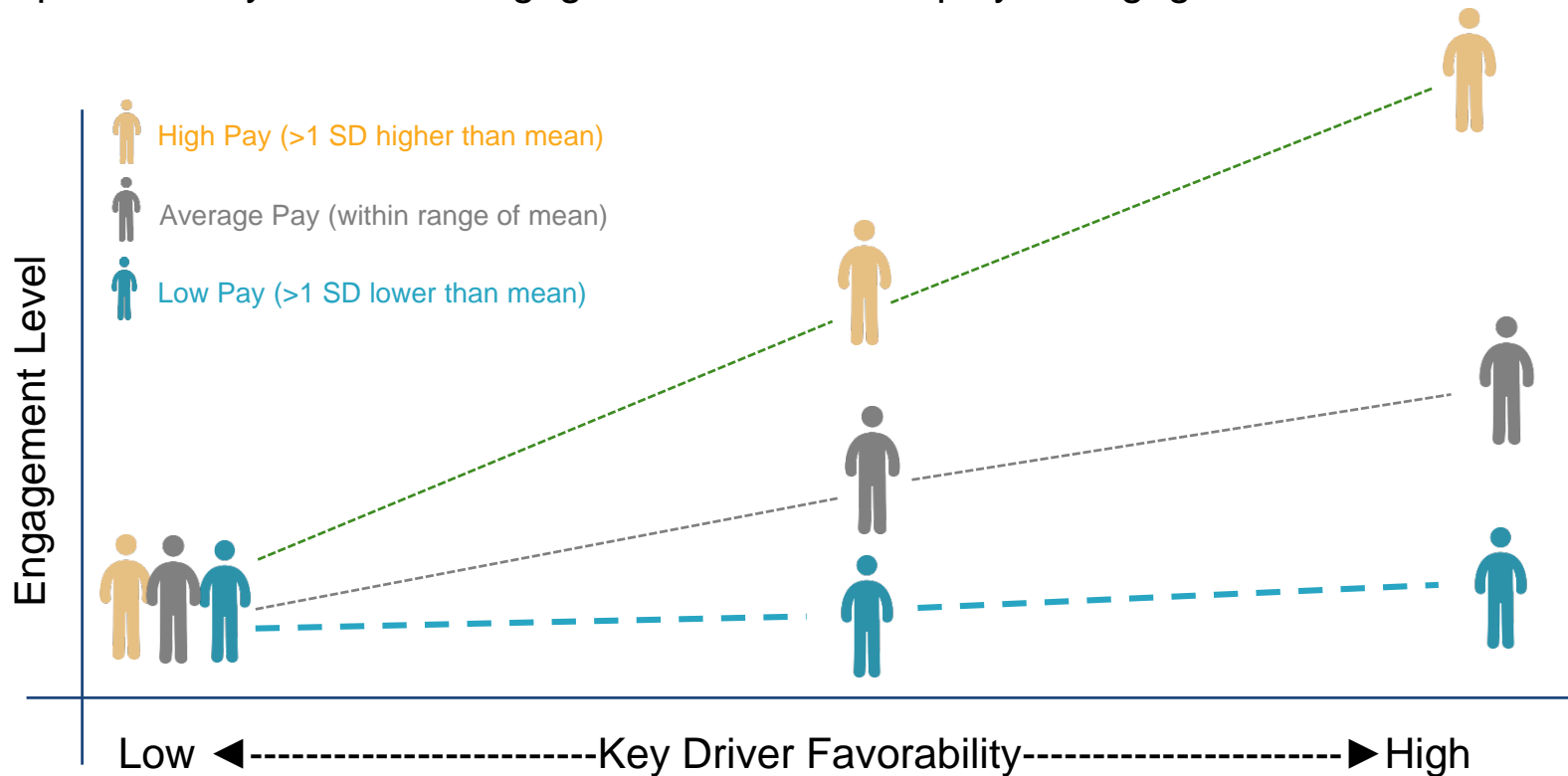
Note: This study controlled for possible influencing factors including tenure and education level

Based on a subset of 18 organizations spanning the Midwest U.S. Census Region (2017)

Case Study 2:

- A Moderated Model of Actual Compensation and Engagement

Also.....the higher the amount of actual pay that an employee receives, the greater the impact the key drivers of engagement exert on employee engagement.



