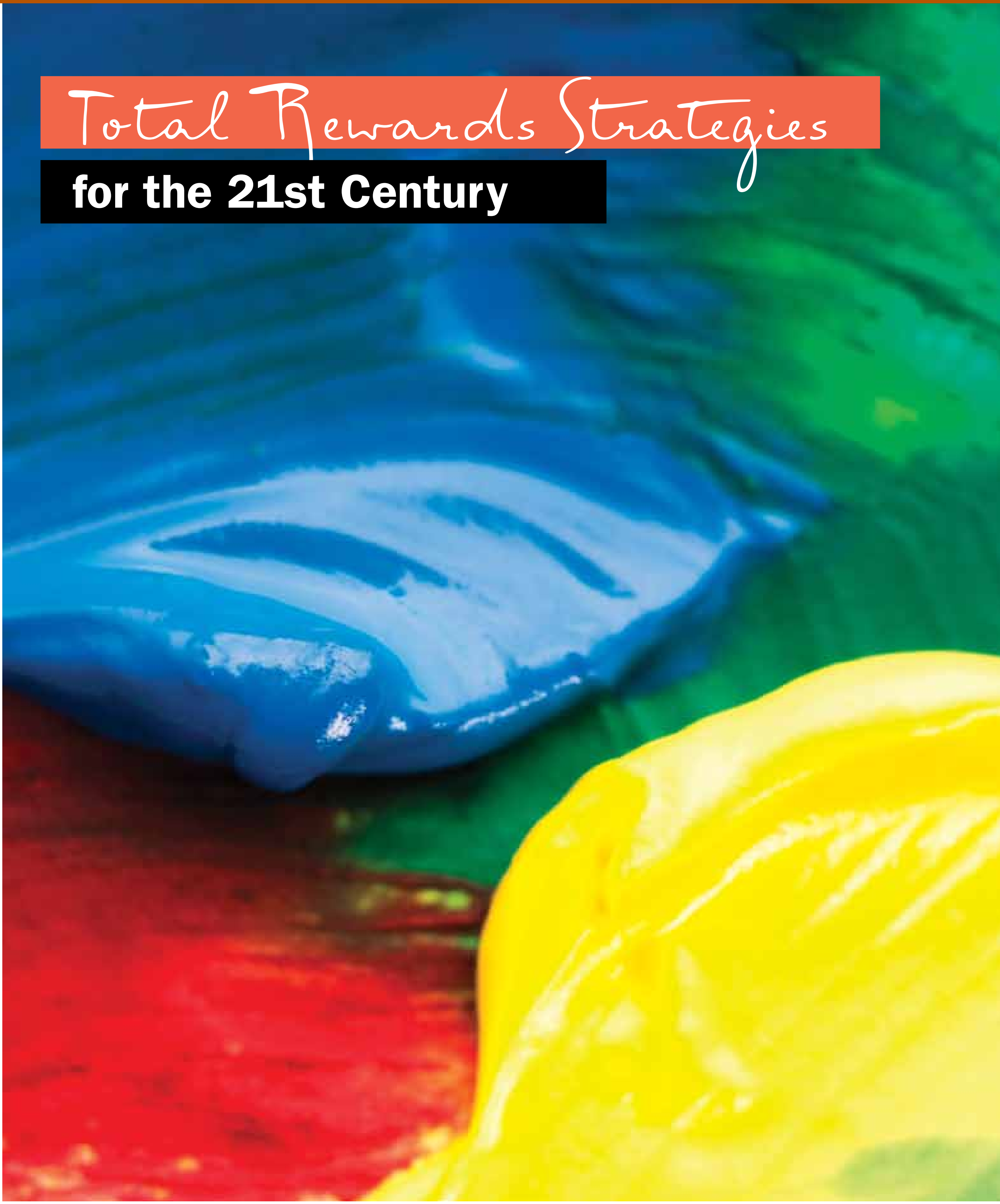
Total Rewards Strategies

for the 21st Century



TOWERS WATSON

Employers face a triple threat these days. Continued slow growth and ongoing cost pressures are forcing them to take a hard look at the sustainability and competitiveness of their labor cost structures and talent strategies, especially amid intensifying competition from emerging global markets. At the same time, competition for critical talent is starting to heat up, despite the numbers of people still un- or underemployed. And adding to the challenge is the growing realization that long-established workplace practices are increasingly inadequate to meet the needs of a technologically mobile and digitally connected workforce.

Viewing these circumstances together, one thing is clear: This isn't the time to maintain practices that aren't delivering desired results in cost management or talent attraction, retention and engagement. In fact, the confluence of these forces gives employers an opportunity to bring their reward strategies fully into the 21st century. When times are good and the "if it ain't broke, don't fix it" mindset prevails, it's often difficult to implement significant change. But in a period when both business and workplace models are being transformed by technology and globalization, a fresh approach to rewards can unite organizations and employees around new and more relevant practices.

