



From Recession to Recovery

Impact of Recession on the Employee Value Proposition

**2009/2010
Towers Watson Research Update**

TOWERS WATSON 

Discussion Outline

- About our Data Sources
- Impact of the Recession on Total Rewards
- Current Landscape of Total Rewards
- Impact of Recession on Employee Engagement
 - Employee Value Proposition
 - Attraction and Retention
- The Path Forward

About our data sources

2009/2010 U.S. Strategic Rewards Survey (14th annual Strategic Rewards study)

- Study fielded in 2009
- 235 U.S.-based companies participated
- Cross-industry representation of organizations with at least 1,000 employees
- Employee data reflect responses of 1,300 full-time workers at organizations with more than 1,000 employees

January 2010 Global Flash Survey

- Fielded from January 11-15, 2010
- Conducted in 19 countries
- 459 participants globally
- 118 participants in U.S.

Effect of the Economic Crisis on HR Programs (U.S.)

- August 2009 Survey
- October 2009 Survey



Impact of the Recession on Total Rewards

Impact of recession was widespread and is likely to linger

THE WALL STREET JOURNAL.
WSJ.com

CAREERS | FEBRUARY 26, 2009, 5:18 A.M. ET

Layoffs Are Just One Threat

Companies' Cost-Cutting Measures Often Target Benefits

By SARAH E. NEEDLEMAN

Employers may be scaling back on layoffs, according to some surveys, but employers say they plan to introduce plenty of other cost-cutting measures.

THE WALL STREET JOURNAL.
WSJ.com

CAREERS | JULY 21, 2009, 10:02 A.M. ET

Pay Raises Are the Smallest In Decades, Surveys Show

By MICHAEL SANSEVERINO

Recession-starved employee salaries have scarcely grown this year, and early predictions for 2010 aren't looking much better.

THE WALL STREET JOURNAL.
WSJ.com

CAREERS | AUGUST 8, 2009

Slowing Job Losses Put Economy on Firmer Footing

Growth Hinges on Whether Businesses Begin Restocking Shelves, Hiring Workers

By SARA MURRAY

With the smallest job declines in a year, a recovery appears in sight. But businesses are proceeding with caution, uncertain of how strong the recovery will be.

Early signs of a stabilizing labor market added to the optimism that a recovery is in sight, but whether businesses begin restocking shelves and hiring workers remains to be seen.

USNews & WORLD REPORT

Will Your Employer Eliminate Its 401(k) Match?

GM eliminated its match, and other companies are likely to follow

By Emily Brandon
Posted November 3, 2008

Retirement savers already reeling from catastrophic stock market losses can add a new worry: their employer's 401(k) match. General Motors employees saving for retirement will no longer have their 401(k)s matched. And many retirement experts say that other companies are likely to follow suit, which exerts pressure on their bottom lines.



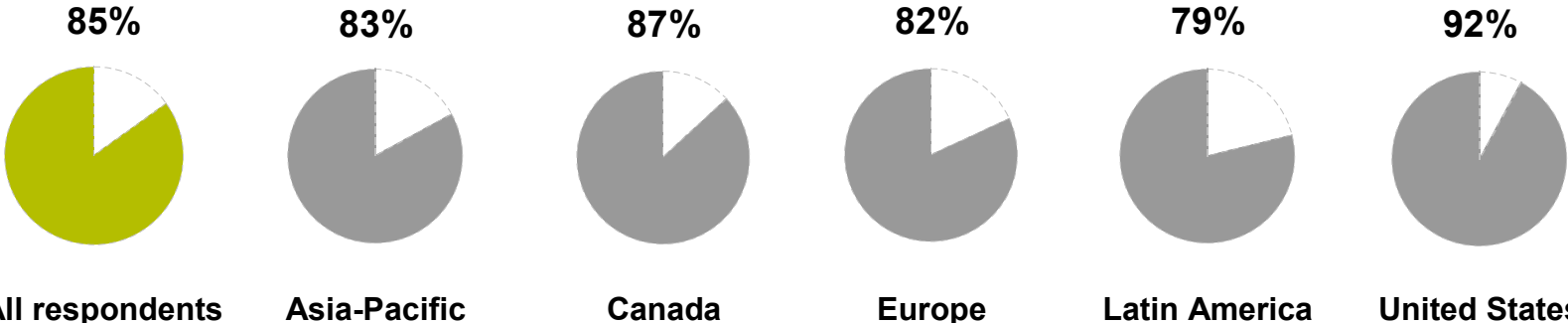
*Good luck surviving the recovery
BY DANIEL GROSS

Broad workforce reductions are declining, but targeted cuts remain on tap at many organizations

	Broad workforce reduction		Targeted workforce reduction		No workforce reduction		Don't know	
	Since the financial crisis began	This year	Since the financial crisis began	This year	Since the financial crisis began	This year	Since the financial crisis began	This year
All respondents	15%	3%	51%	34%	33%	54%	1%	8%
Asia-Pacific	7%	2%	38%	14%	54%	77%	2%	7%
Canada	18%	4%	44%	39%	38%	51%	0%	6%
Europe	12%	5%	55%	44%	31%	46%	2%	5%
Latin America	19%	4%	47%	24%	32%	65%	1%	7%
United States	17%	1%	58%	36%	25%	49%	0%	14%

