



June, 2010

Employee Attraction, Retention and Engagement in a Slow Recovery

Presentation to the
New Jersey Compensation Association

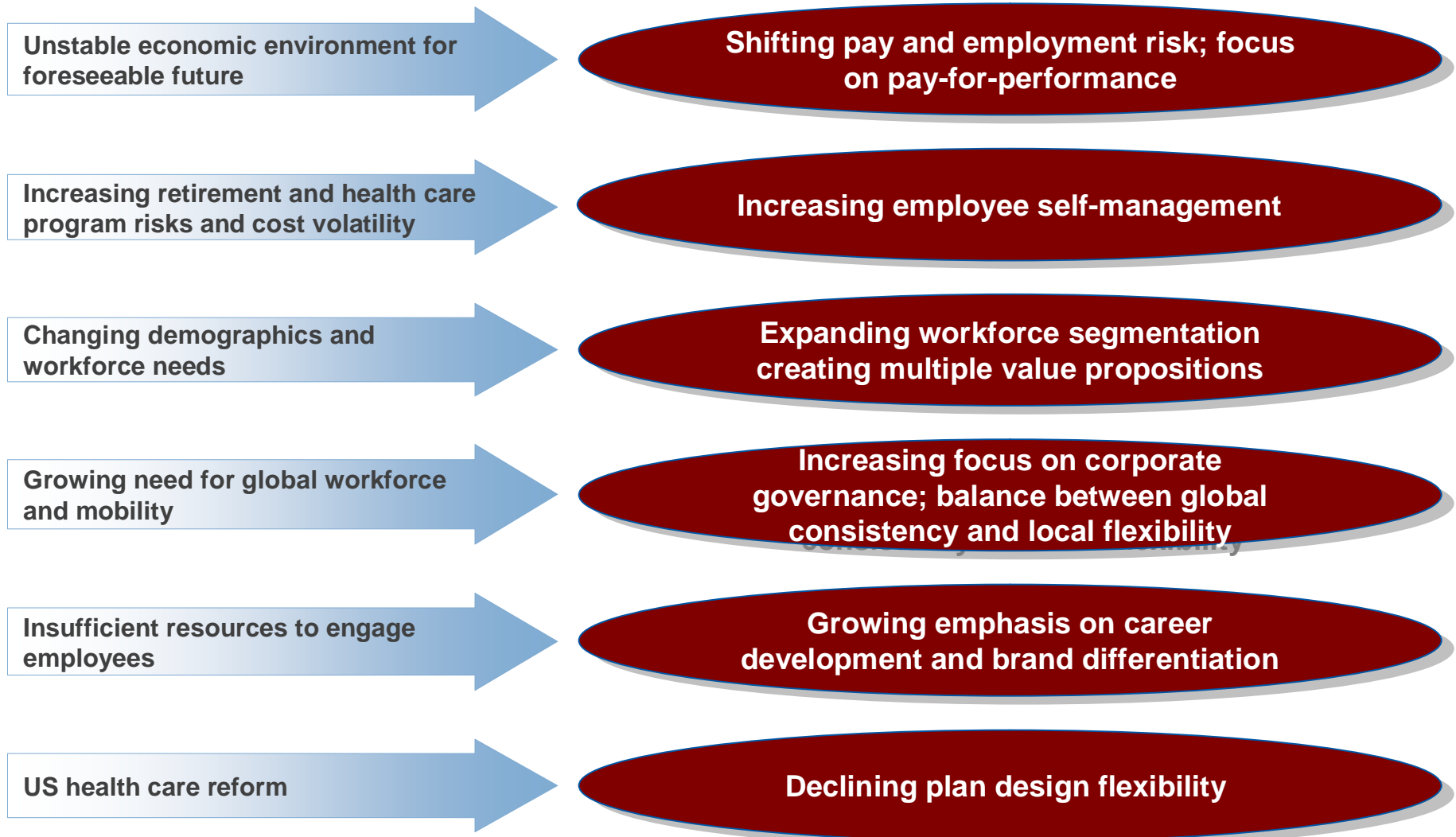
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Trends and implications resulting from today's challenges in managing human resources





Challenge of retention has given way to challenge of employee engagement

While definitions vary, we know it when we see it!



- Goes the extra mile for customers and the business
- Feels and builds a sense of community
- Embraces change; willing to take smart risks
- Resilient to short-term “dissatisfiers;” can be counted on, even in tough times
- Energizes team and others around her
- Recommends the company – both products/services and as an employer



- Does not go “above and beyond” job responsibilities
- Concerned with greatest personal advantage rather than collective interests
- Quick to leave when market rebounds
- Resists change and reluctant to take risks
- Withholds discretionary effort
- Mistrusts management and drains their energy
- Becomes a contagious virus!



Mercer survey

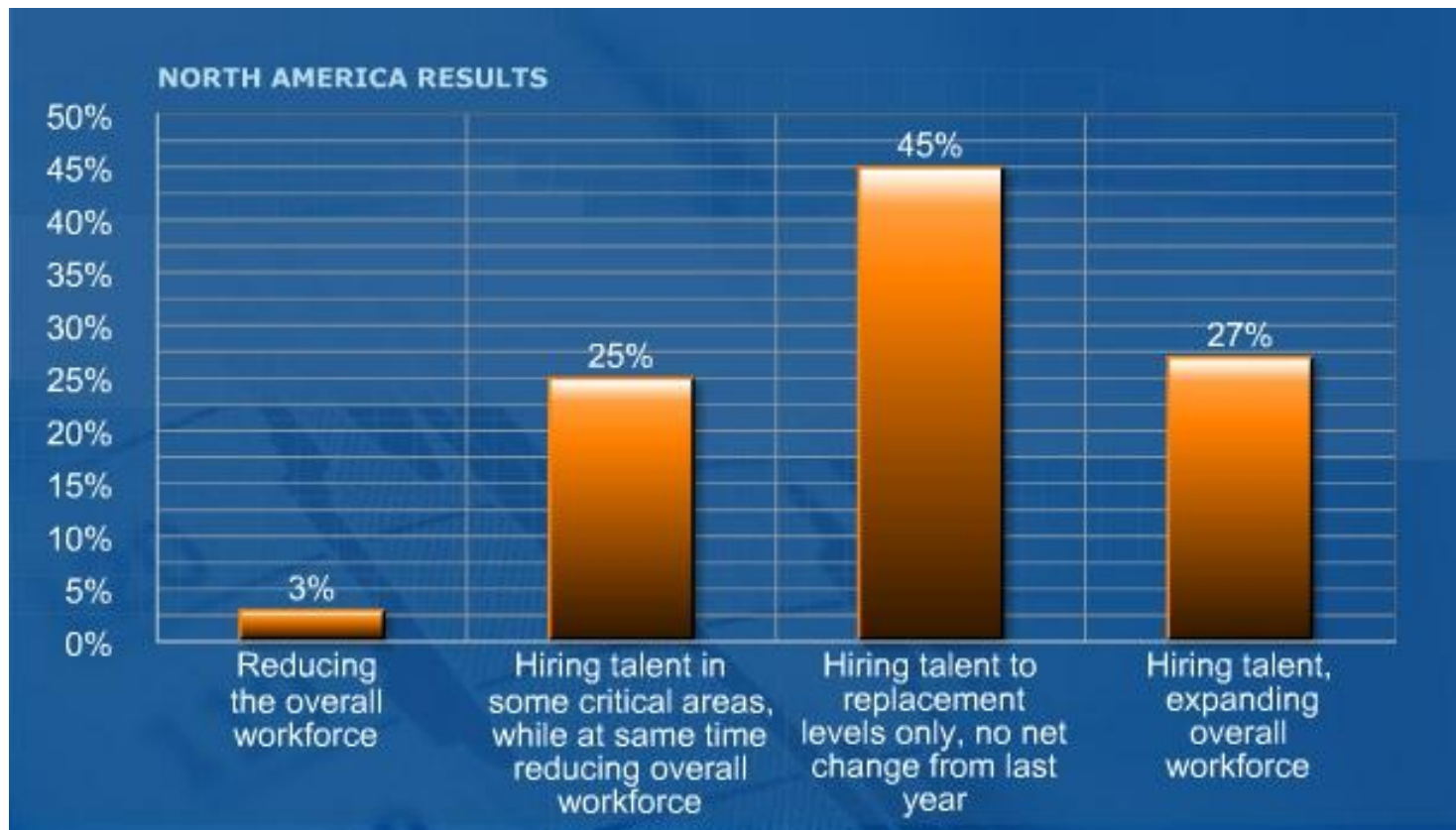
Employee Attraction, Retention and Engagement in a Slow Recovery