Based on a subset of 18 organizations spanning the Midwest U.S. Census Region (2017)

Case Study 2:



- A Moderated Model of Actual Compensation and Engagement



When low paid employees assign the same level of favorability to the drivers of engagement as high paid employees, the low paid employees have a significantly lower level of engagement



The pace of change in employee engagement significantly accelerates with higher levels of compensation



Lends support to a working hypothesis that the more positive an employee feels about pay, the more it frees them to get enthusiastic about the things that promote engagement and get engaged

Note: This study controlled for possible influencing factors including tenure and education level
Based on a subset of 18 organizations spanning the Midwest U.S. Census Region (2017)



Building a Best Practice Compensation Program

Building a Best-Practices Comp Program

- Best practice communication for implementing new pay programs start with a compensation philosophy



The foundation of all compensation programs is a clearly stated, comprehensive philosophy statement

RATIONALE

In the absence of a defined philosophy, employees will create one on their own; and, management will have more difficulty defending or communicating the program



Why is a Staff Comp Philosophy Important?

- In the absence of a clearly communicated philosophy, employees will create their own...

“They got larger salary increases at X, Y and Z. We’re not competitive?”



“Is someone else somewhere/anywhere being paid more than I am?”

“My job is more difficult and complex than theirs, so shouldn’t I be paid more?”

“Why don’t we have those pay practices? Why doesn’t ours pay as much?”

“I have more experience; I’m better educated; I work harder...”



“Our organization is profitable, so why aren’t we paid more?”

If you don’t frame the conversation around the philosophy, why wouldn’t employees believe they should be paid more?

Why is a Compensation Philosophy Important? (Cont'd.)

- A well-considered compensation philosophy is the best explanation for why employees are paid what they are paid and is the basis for



Maintaining a consistent approach to governing compensation

Communicating compensation decisions to employees



Recruiting & retaining talent

Responding to inquires about pay



Demonstrating pay is reasonable to regulators/auditors

Explaining pay decisions to various stakeholders

Helping the board and management make good pay decisions

In the Absence of a Compensation Philosophy...



- We See:



Lower employee understanding, engagement and trust in leadership

- Inconsistent communication (“I know, but HR won’t let me...”)
- Inconsistent treatment (“if only I worked for that manager instead of...”)



Lack of transparency and understanding of how rates are determined

- HR acts as a gatekeeper and complaint center



Reactive salary increases and administration based on need / request

- Lobbying/”cowboying” by managers, directors, and yes, executives
“My people do more, know more, have more impact, their jobs are more complex, they’re working harder...”



As well as...

- Pay practices that are used as band aids and/or become entitlements
- Dated salary structures and pay practices
- Organizations that act as “stepping stones” for competitor

Communication Drives Understanding and Satisfaction

- Employee understanding of how compensation programs work is strongly linked to satisfaction



Pay is personal:

- Directly impacting how employees believe they are valued/not valued by the organization and affects their trust in leadership



Directors and managers must believe they're being treated fairly, personally understand, value, and accept the program to be effective communicating with their reports

- They must be trained to answer questions appropriately and consistently across the organization



Well known example: **Mayo Clinic**

Mayo Clinic moved employee satisfaction from below 20% to over **80%** by simply changing their communication process (i.e., without changing pay programs)

Communication alone **does not** override the need for competitive pay; Mayo already targeted the 60th percentile!

Pulling It All Together: Destination Employer Status



Question: Why is being a DE important?



Destination Workplace Strategy



- Key Concepts – Resource Optimization Continuum



Destination Workplace Strategy



Where Do You Start?

Achieving and maintaining a Destination Employer platform is an ongoing race versus a “destination”. But where is the best starting line?

- Start with an in-depth assessment of your key Total Rewards components:
 - Wellbeing Value Proposition
 - Current & Projected Healthcare Costs
 - Workforce Development Plan
 - Compensation Competitiveness
 - Reward Preferences of Future Workforce
 - State of Employee Engagement
 - Employee Risk Elements





Thank You

Scott Hamilton
Global Managing Director,
Human Resources & Compensation Consulting
Gallagher Benefit Services, Inc.

Scott_Hamilton@ajg.com
847.599.9820

Chris Dustin
Managing Director and Senior Advisor,
Employee Engagement Surveys
Gallagher Benefit Services, Inc.

Chris_Dustin@ajg.com
630.536.2044