Most companies plan to hire in 2010

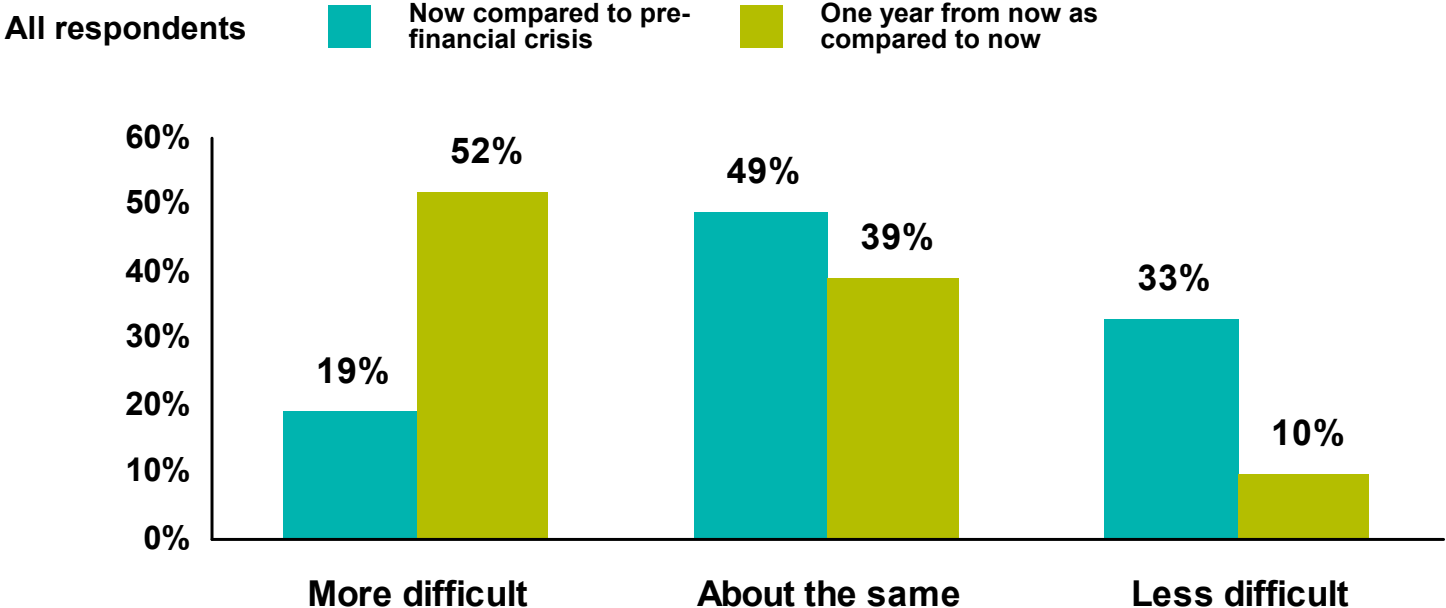
Percentage planning to hire for new positions:



Company's hiring plans this year compared to past years are:

Significantly increased/accelerated	3%	7%	2%	2%	5%	1%
Increased/accelerated	20%	40%	18%	14%	27%	16%
Typical, on par with past years	39%	36%	48%	39%	40%	33%
Reduced/slowed	29%	13%	27%	32%	13%	42%
Significantly reduced/slowed	9%	4%	5%	13%	15%	8%

Companies expect retaining key talent to get more difficult, especially in Asia-Pacific



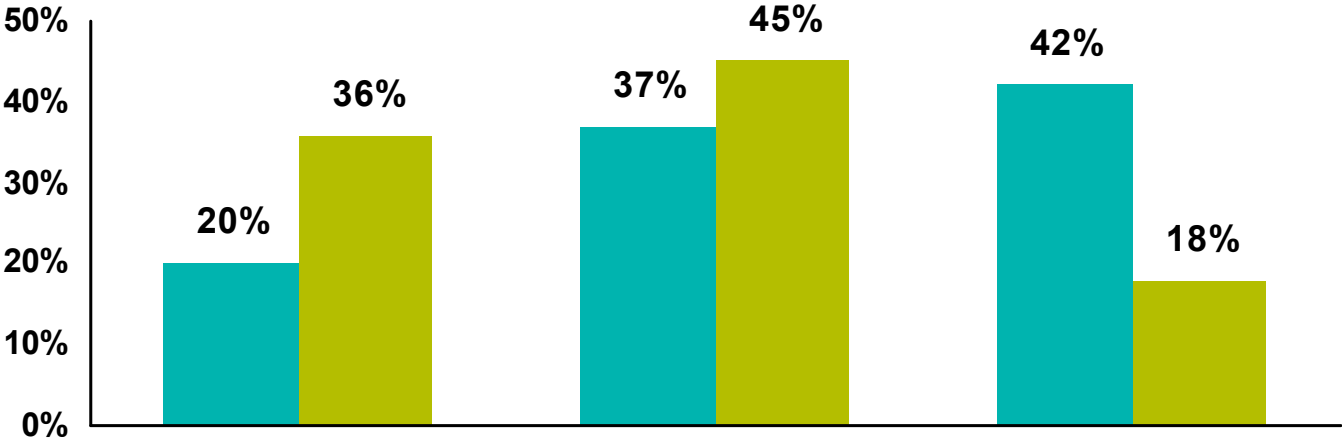
	More difficult		About the same		Less difficult	
Asia-Pacific	27%	73%	57%	25%	17%	2%
Canada	18%	41%	55%	45%	27%	13%
Europe	14%	48%	47%	40%	40%	12%
Latin America	30%	51%	47%	39%	22%	9%
United States	15%	51%	44%	39%	41%	9%



Current Landscape of Total Rewards

Total labor costs anticipated to hold constant or increase in the next year

All respondents ■ Now compared to pre-financial crisis ■ One year from now as compared to now



	Higher		About the same		Lower	
Asia-Pacific	29%	70%	44%	26%	28%	4%
Canada	26%	40%	33%	45%	41%	15%
Europe	18%	27%	39%	49%	44%	24%
Latin America	21%	29%	45%	54%	33%	17%
United States	15%	34%	31%	45%	55%	20%

Merit increase budgets show a small uptick for 2010

	2008			2009			2010 (forecast)		
	Including 0% increases	Excluding 0% increases	% giving 0% increase	Including 0% increases	Excluding 0% increases	% giving 0% increase	Including 0% increases	Excluding 0% increases	% giving 0% increase
All respondents	3.5%	3.5%	6%	2.0%	3.0%	32%	2.9%	3.0%	12%
Asia-Pacific	5.0%	5.0%	2%	3.0%	3.0%	28%	4.4%	4.5%	2%
Canada	3.0%	3.3%	7%	2.0%	2.5%	29%	2.5%	2.5%	14%
Europe	3.0%	3.0%	4%	2.0%	2.2%	29%	2.0%	2.0%	16%
Latin America	4.1%	4.5%	11%	3.3%	4.5%	26%	4.0%	4.0%	10%
United States	3.4%	3.5%	6%	1.7%	2.5%	42%	2.8%	3.0%	11%

All numbers are medians.