- Organizations asking ---
 - *How do we foster employee focus and performance in a climate of fear and uncertainty?*
 - *How do we treat employees now to ensure we retain higher performers when times get better?*
 - *When the economy improves, will there be another talent war due to pent up demand on the part of both employees and employers?*
- In April 2010, Mercer surveyed approximately 320 U.S. and Canadian organizations to understand:
 - *Talent and reward challenges faced in this time of slow recovery*
 - *Tactics being used to promote employee attraction, retention and engagement*



2010 talent strategy

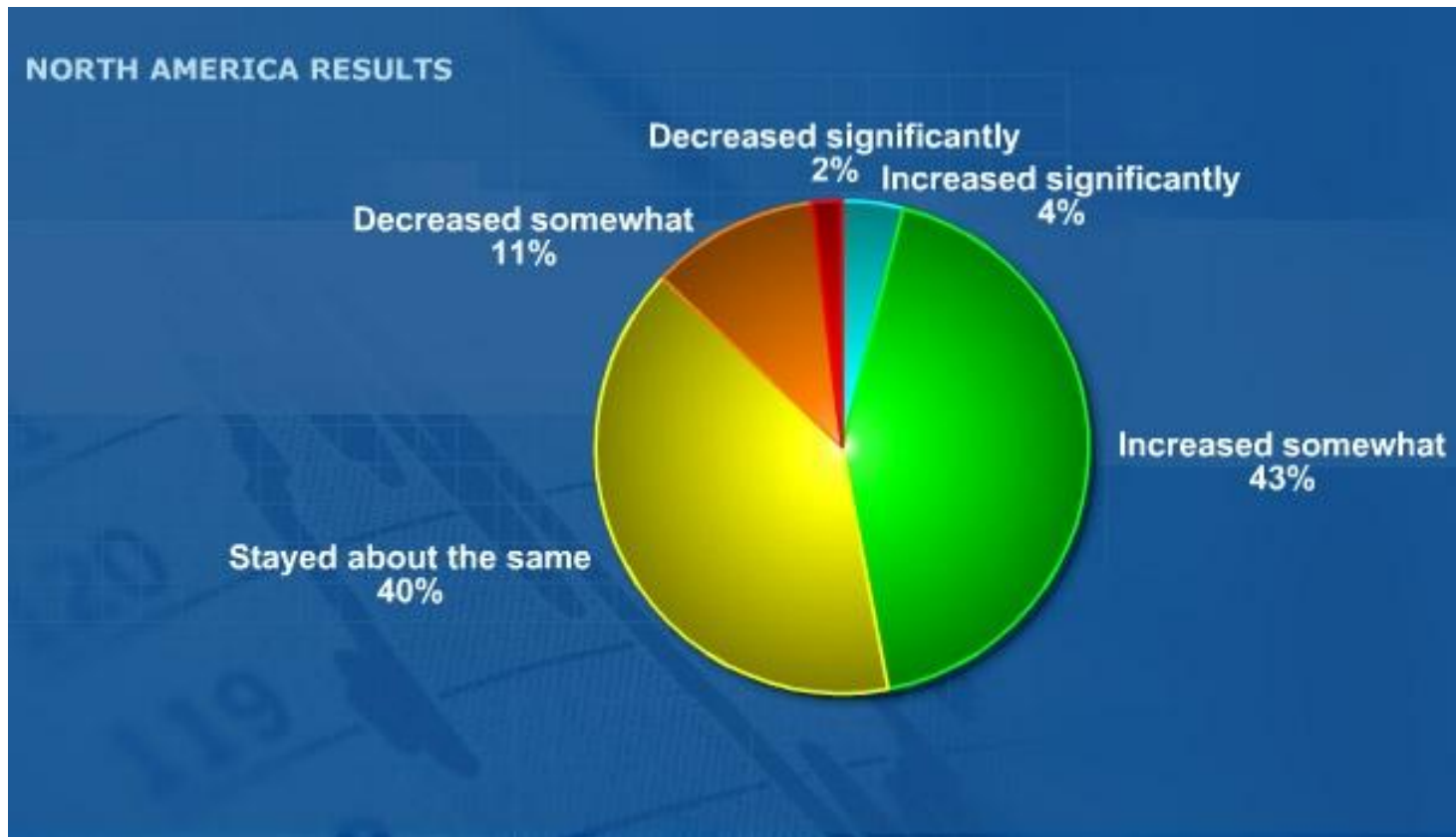
- Workforce expansion on rise, but cautious optimism prevails
- More firms hiring/expanding workforce; fewer instituting broad-based reductions
- One-quarter hiring for critical areas only, amid select staff reductions