Facing Down the Deal

Both employers and employees recognize the breakdown of the classic employment deal. It's clear in employees' heightened desire for long-term financial and job security, and in employers' inability, in a volatile global economy, to provide that stability to all or even most of their workers. Both groups struggle with the implications of that breakdown, albeit in very different ways. New Towers Watson research with employers and employees globally underscores the challenges for both, and points the way to some emerging solutions (see Views From the Front Lines, page 2).

For U.S. employers, the core issue is how to maintain and, over time, increase productivity while simultaneously holding the line on labor-related costs. The tension between growth and cost management isn't new. Today, however, it's complicated by several other factors, including the technological revolution reshaping the workplace, the difficulty in hiring and keeping key talent, misconceptions about what employees really want from the employment deal, and uncertainty about how to break through some of the functional silos within HR to create a more holistic and engaging work experience.

The median merit increase for U.S. employers in 2013 is projected to be 3%.

Views From the Front Lines

In 2012, Towers Watson conducted two of its recurring global studies — one with HR executives representing the employer point of view and the other with a random sample of employees — on the effectiveness of various workplace practices. All of the data shared in this report are drawn from the U.S. results of these studies.

The 2012 – 2013 Global Talent Management and Rewards Study, the 17th such study, was conducted in partnership with World@Work and fielded in the second quarter of 2012. It drew responses from HR executives at 1,605 organizations across the globe, all of which had to meet a size threshold to participate in the study. In the U.S., 278 organizations participated from a cross section of industries, making up roughly 17% of the global sample. For more information and complete survey results, visit **towerswatson.com/research/7990.**

The 2012 Global Workforce Study, fielded online in the second quarter of 2012, covered more than 32,000 employees who also had to meet threshold criteria in order to participate. These individuals are not employed by the specific organizations participating in the employer study, but were selected from research panels that represent the populations of full-time employees at large and midsize organizations in 29 markets around the world. There were 3,600 respondents in the U.S. sample. For more information and complete survey results, visit **towerswatson.com/sustainable-employee-engagement.**

For U.S. employees, the issues stem chiefly from the economic fallout of the last few years. Over a quarter (27%) of the employee respondents to Towers Watson's 2012 Global Workforce Study saw their organizations downsize since 2011. Almost a fifth (18%) had salaries cut or frozen. A similar percentage (16%) lived through a restructuring. Perhaps most surprising, fully 44% now work in nontraditional arrangements — from home, another location or in some type of flex-time situation. Broadly, employees are worried about their financial security, their ability to advance in their careers, and the level of pressure and time their jobs demand.

Among the insights emerging from the U.S. respondents in both studies:

- **Employees' concerns about their financial security have reached the point that many are willing to sacrifice current rewards for retirement income that doesn't vary with investment returns.** Almost four out of 10 (38%) of our employee respondents said they would accept a smaller salary increase for a retirement benefit that doesn't change with market performance. Roughly half (49%) would accept a smaller bonus opportunity for such a retirement benefit. And 45% would trade some of their paid time off for that kind of "guaranteed" benefit as well. In addition, fully two-thirds agreed that retirement security had become more important in the last three years, and 42% planned to delay their retirement, presumably in at least some cases, for financial reasons.

While defined benefit plan sponsors will be heartened by this heightened appreciation for a traditionally undervalued benefit, the growing number of defined contribution-only sponsors should take note as well. As they think through new retirement strategies and the features and provisions of their evolving plans, they need to recognize just how important security has become to employees and how ill-equipped many people feel to manage entirely on their own. Helping employees deal with the risks associated with retirement planning — from volatility to longevity — can take many different forms in a new, total rewards environment, giving employees more confidence and comfort in meeting their personal needs over time.

- **Employers don't have enough people with the type and level of skills needed for growth, but are already struggling to attract and retain the talent that would help close these gaps.** Close to two-thirds (61%) of the employer respondents to Towers Watson's 2012 – 2013 Global Talent Management and Rewards Study cited difficulty finding employees with critical skills, while 40% noted difficulty retaining such employees. Partly, this may stem from a mismatch between what employees want (pay and security) and what employers feel they can offer in today's economy. But budgetary constraints are not the only obstacle.

Our data also indicate, as shown in the chart below, that employers are laboring under some misconceptions about what employees actually look for in choosing a particular job. For example, employers are completely missing the mark on the importance of job security, which ranks second on workers' list of top reasons to take a job but doesn't even make the cut on employers' lists. But even when employers and employees note the same attribute — as is the case with challenging work for high-potential employees — the relative emphasis they each place on the attribute differs. So employers may over- or underemphasize certain aspects of the employment relationship, or fail to include an element altogether, unintentionally hindering their ability to meet recruiting and retention goals.