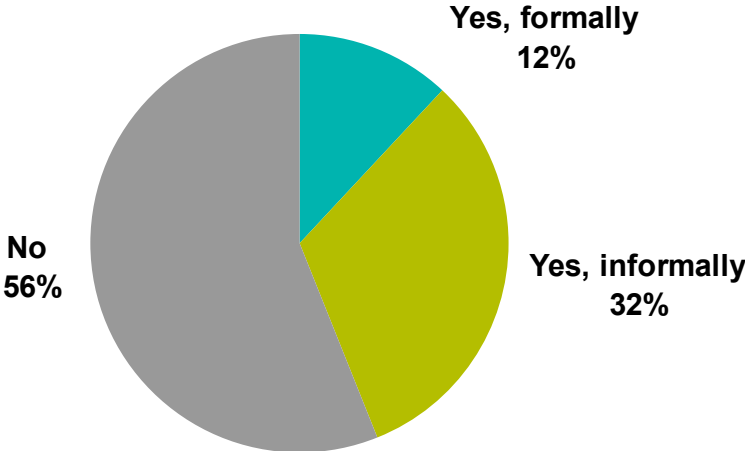
Bonus plan funding levels as a percentage of target are expected to rebound

	2008	2009	2010 (forecast)
All respondents	80%	65%	95%
Asia-Pacific	80%	45%	70%
Canada	90%	94%	100%
Europe	65%	38%	50%
Latin America	100%	90%	100%
United States	80%	60%	100%

All numbers are medians.

Use of recognition plans to increase

Companies that have encouraged managers to make increased use of recognition plans in light of cutbacks on other reward programs because of the recession.

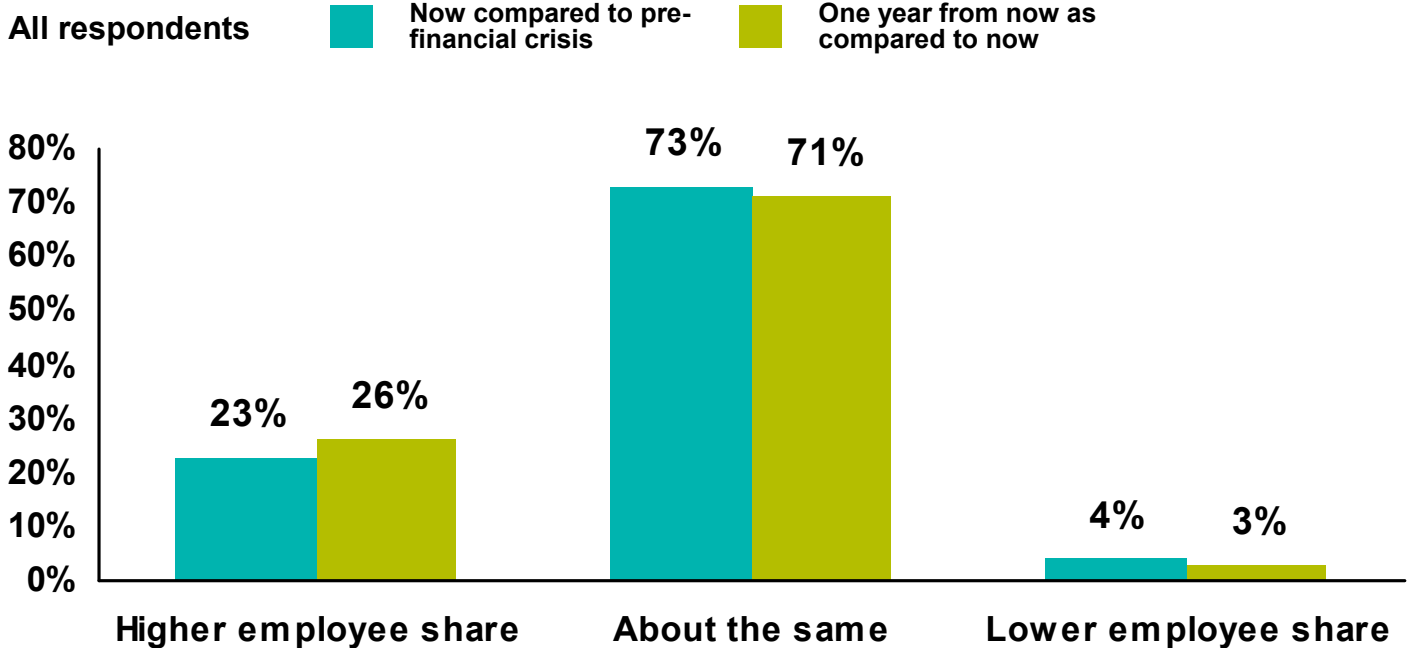


Do you expect managers to continue the increased use of recognition after other reward programs have been restored?	
Yes	64%
No	1%
Don't know	35%

To what extent have managers increased the use of recognition plans compared to before program cuts began?	
Not at all	3%
To a small extent	43%
To a moderate extent	45%
To a significant extent	7%
To a great extent	1%