Employee engagement

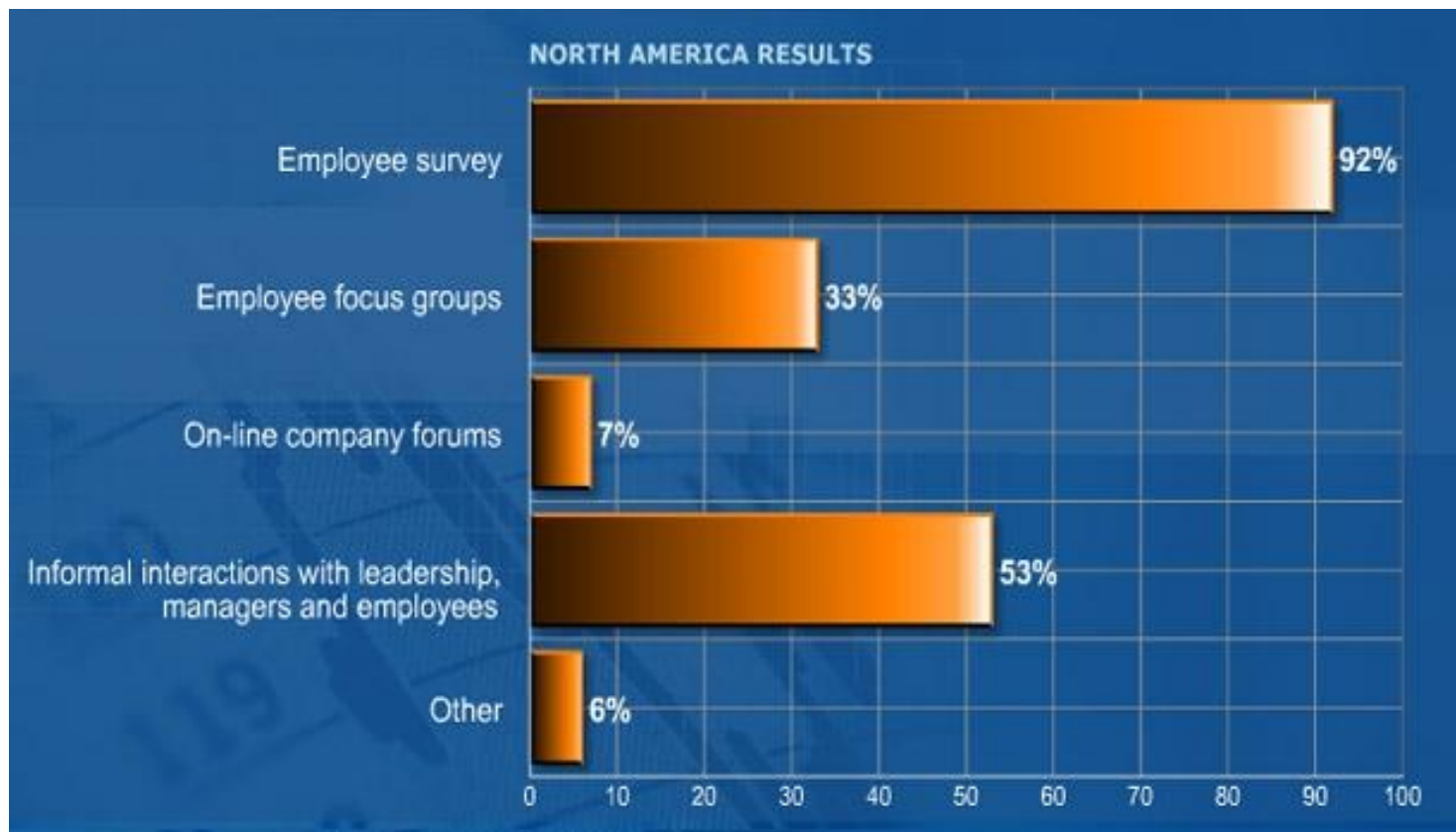
- Almost half report strengthened employee engagement over past 12-18 months
- Fewer firms (13%) indicate declining engagement
- May be due in part to creative reward/talent programs adopted during downturn, combined with employees' desire to preserve jobs





Approaches used to assess employee engagement

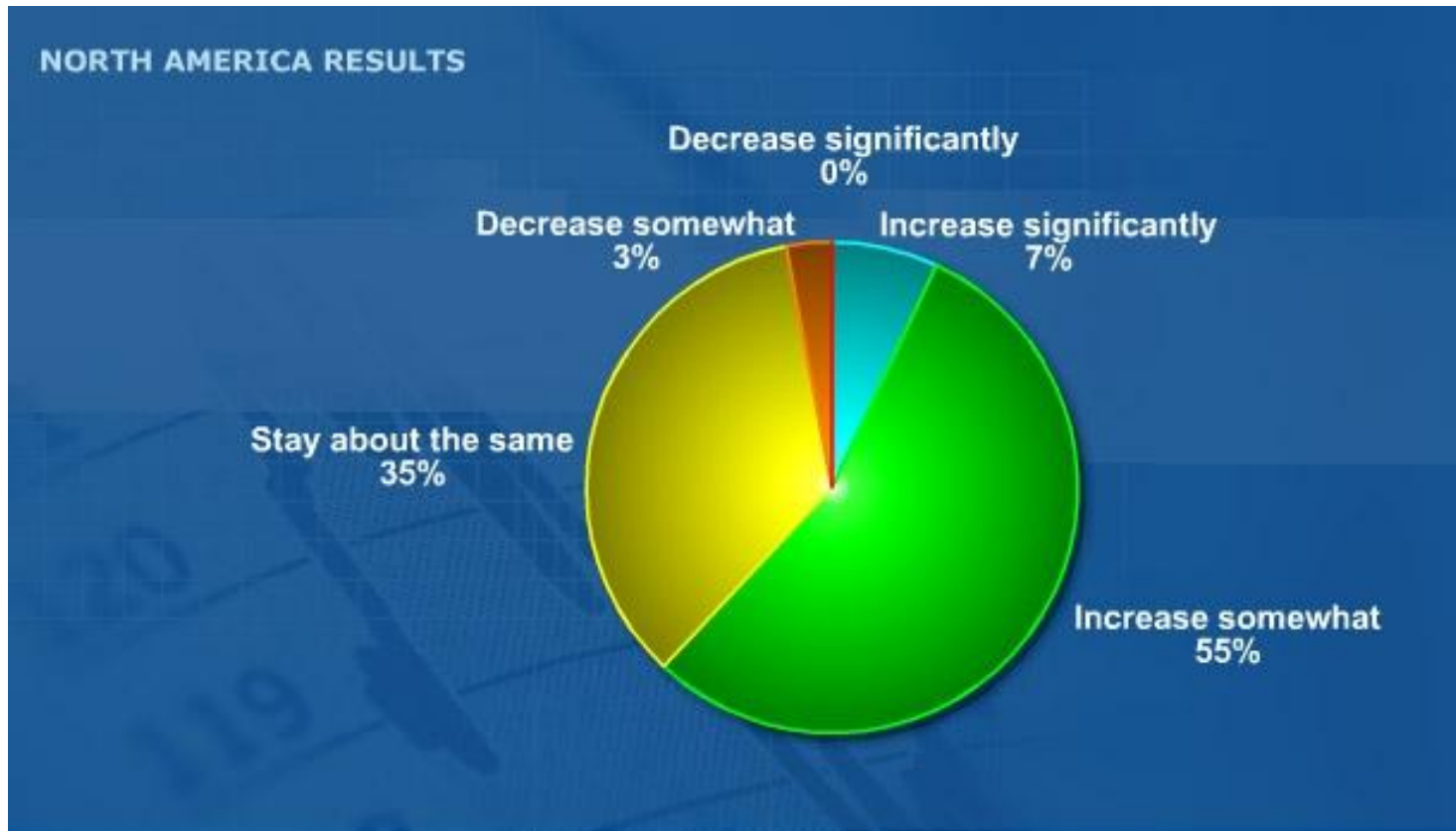
- Employee surveys most prevalent approach
- One half assess engagement via informal interactions with leaders, managers, employees