Our data reveal another issue: Even when employers get the emphasis right, they may not do enough to follow through on their promise. Consider career advancement, which tops the list of attraction drivers for high-potential employees and ranks third among the overall U.S. employee sample. Employers clearly see its importance.

31%

of *workers* agree employees in positions above them are choosing not to retire, reducing their options for career advancement.

But based on employees' views, they're not doing enough to make their programs effective. Only about a third (32%) of our employee respondents think their company does a good job of providing opportunities for advancement.

More disturbing, 41% believe they have to go elsewhere to move along in their career — arguably a fairly harsh indictment of the current state of many career development programs.

Contrasting Perspectives

Reasons to join a place of employment

All employees

Rank	Employer responses	Rank	Employee responses
1	Challenging work	1	Base salary
2	Base salary	2	Job security
3	Career advancement opportunities	3	Career advancement opportunities
4	Health/Wellness benefits	4	Organization reputation
5	Organization values	5	Convenient work location
6	Organization reputation	6	Learning opportunities
7	Organization performance	7	Health/Wellness benefits

High-potential employees

Rank	Employer responses	Rank	Employee responses
1	Challenging work	1	Career advancement opportunities
2	Ability to impact performance	2	Base salary
3	Career advancement opportunities	3	Job security
4	Base salary	4	Challenging work
5	Organization values	5	Organization reputation
6	Organization performance	6	Learning opportunities
7	Job autonomy	7	Convenient work location

Employer responses   Employee responses

“Employers that expect to keep the pressure on workers have to take a hard line on allocating the appropriate share of limited reward dollars to top performers and critical-skill groups.”

- **Many employers acknowledge they have pushed employees as far as they can from a productivity standpoint, yet they don’t believe they can afford to let up on their expectations for continued high performance in such a competitive global environment.** Over six in 10 (61%) of our employer respondents believe employees often experience excessive pressure on the job, and even more (71%) indicated that employees are already working harder now than they were in the last three years. Looking ahead, the picture doesn’t improve — 63% see workloads remaining at high levels in the next three years as well.

41% of *employers* intend to raise organizational financial targets over the next three years.

30% plan to increase individual performance expectations.

With budgets for both annual salary increases and bonuses remaining tight for the foreseeable future, the issue of how to maintain high performance is very real — carrying with it significant risk that organizations will start to see a serious slippage in performance and/or undesirable turnover of key talent. Top performers are, after all, the ones with options, even in a tough job market, and many will have only so much patience in awaiting promised awards. If there was ever a time to put meaningful emphasis on pay for performance, that time is now. Employers that expect to keep the pressure on workers have to take a hard line on allocating the appropriate share of limited reward dollars to top performers and critical-skill groups. Failing to achieve *significant differentiation* on the basis of contribution and performance can seriously threaten engagement, productivity and retention objectives in the current economy.

Only 34% of *employers* measure the effectiveness of their performance management process.

Interestingly, while half (51%) of our employer respondents think they are moderately to very effective at linking salary increases to individual performance results, our employee respondents disagree. Only a third (36%) see a clear link between their performance and their pay, although over half (55%) agree people at their company are held accountable for their performance, and 58% said their most recent performance review was accurate. So messages about accountability and measurement are getting through. But they’re not being supported by the most important part of the performance management process — payouts commensurate with actual contribution to results.

- **Employees believe job-related stress levels are still manageable, but they are also interested in gaining more control over their work lives.** Currently, a majority of our employee respondents (55%) agree stress is manageable. But they do expect to work more hours over the next few years, and they are interested in ways to deal with added pressure. Even now, for instance, 42% of the employee respondents would trade paid time off for more flexibility in their work arrangements. In addition, continuing a trend noted since our 2007 study, a convenient work location was among the top five reasons for choosing a job. This underscores yet again the extent to which employees are eager for anything that eases work/life tensions. Finally, stress figures prominently on employees’ list of reasons for leaving a job, underscoring the impact it has on job decisions these days.

30% of *employees* are often bothered by excess pressure on the job.

- **Neither senior leaders nor direct managers win a strong vote of confidence regarding their ability to connect with people emotionally.** Just under half (49%) of our employee respondents agree they have trust in the job their senior leaders are doing. Even fewer (44%) believe senior leaders have a sincere interest in their well-being. And while views about direct managers are more positive than those about senior leaders, less than half (47%) agree their managers have sufficient time to handle the people aspects of their jobs — indicating employees feel they're missing an important lifeline in the organization in terms of guidance, coaching and mentoring.