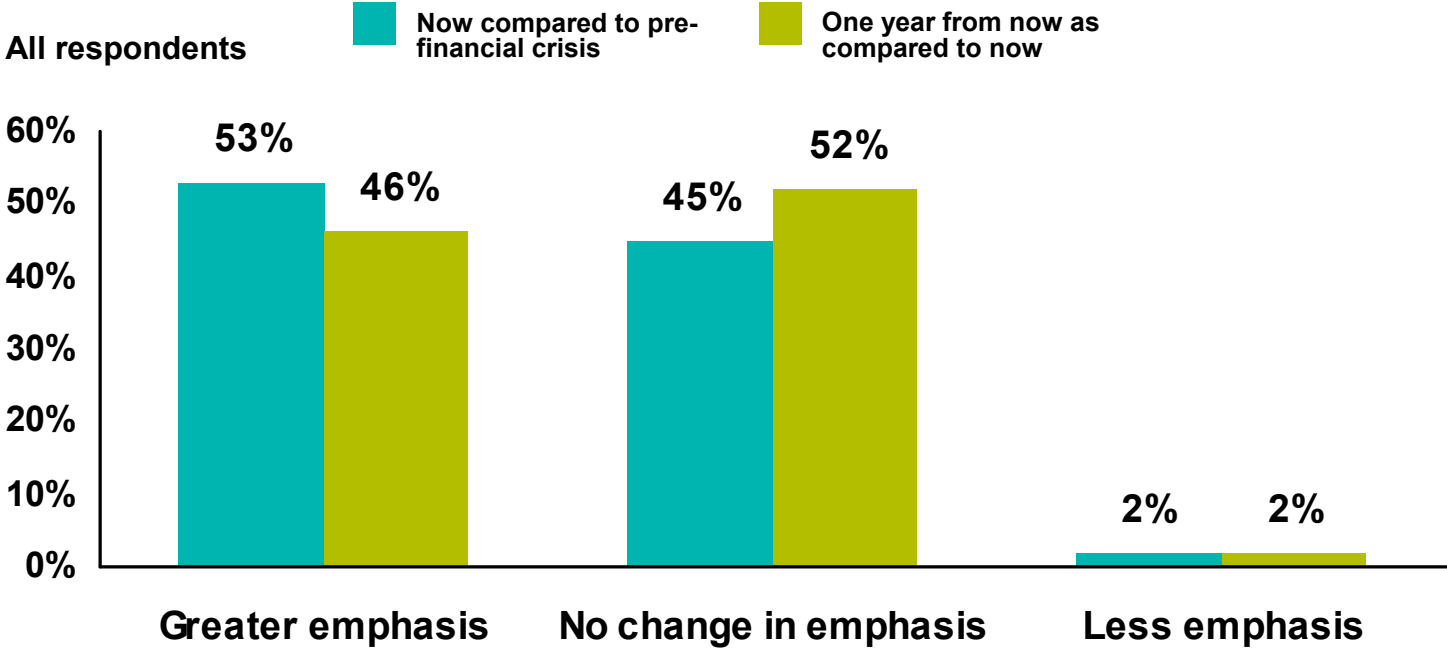
* As reported in the Effect of the Economic Crisis on HR Programs – Update: August 2009

Most companies expect employees' share of health care coverage costs to remain the same



	Higher employee share	One year from now as compared to now	About the same	Now compared to pre-financial crisis	Lower employee share	One year from now as compared to now
Asia-Pacific	30%	40%	67%	53%	4%	7%
Canada	20%	22%	73%	75%	7%	3%
Europe	15%	11%	85%	87%	0%	2%
Latin America	25%	25%	70%	70%	6%	5%
United States	32%	38%	64%	60%	5%	3%

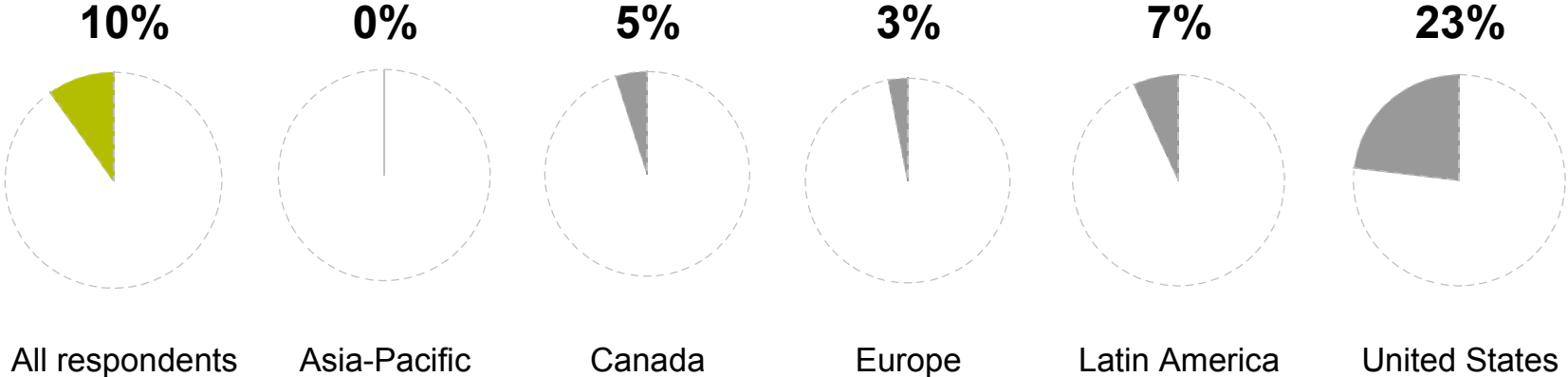
Controlling/reducing employee benefit costs will continue to receive greater emphasis than before the financial crisis