Future voluntary turnover projections

- Despite perception of increased employee engagement, concerns about turnover prevail
- Over 60% believe voluntary turnover will increase as job market and economy recovers





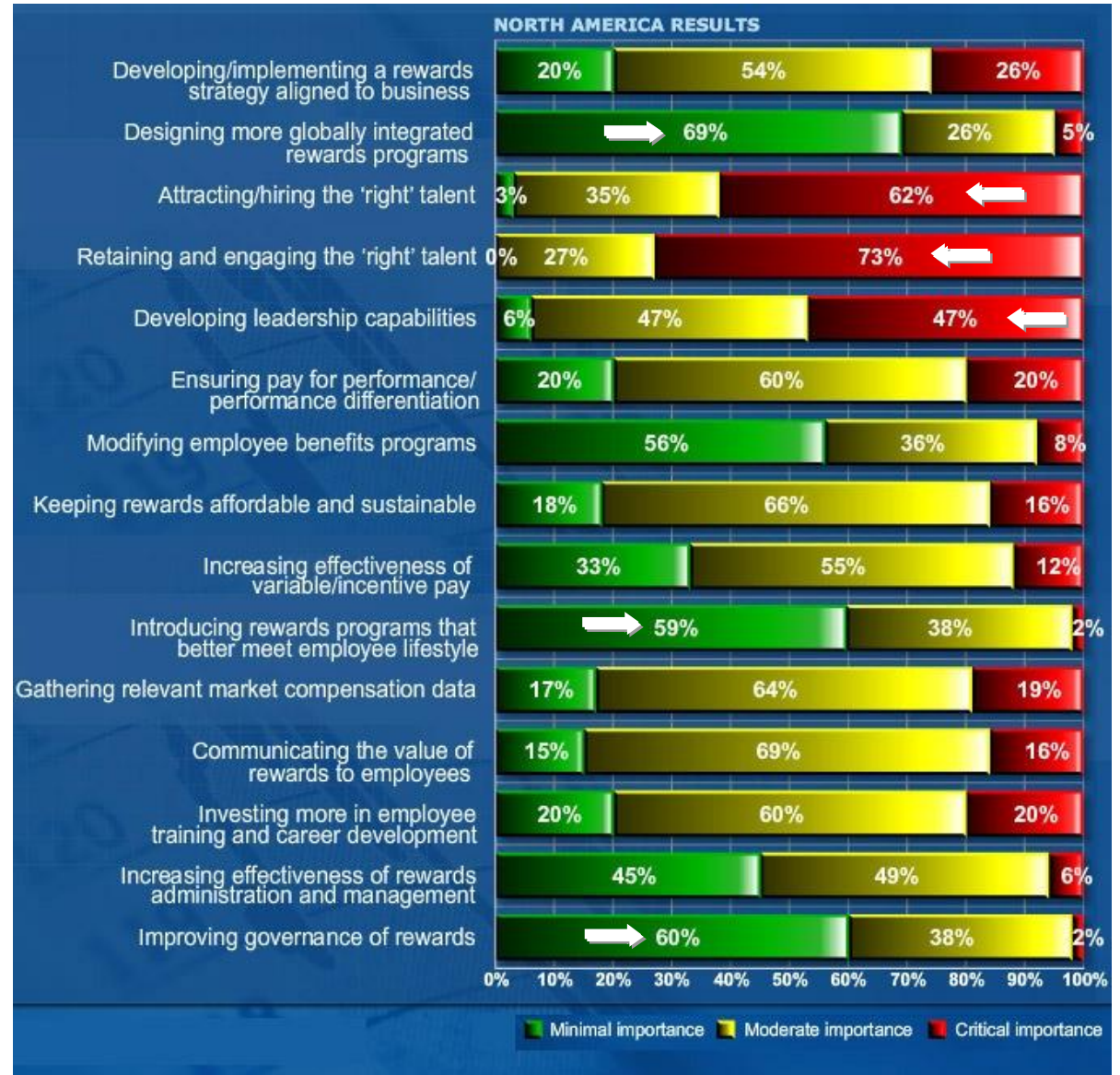
Talent and reward challenges over next 12 months

■ Most critical challenges:

- Retaining/engaging right talent
- Ability to attract and hire
- Leadership capabilities.

■ Less important challenges

- Globally integrated reward programs
- Meeting employee lifestyle needs
- Reward governance