Just 38% of *employees* agree their employer provides career-planning tools and resources that are helpful.

41% believe their organization's training programs are effective.

Viewing these sometimes consistent but often conflicting opinions in tandem, several points become clear:

- Employers can't guarantee security — either in the stability of employment or accumulation of capital over time. But they can better equip employees to secure their own future by providing training and education to build skills and employability, and tools and support to help employees understand and manage their long-term capital accumulation needs. And they can position the combination of core monetary rewards — base pay and bonuses, where applicable — so that employees see them as competitive, fair and commensurate with their level of contribution and performance.
- Employees can handle a lot of pressure. But they need supportive management with whom they can connect regularly through a variety of media, including face to face. They also need technology and work processes that can support more flexible work arrangements and keep them connected to coworkers in other locations.
- Helping maintain and enhance employee engagement and performance are among the most critical roles that senior leaders play, especially in global businesses with thousands of workers in far-flung locations, disconnected from the organization's "center." Employees look to their organization's leaders for a vision of the future — a pathway forward — and the energy, commitment and focus to get there. They are eager to rally around leaders who are straightforward about both the sacrifices and rewards of growth. But when they don't see or hear from those leaders, or doubt the authenticity of the messages, they are likely to disengage and disconnect from the organization and/or their work. Their pride in the organization and sense of commitment to its success diminish or disappear, often with a corresponding impact on their dedication, their willingness to expend extra effort and, ultimately, their performance.

Just 45% of *employees* are confident they have enough money to live comfortably 15 years into retirement;

only 29% agree that's true for 25 years into retirement.

"Employers can't guarantee security, but they can better equip employees to secure their own future by providing training and education to build skills and employability."

So what does this mean for the future? In what ways does the employee value proposition — and the specific reward programs that make it real in employees' eyes — need to shift to reflect the enormous changes taking place in the external environment? What should rewards look like when uncertainty and instability are the "new normal"?

The answer, in our view, is to redefine and broaden the total rewards proposition into a comprehensive and compelling *work experience* that transcends any one element of the proposition.

Think of it as the way it feels to come to work every day. How efficiently time can be spent on the job. How easy or hard it is to get support. How clearly responsibilities are explained. How well contributions are recognized. How much opinions and input matter. How fairly performance is judged and rewarded, both monetarily and in other ways. What safety net exists for unforeseen situations (medical, family or otherwise) and how to use it appropriately.

When employees see the total employment picture, they're less likely to over- or undervalue any single aspect of the total rewards program that could change over time. Rather, they're looking at a comprehensive experience that does (or doesn't) feel supportive, engaging and energizing. By presenting the total picture, employers, for their part, gain the flexibility to shape the work experience in different ways at different phases in the company's life cycle, as well as for different segments of the employee population. They can vary the combination of reward elements and the level of investment in those elements, depending on business needs, financial pressures and talent requirements. Finally, this approach supports effective workforce segmentation, ensuring the right elements are combined in appropriate ways for different groups across the employee population, depending on skills, roles, education, life stages, geographic location and a host of similar criteria.

30% **of *employers* have formal segmentation programs for employees with critical skills.**

55% **have such programs for high-potential employees.**

31% **have them for diverse employee populations.**

That, in a nutshell, is the point of "going total" with rewards — or at least laying the foundation to do so. After a decade or more of focus on the concept, we think the time has come for meaningful implementation, not only to meet some of today's challenges, but even more important, to prepare for the vastly different workplace of the future.

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Total Rewards at a Crossroads