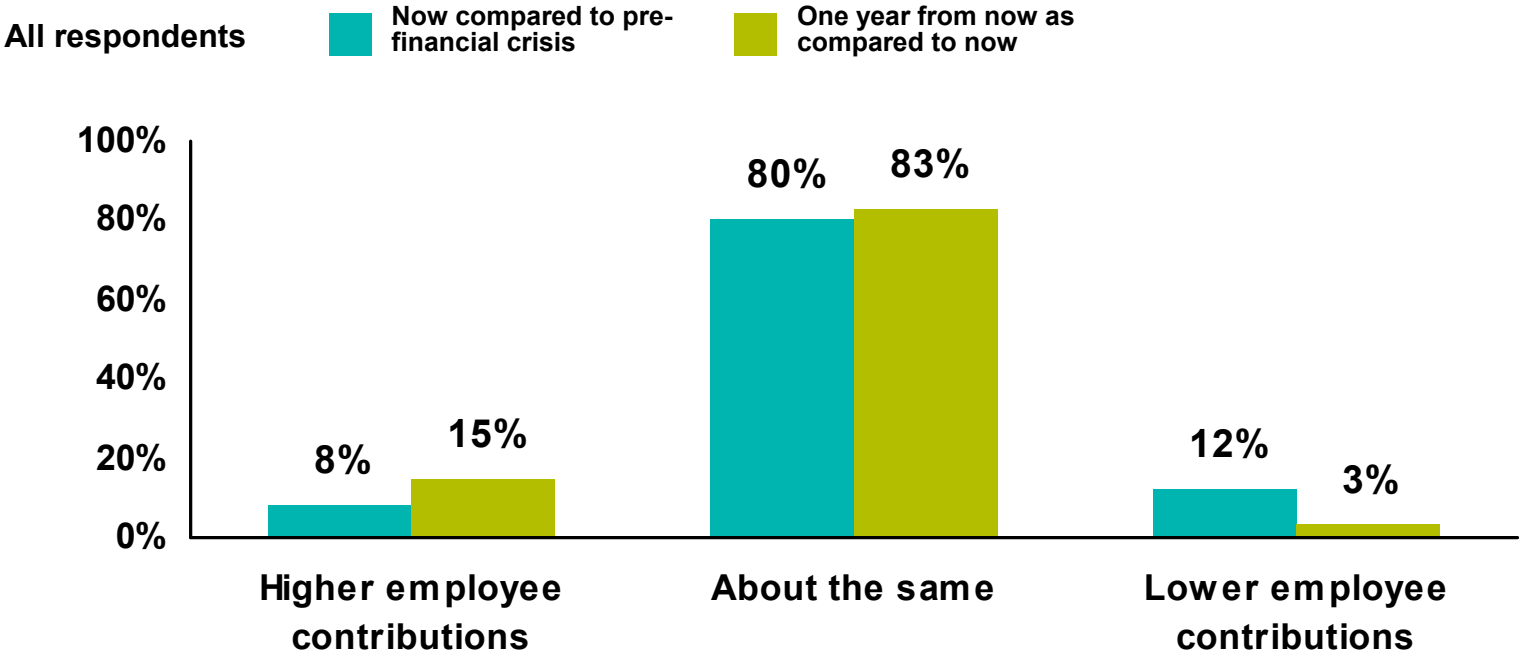
	Greater emphasis		No change in emphasis		Less emphasis	
Asia-Pacific	42%	46%	56%	55%	2%	0%
Canada	51%	38%	48%	60%	1%	1%
Europe	58%	45%	41%	53%	1%	2%
Latin America	50%	45%	47%	50%	3%	5%
United States	57%	53%	42%	46%	2%	2%

Reductions in company contributions to retirement savings plans relatively rare

Percentage that reduced contributions



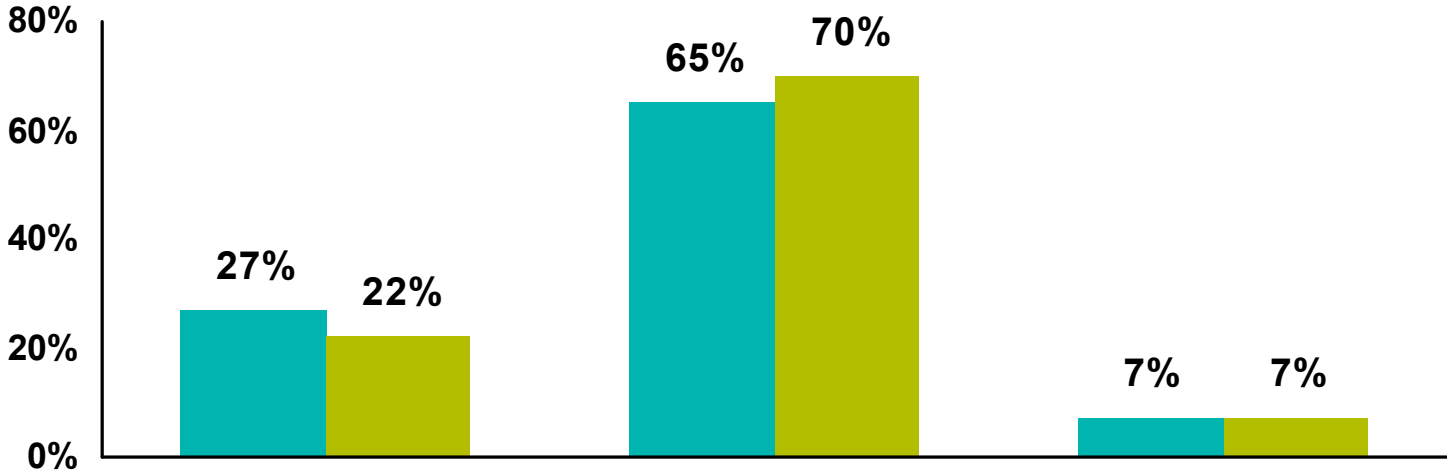
Globally, employee contributions to DC/retirement savings plans remain relatively stable



	Higher employee contributions		About the same		Lower employee contributions	
Asia-Pacific	8%	5%	89%	92%	3%	3%
Canada	9%	10%	82%	90%	10%	0%
Europe	8%	9%	92%	88%	1%	3%
Latin America	9%	21%	81%	74%	9%	4%
United States	7%	23%	63%	74%	30%	3%

A growing number of workers are postponing retirement

All respondents ■ Now compared to pre-financial crisis ■ One year from now as compared to now



	More employees		About the same		Fewer employees	
Asia-Pacific	24%	20%	69%	71%	8%	9%
Canada	33%	22%	64%	74%	3%	4%
Europe	15%	24%	74%	65%	11%	12%
Latin America	10%	8%	82%	83%	9%	9%
United States	52%	31%	45%	65%	4%	5%