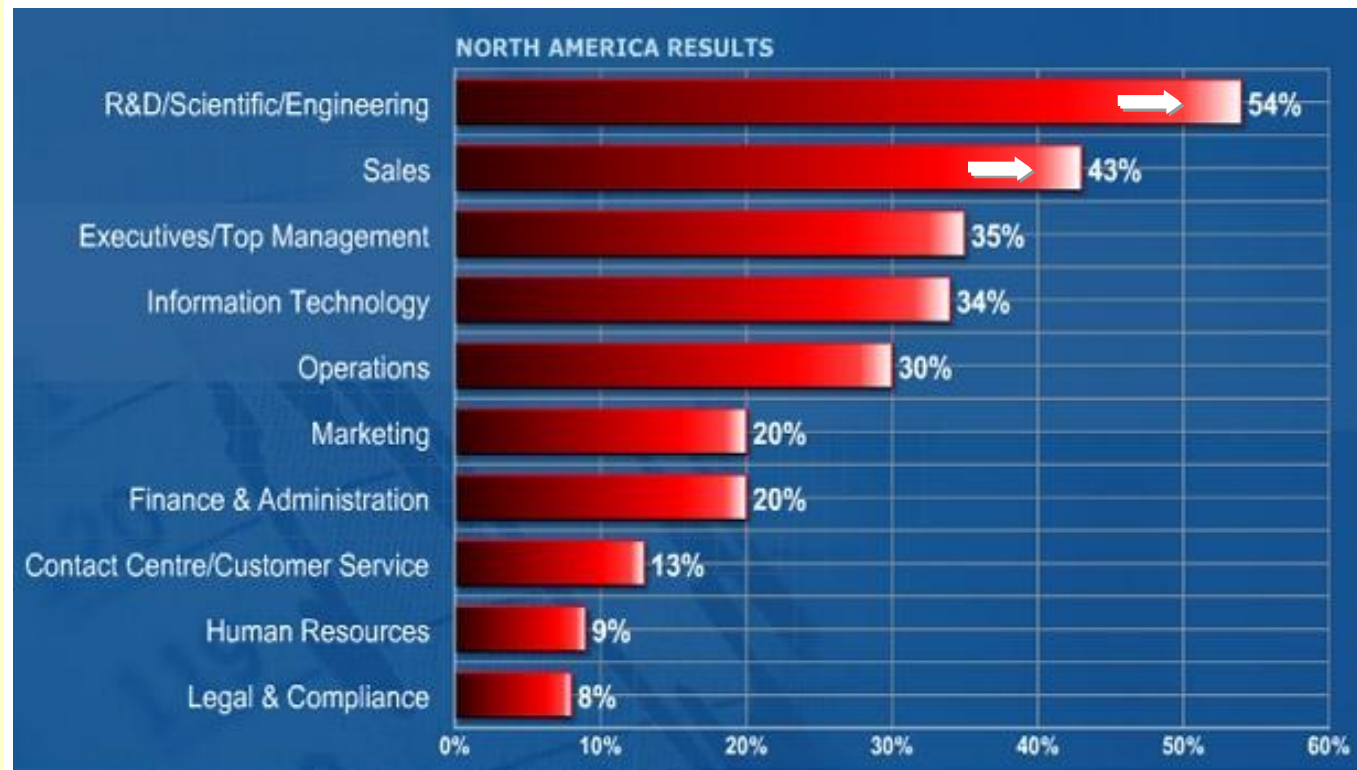


2010 hot jobs

- R&D/Scientific Engineering and Sales roles -- top two “hot jobs,”
- Followed by Information Technology and Executives/Top Management

Roles most in demand by industry:

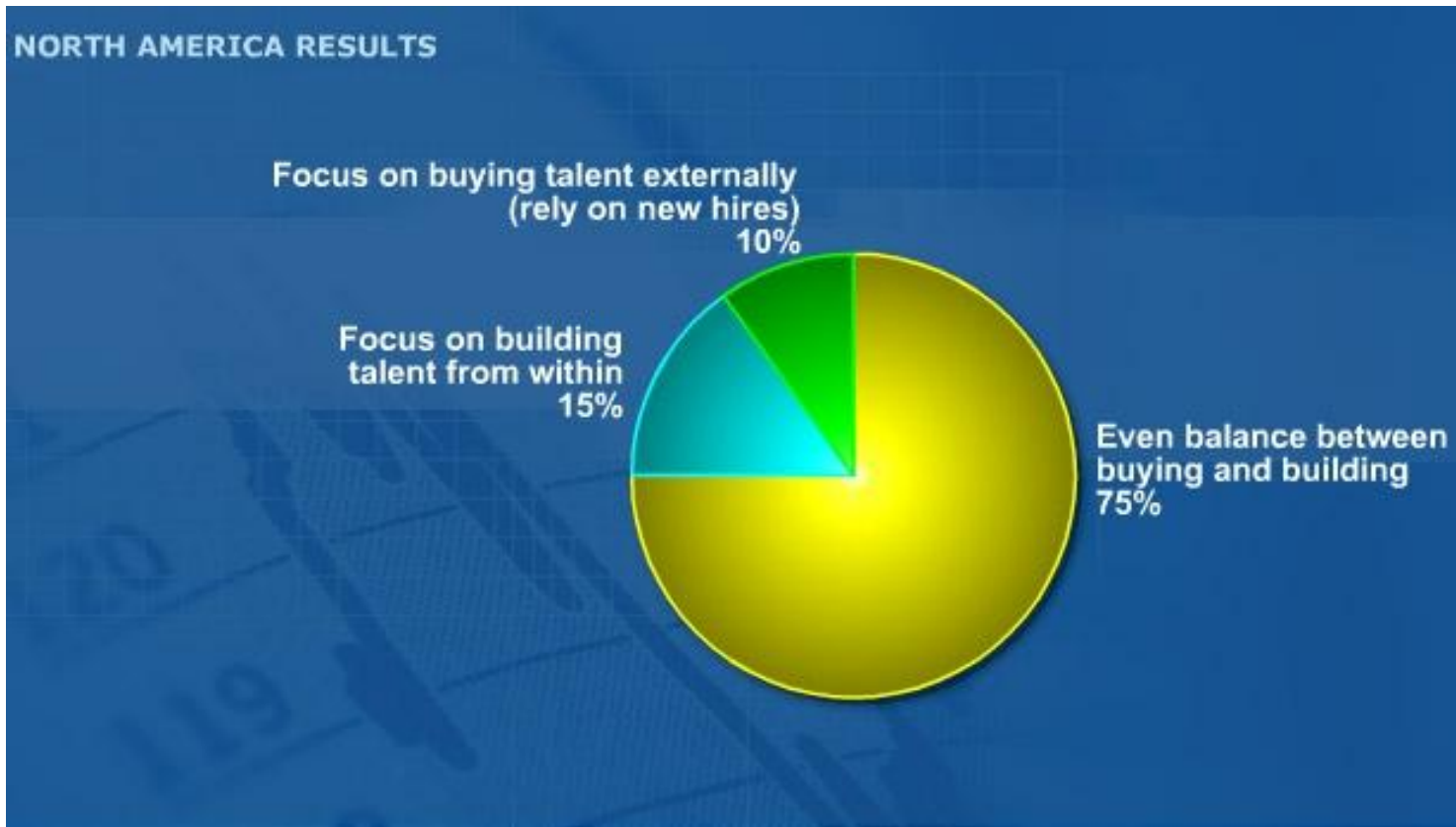
- Sales
 - *High tech/telecomm*
 - *Finance/banking*
- R&D/scientific/engineering
 - *Energy/mining/utilities*
 - *Manufacturing*
 - *High tech/telecomm*
- IT
 - *Insurance*
- Operations
 - *Energy/mining utilities*
 - *Non-durable manufacturing*
- Executives
 - *Non-durable manufacturing*
 - *Not-for-profits*