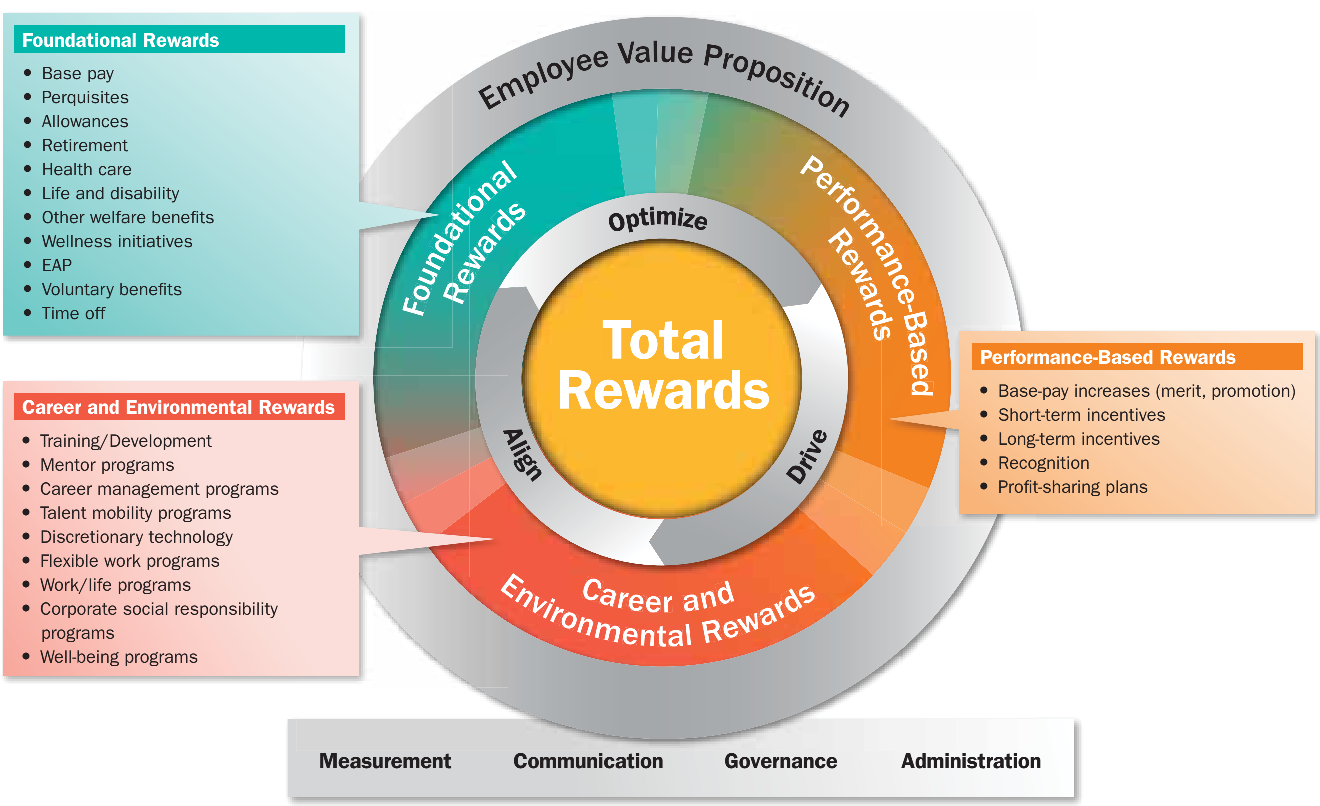
Towers Watson's total rewards framework, shown below, helps illustrate this expansive view of a compelling work experience. It organizes rewards into three categories that correspond to distinct aspects of an employee's experience at work. Each category encompasses a set of interrelated programs specifically designed to meet employees' needs and address what they value in the employment relationship.

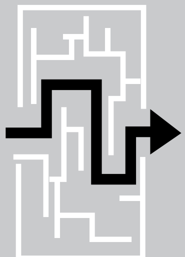
The foundational rewards category speaks to employees' desire for security, stability and a safety net. These elements provide a menu of programs that employers can select from and mix in different ways — whether subsidizing in whole or in part, or merely offering cost-effective access — to arrive at the right balance between what the organization can afford, and what's required to attract and keep key talent.

The performance-based rewards category speaks to something equally critical in the current environment: fair and meaningful recompense for measurable results. As noted earlier, this has always been a challenge for employers, but never more so than today, when retaining high-potential and high-performing workers depends on recognizing differences in contribution, through traditional monetary vehicles and promotions, special assignments or leadership development programs.

The final category covers a combination of tangible and intangible elements that contribute substantively to the nature of the overall work environment. In many organizations, even today, these fall outside the literal definition of rewards. Yet they have such a dramatic impact on how employees feel about the organization — a dramatically positive impact when delivered consistently and well — that ignoring them can carry real risks for employers.

A framework for shaping rewards into a broad work experience





48% **of *employers* have formally articulated a total rewards strategy.**

Assuming the right foundational elements are in place, things like flexible scheduling, a supportive manager, health and wellness initiatives, effective technology, mentoring and talent development can make a big difference in the quality of the day-to-day work experience. It's also possible to distinguish a company in the career and environmental category to a greater degree than in the other categories. And doing so can reduce an employer's overall investment while increasing its return on that investment, because these types of practices and programs tend to cost more in time and focus than in money.

A Solid Foundation

Assuming your organization is ready to embrace total rewards in a more comprehensive way, the starting point is to define a desired future state and understand how the current state compares to it. That requires a detailed drill-down into five areas that, collectively, provide information and insights on how to implement the new strategy and direction.