Impact of Recession on The Employee Value Proposition

Your employees are cognizant of your EVP

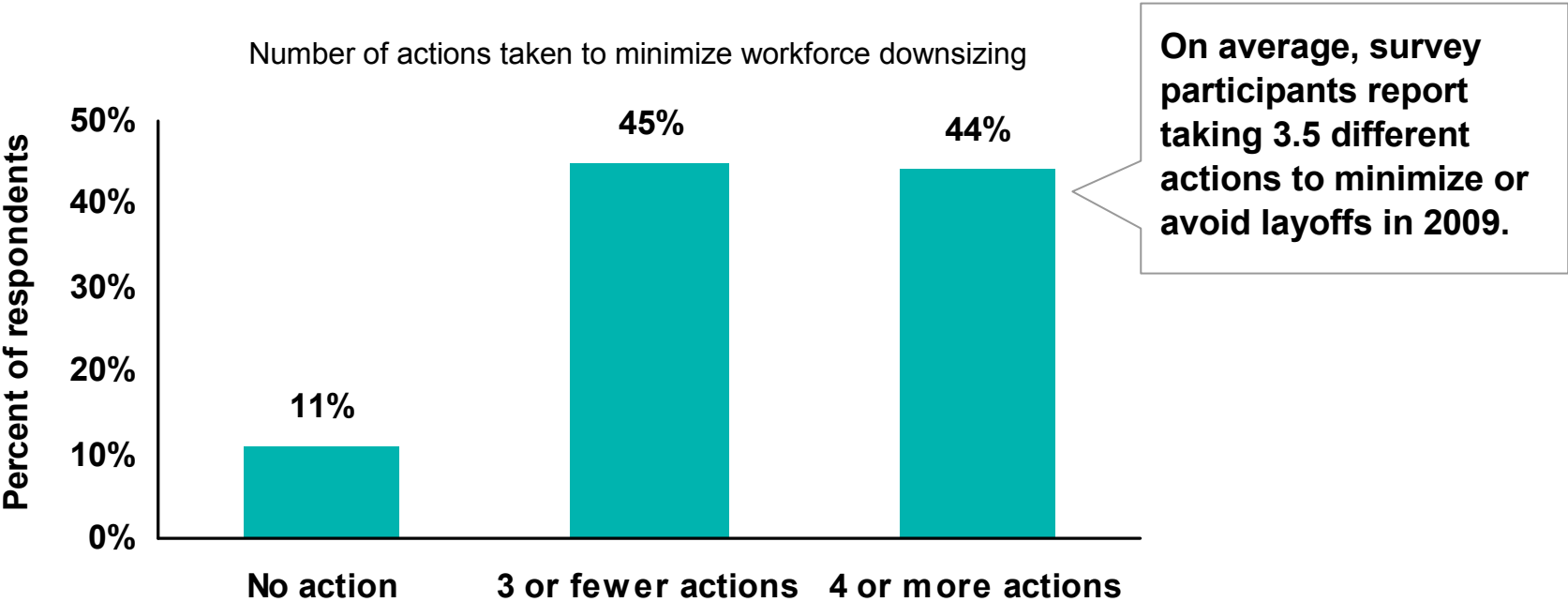
- Employers and employees have opposite perspectives on the EVP:
 - Only 28% of employers state their EVP is formal, however...
 - 74% of employees indicate their company has a formal EVP
- Only 20% of employers that took 4 or more actions related to the reward program believe changes negatively impacted the EVP
- 42% of top-performing employees believe cost-cutting and/or restructuring resulted in significant changes to their EVP

EMPLOYEE VALUE PROPOSITION (EVP)

- EVP encompasses the collective array of programs the organization offers in exchange for employment
- EVP is influenced by the organization's brand, values, culture, leadership, environment, talent and reward programs
- Employees determine the worth or value of their experience and determine whether to join, stay or give discretionary effort
- Employers can shape the organizations EVP through talent and reward program design that is aligned with both their culture and current/future employee expectations

Companies took multiple actions aimed at minimizing layoffs in 2009

- High-performing organizations took fewer actions
 - Average of 3 actions versus an average of 4 actions for other firms
 - Laid off 7% of their workforce versus 9%, on average, for other firms
- Objectives for layoffs were to maintain profitability (84%) and size staffing to reflect future demand (66%)



Restructuring and cost-cutting actions have had a adverse impact on business and employees

Changes have had an adverse impact on:

BUSINESS IMPACT	Employer	Employees in organizations who took less than 3 actions	Employees in organizations who took 4 or more actions	All employees
Quality/customer service	17%	34%	47%	41%
Productivity	36%	36%	56%	44%
EMPLOYEE EXPERIENCE				
Loyalty/commitment to the company	49%	37%	54%	47%
Ability to have a healthy balance between work and personal life	64%	36%	52%	44%
Ability to manage work-related stress	69%	42%	59%	48%
Workload	79%	57%	76%	65%

There is a large disconnect between employers and employees on the adverse impact on quality and customer service.

Top performers' satisfaction declines

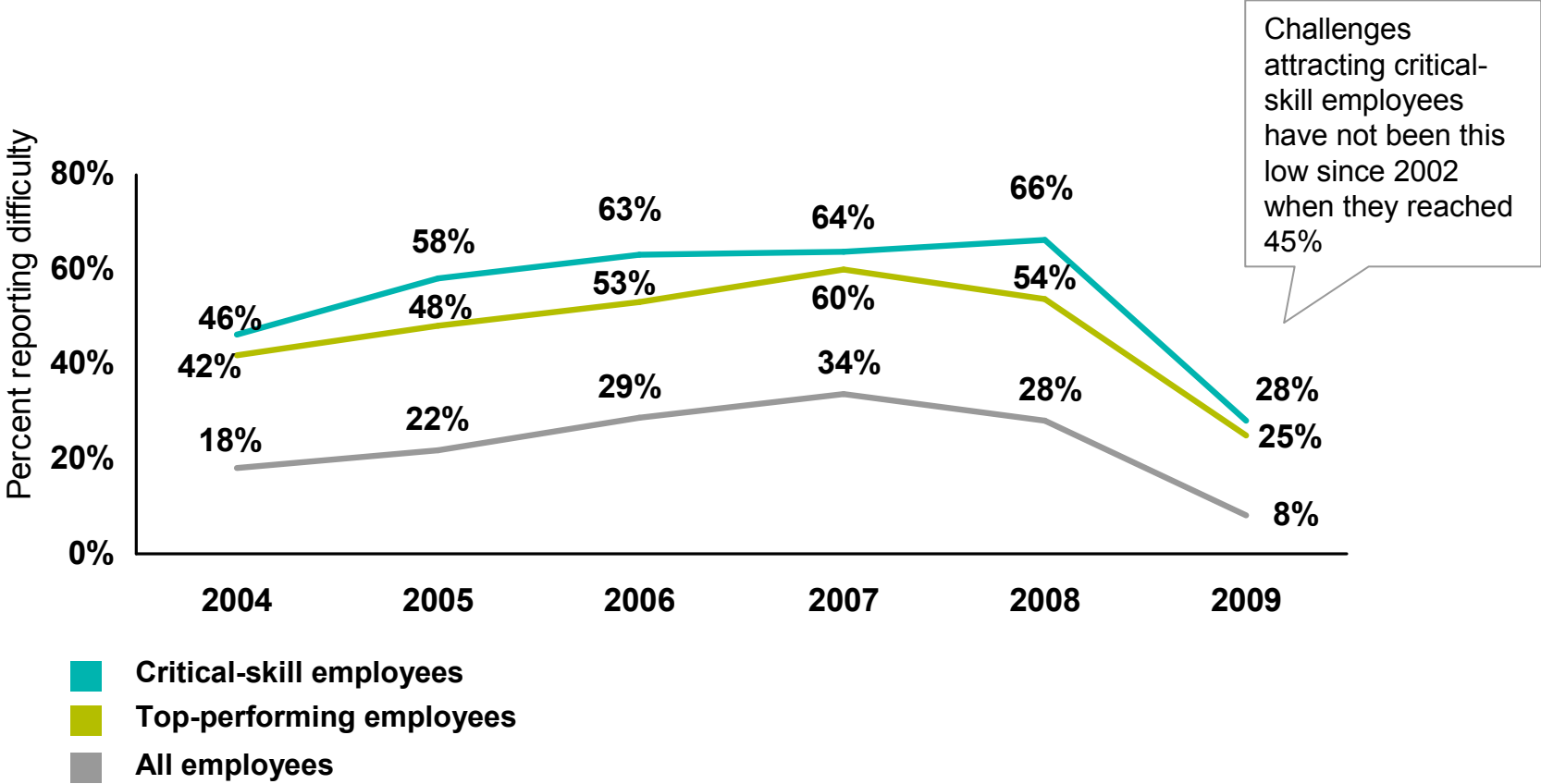
- Top performers view their company more negatively
 - 36% say company situation has worsened
 - 20% decline in recommending others take jobs at the company