“Buy” vs. “build” talent approach

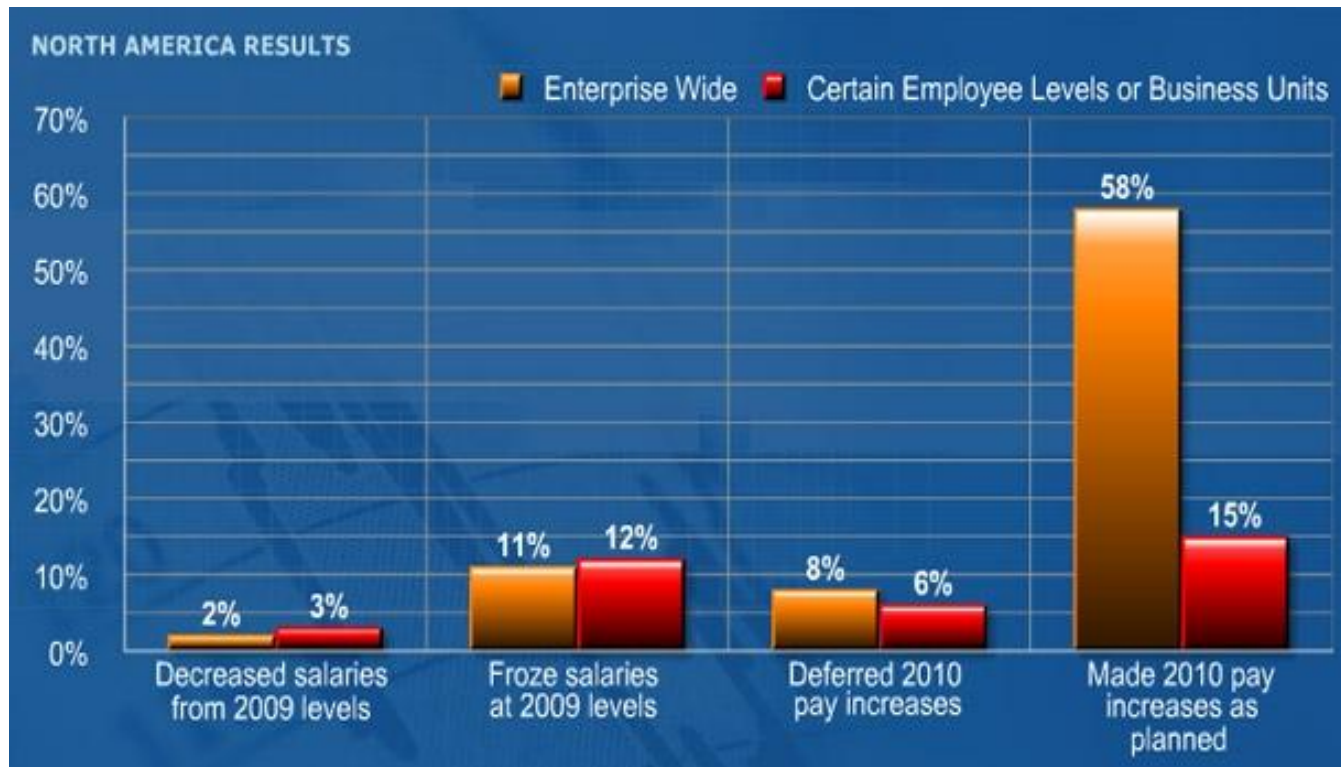
- Most firms have even balance between “buying” externally and “building” from within
- However, trends to build internally are more prevalent than relying solely on new hires





2010 merit increases

- 2010 pay increases are back for many, but freezes are still in effect for some
- Almost 60% made 2010 merit increases on enterprise wide basis; another 15% planning increases for select workforce segments
- 11% have enterprise-wide freeze in effect; 12% maintaining freeze for certain groups only
- Few (2%) planned enterprise-wide pay reductions





Preliminary salary increase budgets

Mercer 2010/2011 Compensation Planning Survey

Category	2010 Average Pay Increase Budget		2011 Projected Average Pay Increase Budget (excluding zeros)
	Excluding Zeros	Including Zeros	
All Employees	2.7%	2.3%	2.9%
Consumer Goods	2.8%	2.7%	3.0%
Durable Manufacturing	2.8%	2.5%	2.9%
Energy	3.0%	2.7%	3.2%
Finance/Banking	2.6%	2.4%	2.8%
High Tech	2.8%	2.5%	3.0%
Insurance	2.6%	2.3%	2.8%
Retail/Wholesale Trade	2.6%	2.2%	2.8%
Healthcare (non-insurance)	2.5%	2.1%	2.8%
Services	2.7%	2.1%	2.9%



Historical salary increase trends

Down by about 1 percentage point since early 2000 recession

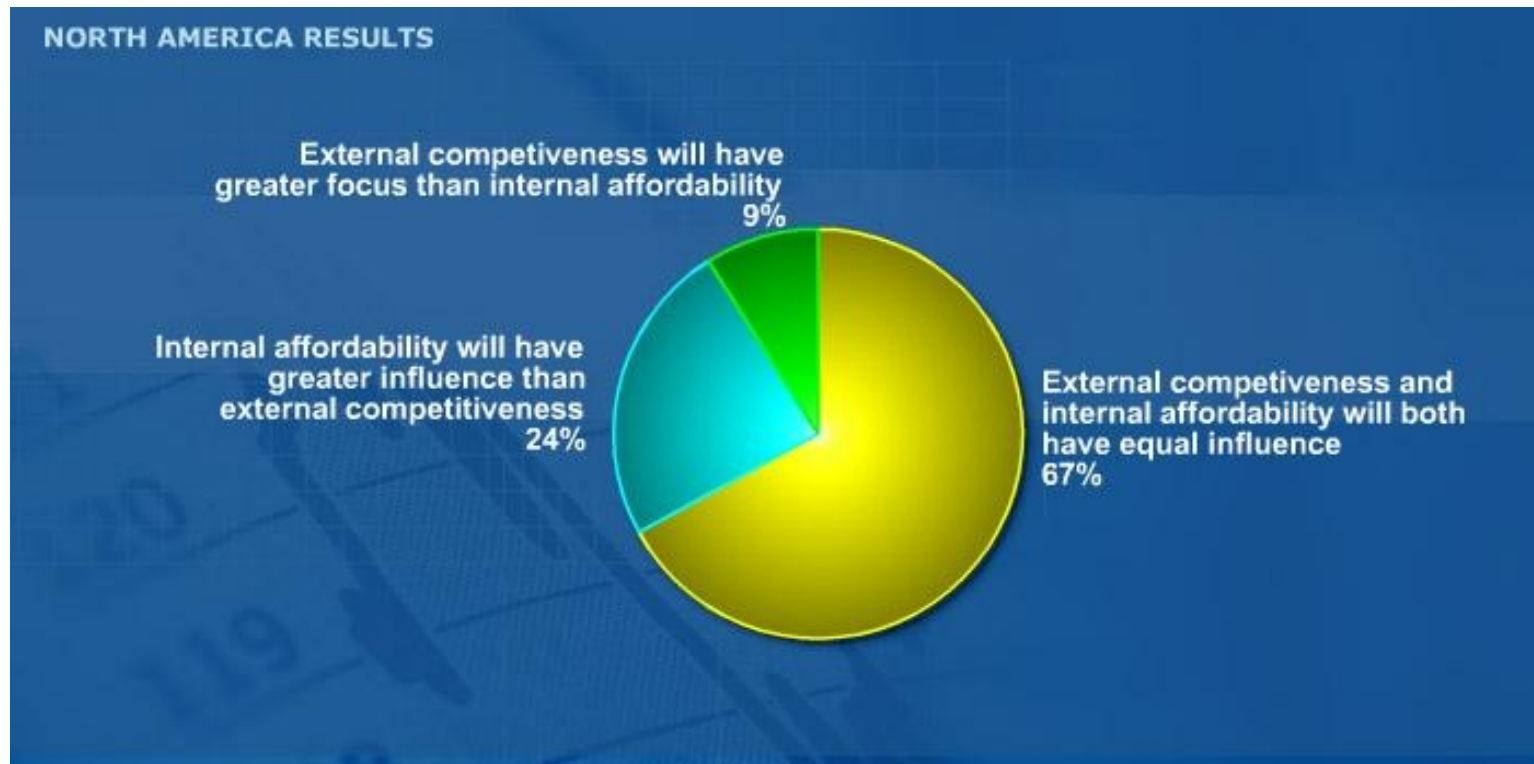


Including Zeros:
2009 = 2.1%
2010 = 2.3%



External pay competitiveness vs. internal affordability

- While talent market picks up and retention/engagement concerns are top of mind, cost pressures still loom
- When making pay decisions, most plan balance of external pay competitiveness and internal affordability
- However, one quarter will focus more on internal affordability