- **Business plans and performance.** How is the organization performing relative to peers? What are its strengths and weaknesses? What drives value in the business? What do its growth plans involve: Acquisitions to expand market share? A bigger footprint in other parts of the world? Major investment in research and development for a new product pipeline? Divestiture of ancillary businesses?

  Reviewing what the next three to five years look like from the point of view of business and financial performance will surface important workforce and talent implications, such as the organization's risk exposure to insufficient numbers of workers or a shortage of skills in various parts of the world, or which skills or roles will be more or less important to the organization in the next few years, or how competitive various labor markets are likely to be and in what areas. That, in turn, helps ensure close alignment across business, workforce and reward strategies in all of the organization's various divisions and functions.

- **Leadership perspective.** Interviews with senior executives round out the picture, adding opinions to data and financial analyses. What obstacles do they see in achieving their longer-term vision, and how do they expect to address those obstacles? Do they believe the culture has to shift and, if so, in what ways? How open are they to various innovations in workforce practices? What actions will help them effectively rally employees around the organization's mission and values?

95% of *employers* think their leadership development programs support their organization's desired culture.

But just 37% of *employees* believe senior management is doing a good job developing future leaders.

And only 44% agree leaders have a sincere interest in employees' well-being.

- **Workforce profile and personal perspectives.** The next area of focus is the workforce itself, starting with a demographic profile that encompasses age, level, skill, education, retirement patterns, performance, geographic spread, employment arrangements and the like. This ensures a clear picture of the state of the current workforce, as well as gaps and potential surpluses in the numbers and skills of people both now and over the next few years, across divisions and locations.

  But a profile alone misses critical nuances in what people want from their work experience and how their needs should influence attraction, retention and engagement programs. Whether through employee surveys, optimization trade-off analyses or other approaches to data gathering, you need to look closely at the wants and needs of the population, particularly those segments with the skills essential to driving growth.

  This type of fact finding helps pinpoint whether your assumptions about workers are on the mark. Given the cost of the reward components involved, it makes sense to ensure you are not only investing in the right things, but doing so at the right levels, neither over- nor underspending, both of which can occur without accurate testing of long-held assumptions.

> "Given the cost of the reward components involved, it makes sense to ensure the organization is not only investing in the right things, but doing so at the right levels."

The right research approach can also identify the kinds of trade-offs highlighted earlier that employees are often asked to make among various combinations of rewards (see Inside Total Rewards Optimization, below). Even more critically, it can show the impact various trade-offs would have on their likelihood to leave the company or their level of engagement. Armed with these insights, you can be confident that a cutback in one area would have relatively minimal impact on, say, retention or productivity, especially if offset by an enhancement in another (less costly) area.

- **Current reward programs and processes.** This is the time to quantify the amount of the organization's *total spend* on rewards — at least those elements that can be valued from a monetary standpoint — and determine if and how well the current design and delivery of rewards support your organization's financial, operational and HR goals. From that base, you can make more informed decisions about a range of key issues, including:
  - How your organization's total spend compares with competitors in your industry or others
  - The relative competitiveness of the mix of programs that make up total rewards
  - Whether your competitive position is where you want it to be — both in the aggregate and by specific plan or program — from a financial and talent attraction standpoint
  - Where the organization may be overspending or underspending peers
  - Whether the investment, both in the aggregate and on specific programs, is achieving desired results and, if not, what changes are required to better align with business objectives and desired culture, and deliver the needed return on investment

For highly structured organizations, where different functions within HR or across other corporate units tend to work in isolation, this can be a tough step. But it's a critically important initial foray to break down internal silos and connect groups of people who touch different points in the process (e.g., HR, finance, IT, communication) and need to work together more seamlessly. Over time, the ability to coordinate design and delivery, and build more integrated reward strategies, will be essential in shaping an effective overall work experience.

Inside Total Rewards Optimization

Total Rewards Optimization (TRO) draws on rigorous and sophisticated analytic tools from consumer research and portfolio optimization to help organizations create reward portfolios that provide the highest return on investment.

Using TRO methodology, your organization can do the following:

- Determine the impact of reward changes on specific employee behaviors.
- Determine the value that specific groups of employees attach to various financial and nonfinancial rewards.
- Determine the ROI of different reward strategies — calculating cost to the organization versus value produced by achieving desired employee behaviors — to achieve the optimal combination.
- Develop relevant communications that give different employee groups the information and support they need to understand the value of their programs and use them efficiently and effectively.

- **Marketplace conditions and trends.** Finally, it's essential to look outside the organization to avoid an overly insular perspective. What are the relevant growth predictions for your industry in the various regions relevant for the business? Will you have to staff up and, if so, at what point? What are the external labor market conditions for various critical-skill groups? Will your organization need to move various skill groups from market to market to close gaps between needed and available skills? How will greater national and cultural diversity influence what people want and expect from their total work experience? What impact will local regulations have? To what extent can your organization create a globally consistent experience or employment deal?