Drop in top-performing employees' satisfaction with key aspects of the employment deal

	Percentage change (2009 vs 2008)
Company lives up to the employment deal	▼ -30%
Company aligns the employment deal with what it stands for in the market	▼ -31%
Satisfaction with opportunities for advancement	▼ -26%
Satisfaction with organization culture	▼ -28%
Prefer to remain with company rather than take comparable job elsewhere	▼ -14%

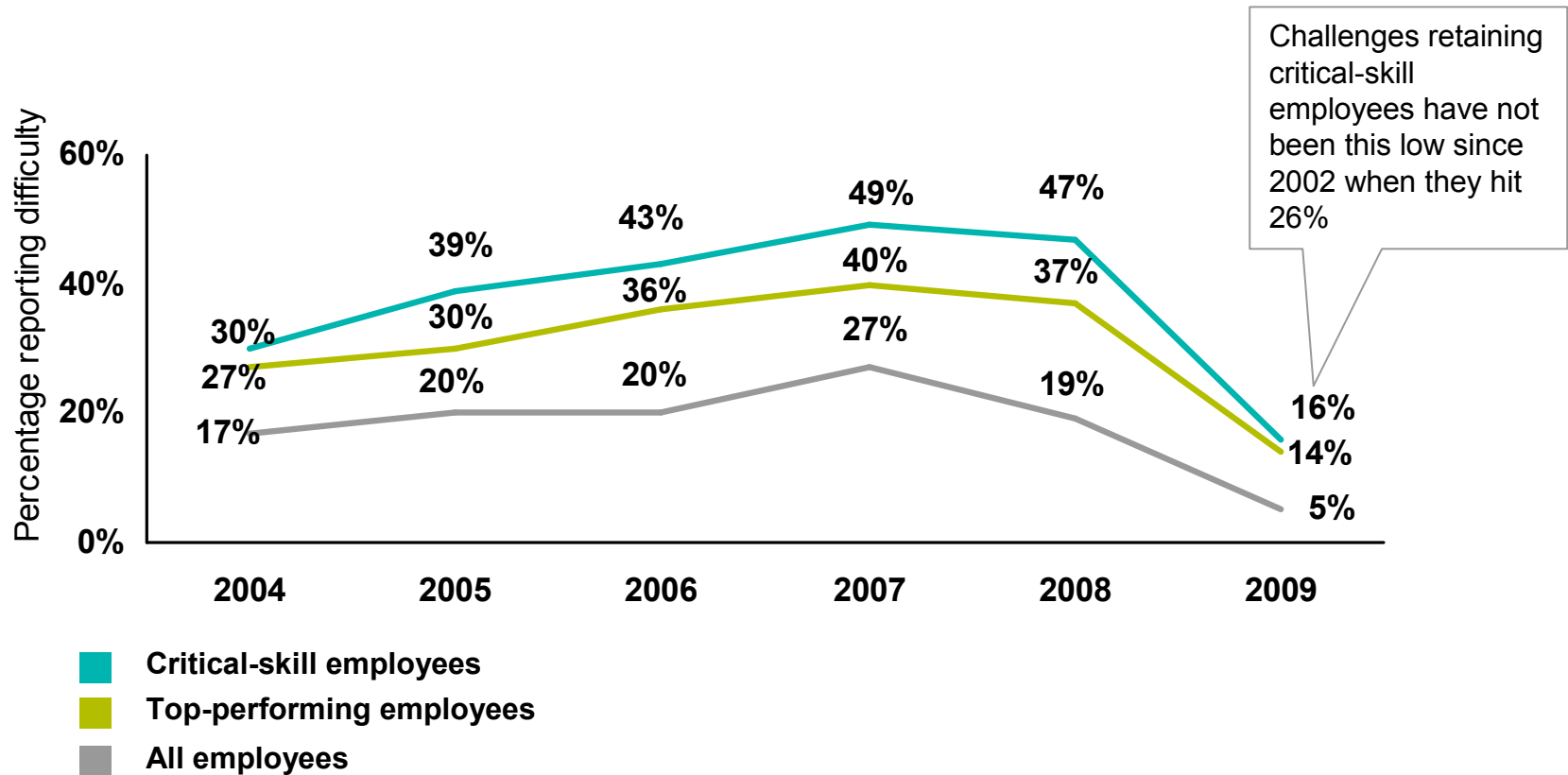
Attraction challenges reported at historic lows

Trend in difficulty attracting employees



Retention challenges are also at historic lows

Trend in difficulty retaining employees



Drivers of attraction have shifted in light of the recession

Top reasons employees join an organization (U.S.)