Short-term incentive participation and award opportunities

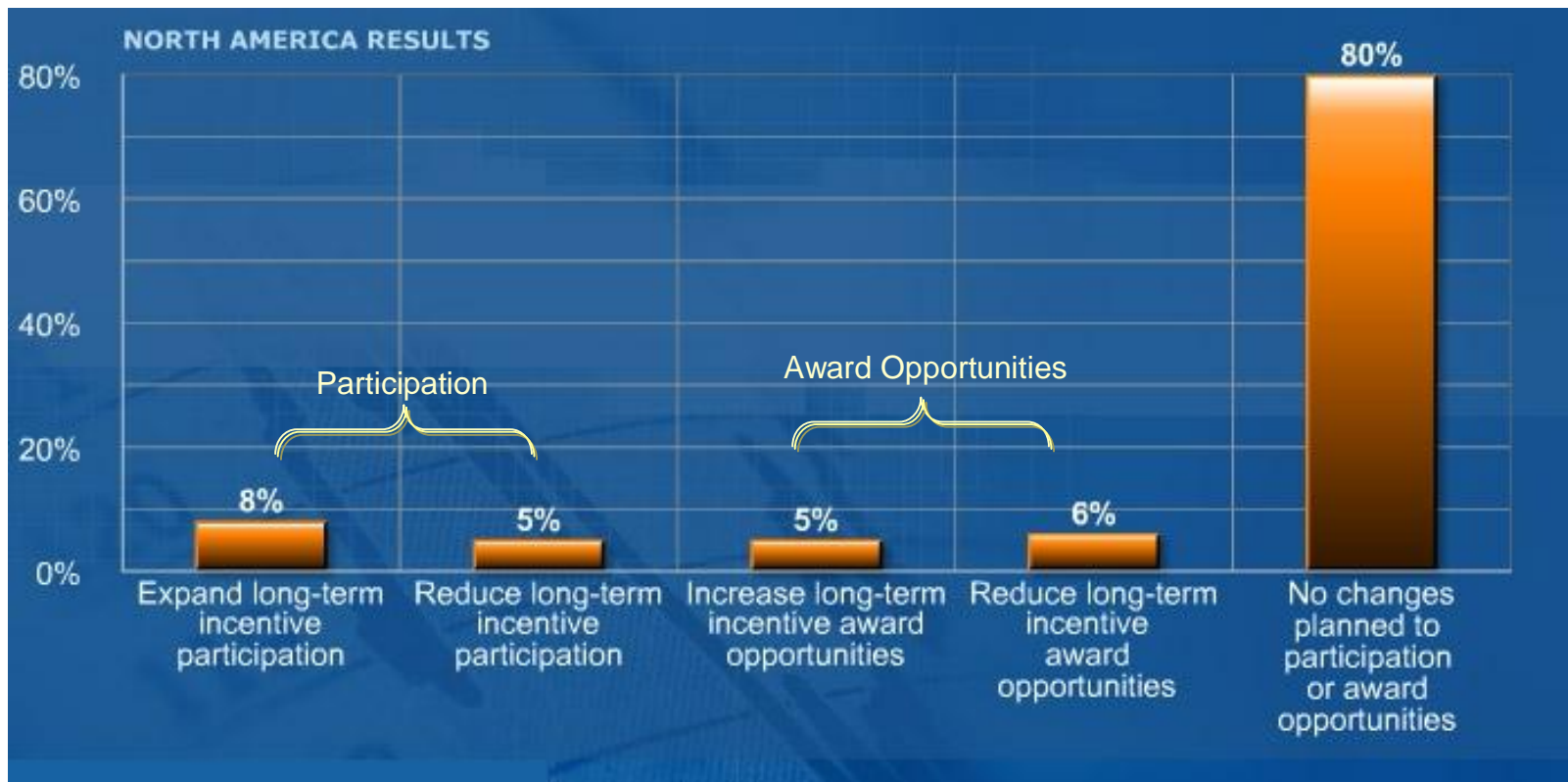
- Majority (75%) have no changes planned to participation or award opportunities
- 9% expanded participation levels, but few (3%) have reduced participation
- 17% changed award opportunities, but practices are mixed -- 9% have increased and 8% have reduced





Long-term incentive participation and award opportunities

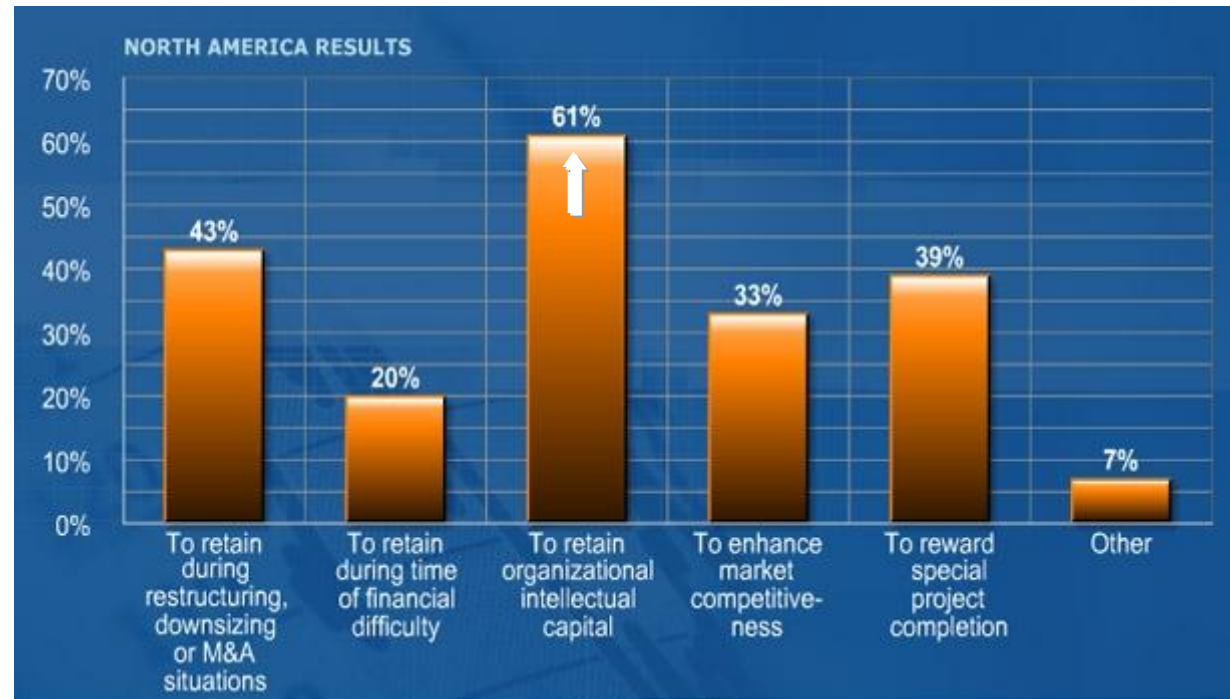
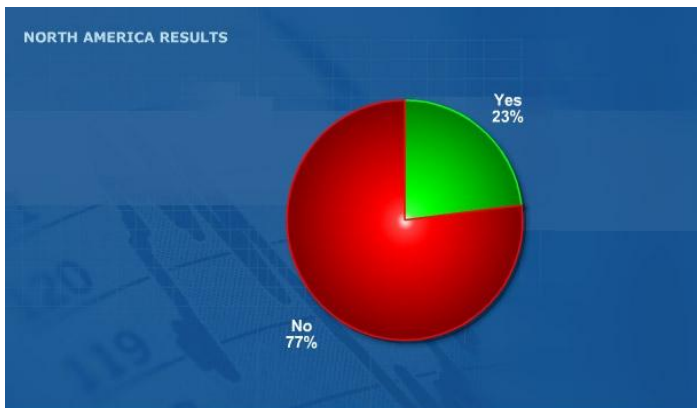
- Even more (80%) have no changes planned to participation or award opportunities
- 8% expanded participation levels, while 5% reduced participation
- 11% changed award opportunities, but practices are again mixed -- 5% have increased and 6% have reduced