This five-part information-gathering process produces crucial insights and perspectives not only to make better decisions, but also to identify interdependencies and connection points — across business priorities, labor market realities, pivotal roles and skills, and cost trade-offs — that are essential in informing an effective total rewards strategy. More specifically, it lets you and your team define and articulate, with a high degree of specificity, eight guiding principles that are essential to developing an effective total rewards strategy. These are:

- **Performance orientation:** The nature and level of performance your organization expects from employees in different roles, functions, units and levels, and how it will reward such performance
- **Competitive positioning:** Where rewards will be targeted in the aggregate (e.g., median of the relevant external market) and what variability will be encouraged/required, depending on actual organizational, division and individual performance
- **Affordability:** What your organization can spend in the aggregate, and the desired mix of fixed and variable program costs within that total under various business conditions
- **Shared responsibility:** The extent to which employees will share in program costs, and the extent of their responsibility to take charge of planning for their long-term financial security and career progression, as well as managing their health
- **Career orientation:** The extent to which your organization wants to promote long-term, even lifetime, tenure versus short stints to secure certain skills, and how it will provide for and recognize continued education and learning

55%

of *employers* say their performance management process is effective in communicating performance expectations to employees.

And 43% believe it has helped create a high-performance work culture.

> "The ability to coordinate design and delivery, and build more integrated reward strategies, will be essential in shaping an effective overall work experience."

- **Individual flexibility:** How much your organization is willing or able to embrace flexible or alternative work arrangements for all or parts of the workforce, and the accommodations it will need to make to manage people working in different ways
- **Segmentation:** The extent to which the organization will customize the work experience and related rewards for different parts of the organization — whether by skill type or level, job role or function, geographic location or other characteristics — and the extent to which customized experiences remain broadly consistent under an overall global umbrella
- **Delivery:** The relative impact of various factors shaping delivery, from cost, to ease of employee understanding, to ease of administration, to efficiency of required technology, to rapid adaption of future enhancements

Taking the time to develop clear, detailed and shared definitions of these principles is the critical success factor both in developing a total rewards program that meets current cost and talent needs, and in laying the foundation for refreshing and evolving that strategy over time. Because the process looks at rewards from a genuinely holistic perspective, it helps your organization make specific programmatic decisions within a more forward-looking framework, taking into consideration some of the challenges and issues we outlined earlier. Specifically, you can define:

- The nature and extent of the safety net you will provide to employees and through what vehicles
- What payouts, and in what forms, you will provide for specified levels of high performance, and what training will be required to help managers implement a meaningful pay-for-performance approach
- What support, training and career opportunities will be available to those employees willing and able to help develop their own skills
- What tools and technology the organization will invest in to deliver rewards in both traditional and nontraditional ways
- How much innovation the organization will embrace, over what time frame, in its workplace policies, and how you will evaluate the relevance and impact of new trends on all or parts of the organization