Employers	Top-performing employees	All employees
Employer reputation 40%	Nature of work 41%	Nature of work 37%
Company culture 30%	Job security 37%	Job security 33%
Base pay 29%	Base pay 30%	Base pay 33%
Career development opportunities 26%	Health care benefits 25%	Health care benefits 27%
Health care benefits 22%	Retirement benefits 22%	Career development opportunities 21%
		Employer reputation 21%

Drivers of retention have also shifted relative to prior years

Top reasons employees leave an organization (U.S.)

Employers	Top-performing employees	All employees
Relationship with supervisor/manager 43%	Base pay 35%	Stress levels 38%
Base pay 39%	Stress levels 31%	Base pay 32%
Career development opportunities 39%	Promotion opportunity 29%	Promotion opportunity 23%
Promotion opportunity 35%	Work/life balance 22%	Work/life balance 23%
Work/life balance 24%	Trust/confidence in management 22%	Trust/confidence in management 23%
		Job security 23%



The Path Forward

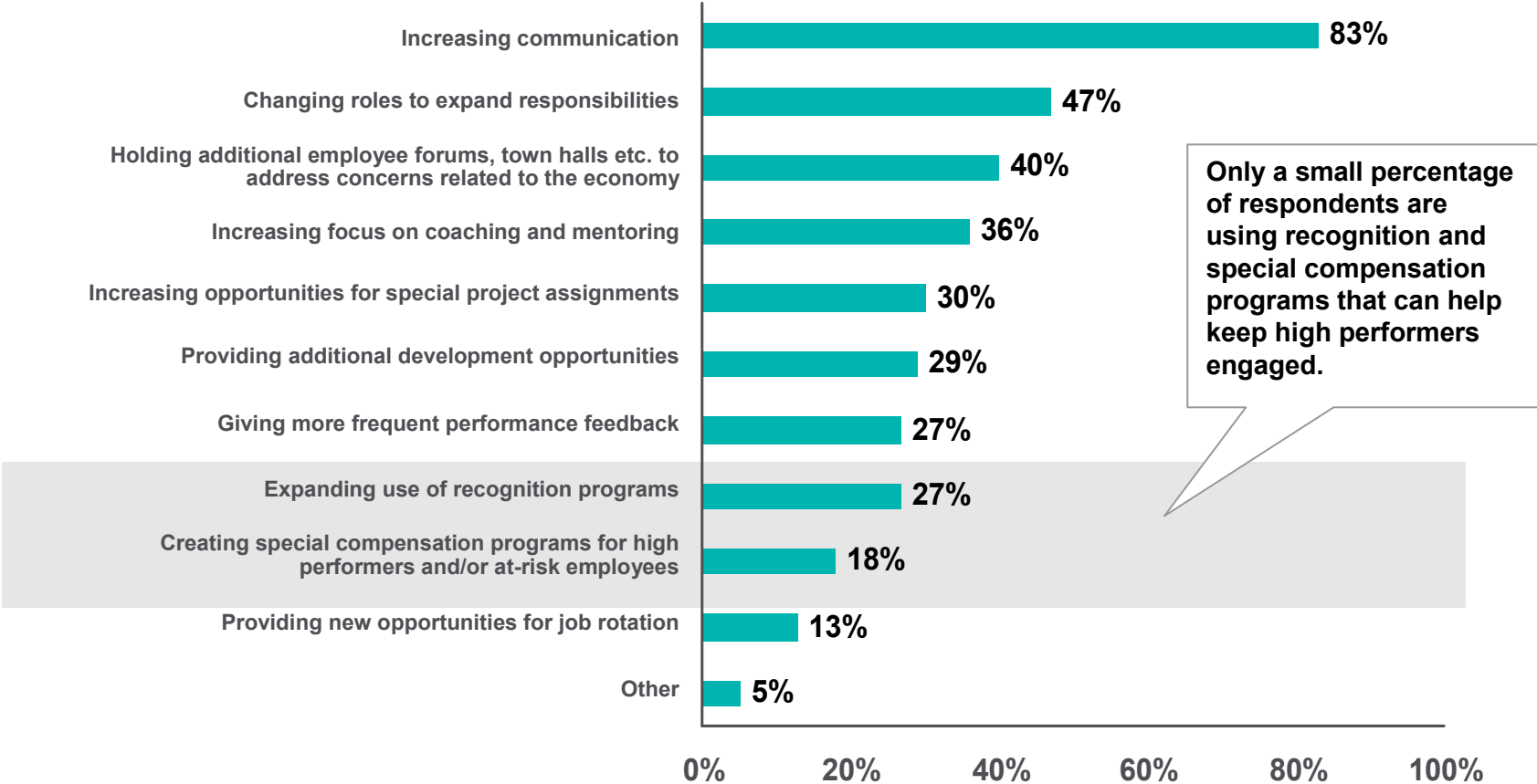
Positioning talent for economic recovery

- Significant declines in productivity and customer service exacerbated by top performer attrition
- Economic recovery will mean greater demand for key talent
- Re-engaging top performers with focus on promotion and competency development is key to retention
- Re-build thoughtfully for future success through the EVP and integrated reward and talent management programs

An Employee Value Proposition can create a compelling bond

Addressing employee engagement

Actions taken to keep employees engaged



* As reported in the Effect of the Economic Crisis on HR Programs – Update: August 2009

Five steps to improve employee engagement

1. Understand business drivers and objectives in new economic environment and implications for human capital management.
2. Redefine EVP for relevance and strategic alignment with business objectives.
3. Identify and implement changes to reward and talent management programs that the business can support:
 - Reinstatement salaries and/or salary increases as quickly as business results will allow.
 - Return merit increases to pre-recession levels and differentiate as much as possible based on performance.
 - Review STI metrics for alignment with modified business priorities.
 - Review career development and performance management programs to align with new business landscape.
 - Differentiate bonus awards based on performance
4. Promise and deliver on the EVP.
5. Establish and track EVP-related metrics to identify additional actions required.

Questions?