Retention awards

- Retention awards provided by about one-quarter of firms
- Most prevalent reason -- to retain intellectual capital
- Other common reasons – retain during organization change, drive special project completion, enhance pay competitiveness





Non-cash rewards

- Firms have increased focus on non-cash rewards over past 18 months
- Programs offered more by 20-25% of firms include:
 - *Communication of total reward value to employees,*
 - *Work life programs*
 - *Formalized career paths*
 - *Special project opportunities*





2010 reward drivers to enhance retention and engagement

- Despite past emphasis on non-cash rewards, *top strategies* for retaining/engaging going forward focus on “money” (base pay increases, variable pay, benefits) and training/career development
- Fewer believe non-cash programs will be as impactful in 2010





Actions to re-vamp performance management

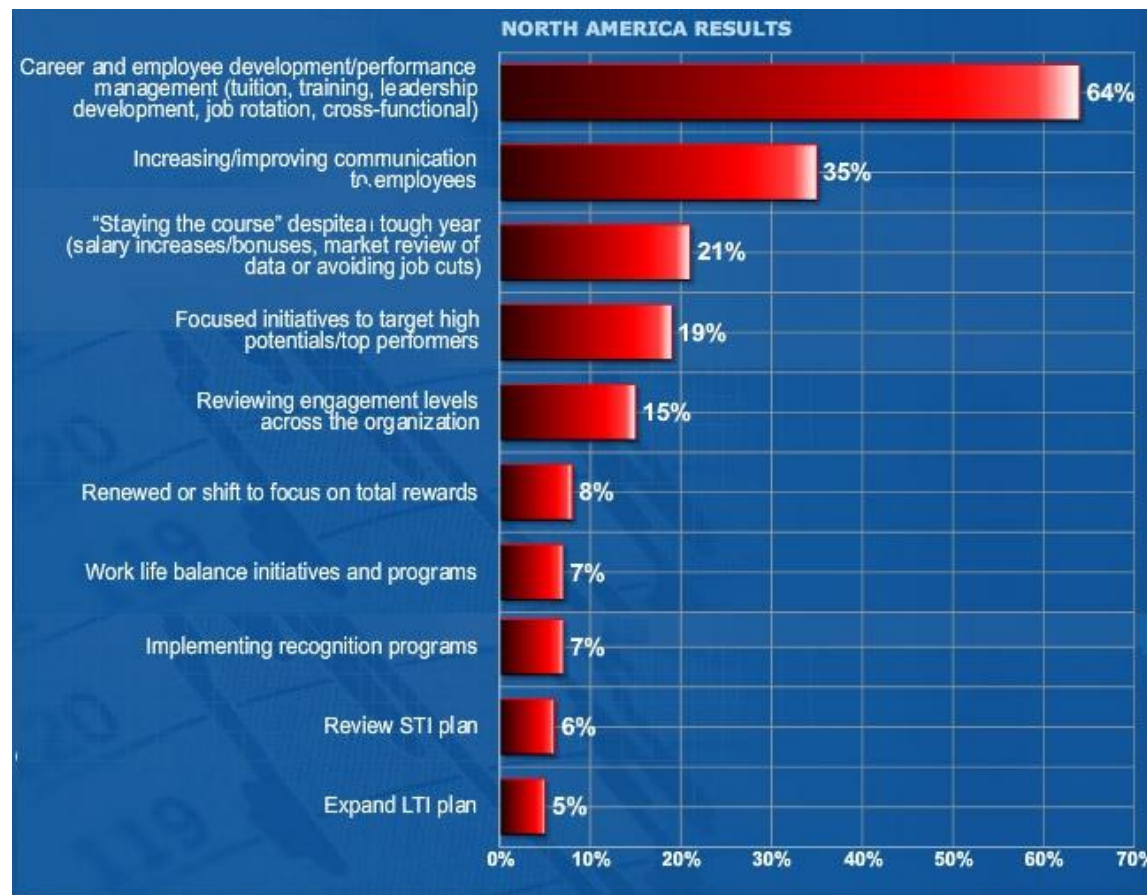
- Many firms have refined/revamped performance management processes
- Top actions taken include:
 - *Retraining managers*
 - *Re-gaining senior management buy in/support*
 - *Fostering employee ownership and accountability for managing own performance*





Top things to improve likelihood of retention/engagement

- Top approaches taken (or continuing to take)
 - *Focus on career development*
 - *Increasing/improving communication to employees*
 - *Staying the course to manage through difficult times*





Mercer perspective

Make *holistic* decisions based on your specific situation, considering pay, benefits, careers, and work/life

Employer perspective ...

Money

Compensation

- Base pay
- Guaranteed “bonuses”
- Short-term incentives
- Long-term incentives
- Allowances
- Financial recognition programs
- Deferred compensation

Benefits

- Retirement
- Savings
- Medical/Dental/Vision/Prescription Drug, etc.
- Life insurance
- Short- and long-term disability
- Accident coverage

Careers

- Performance and accountability
- Career opportunity and pathing
- Mobility
- Leadership
- Experiential rewards
- Talent development

Work/Life

- Time off
- Wellness programs
- Dependent care
- Workplace flexibility
- Non-financial and status recognition
- Commuter programs
- Workplace facilities and perquisites

Employee perspective ...

My value today

My financial security and protection

My future value

My quality of life



Questions/Discussion

What tactics are your firms employing to enhance attraction and retention?



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