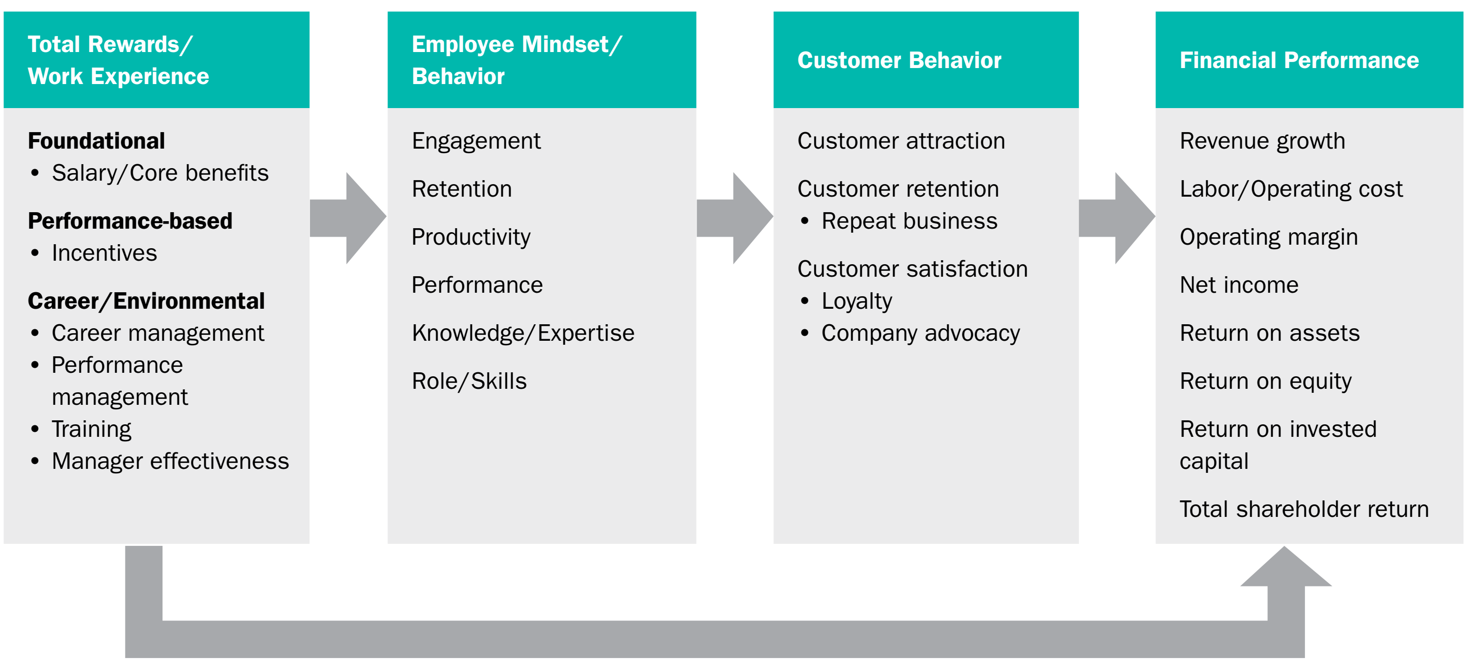
The Behavior-Performance Chain

Most organizations understand how total rewards can help them achieve the right balance between their cost management and talent management objectives. But there are higher stakes as well — principally, in terms of driving the kind of behaviors in the workforce that lead to customer behaviors that, in turn, help increase revenue, profits and other key financial results.

Below is a simplified picture of what we call the behavior-performance linkage framework. It illustrates a set of relationships that we intuitively understand not only in business, but also in our personal lives as consumers of various goods or services.

Few, if any, would dispute the role employees play in almost any purchase decision or related interaction, whether it's live or virtual, by virtue of their skill, knowledge, courtesy, patience, honesty, judgment and efficiency. But despite that recognition, many organizations do not yet invest in analyzing which employee attributes and actions have the most direct impact on customer purchasing, loyalty, wallet share and so on, or use that knowledge to shape the work experience and reward programs that will yield those critical behaviors on a consistent basis. Ultimately, that may be the most significant contribution that going total can make to your organization's financial health and growth over time.

Towers Watson's behavior-performance linkage framework



Conclusion

For U.S. employers, the "perfect storm" of forces already in play has a direct impact on reward program strategy and outcomes, raising the stakes on making decisions from a comprehensive perspective that reflects business strategy, financial constraints and workforce needs. In addition to ongoing concerns about the economy and the sustainability of current labor costs, implementation of the Patient Protection and Affordable Care Act will also affect costs, as well as the nature and shape of the deal, and the respective roles and responsibilities of employers and employees.

> "A total rewards approach gives employers the tools to view their labor cost expenditures holistically and determine how to channel them in optimal ways."

Added pressure comes from an increasingly complex labor market — both inside and outside the U.S. — where dramatic differences in the supply and demand of talent across industries, geographies and skill groups complicate workforce planning, selection and deployment. Factor in technology and globalization — specifically, their combined effect on the ability to meet workforce and performance goals across a diverse set of cultures and work environments — and there's little question that traditional approaches to reward design and delivery are ill suited to the current environment.

We see total rewards as a fundamental building block for growth in an already highly interconnected global economy. A total rewards approach gives employers the tools to view their labor cost expenditures holistically and determine how to channel them in optimal ways. They can make decisions about if and where to expand, reduce or otherwise shift investments with a clear understanding of what matters to employees and how their actions will affect key employee behaviors like retention, engagement and productivity.

Going a step further, they can "flex" the deal for the varying circumstances of a diverse and dispersed workforce, taking into account the array of alternative work arrangements available in a technology-enabled environment. And they can optimize their cost-to-value ratio by customizing aspects of the deal for key employee segments in ways that provide meaningful choices within a consistent framework.

Ultimately, the ability to conduct business efficiently within and across borders and amid accelerating technological change depends on a workforce ready to take on the challenges of a fast-paced and fluid environment. Reward programs that support, enable, engage and focus have to keep up — perhaps even leap ahead — to sustain success in a global economy.

About Towers Watson

Towers Watson is a leading global professional services company that helps organizations improve performance through effective people, risk and financial management. With 14,000 associates around the world, we offer solutions in the areas of employee benefits, talent management, rewards, and risk and capital management.

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