



Enterprise Risk and the Impact of Employee Turnover

RIMS Arizona Central Chapter

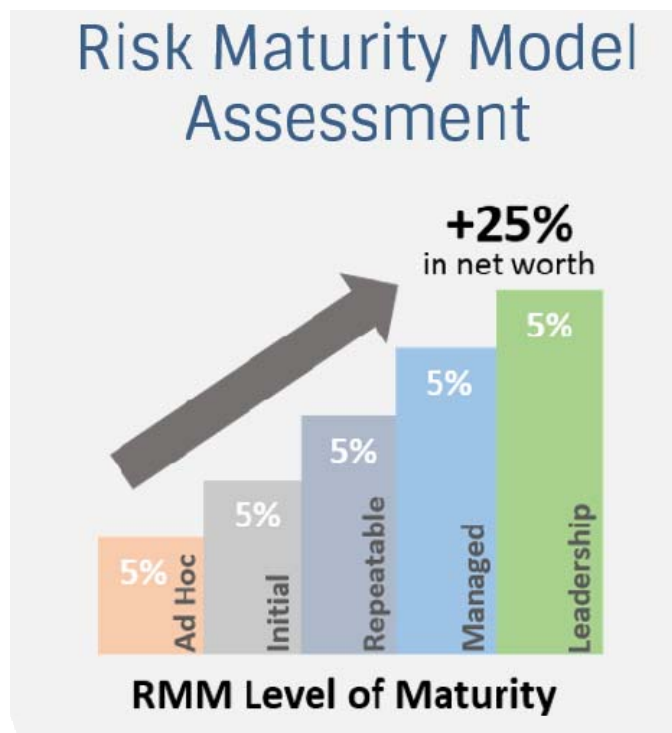
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Agenda

- Enterprise Risk Management in 2017
- Mega Trends
- Addressing Today's Workplace Challenges to Manage the Risk

ERM in 2017



- Is it still relevant?
- Compliance vs. ERM
- Where are we on the maturity scale?
- Big Data



2006

LogicManager authors the RIMS Risk Maturity Model, an umbrella framework for ERM encompassing ISO, COSO, OCEG 'Red Book', Solvency II, and more.



2008

RIMS publishes the RMM. Professional development organizations, like the IIA and AICPCU, incorporate the RMM into their requirements.



2014

A third-party study found that as organizations achieve higher levels of maturity, as defined by the RMM, they can achieve a cumulative growth of up to 25% value to their bottom line.

Introducing our five megatrends



1

Geopolitical instability and regulatory change

- Negative changes to Government Financing, Policies and Priorities
- Constantly Evolving Regulatory Environment



2

Workforce management and talent optimisation

- Limited Workforce Diversity
- Difficulty in Attracting and Retaining Key Talent



3

Business model and strategy challenges

- Capital availability, funding and liquidity
- Evolving and Increasing Supply Chain Risks



4

Digitalisation and new technologies

- Third-Party Security Vulnerability - Digital Supply Chain Resilience
- Increased Security Threat from Cyber Attacks and Data Privacy Breaches



5

Complex operating models

- Complexity of the Labour Market: Dependence on sub-contractors or contract labour
- Strikes and Industrial Action

Why do we talk about human capital risk?

Effective operational risk management requires consideration of the impact of human behavior on business outcomes.

200,000

Documents lost by the IRS every year

2,900,000

Nonfatal workplace injuries and illnesses
across the U.S. private sector in 2015

114,500

Mismatched shoes shipped every year

99,180

Accidental deaths in Medicare hospitals every year

22,000

Checks deducted from the wrong
bank account every hour

38,000

Commercial aircraft land in an
unstable condition every year

Source: Willis Resilience October, 2013, except workplace injuries data – source: US Department of Labor

What's Driving the Risk?

Market trends and realities create increased pressure and stress on the workforce and a whole new definition of what it means to be a leader

Market trend/reality

Fast-changing market



Fast-changing technology



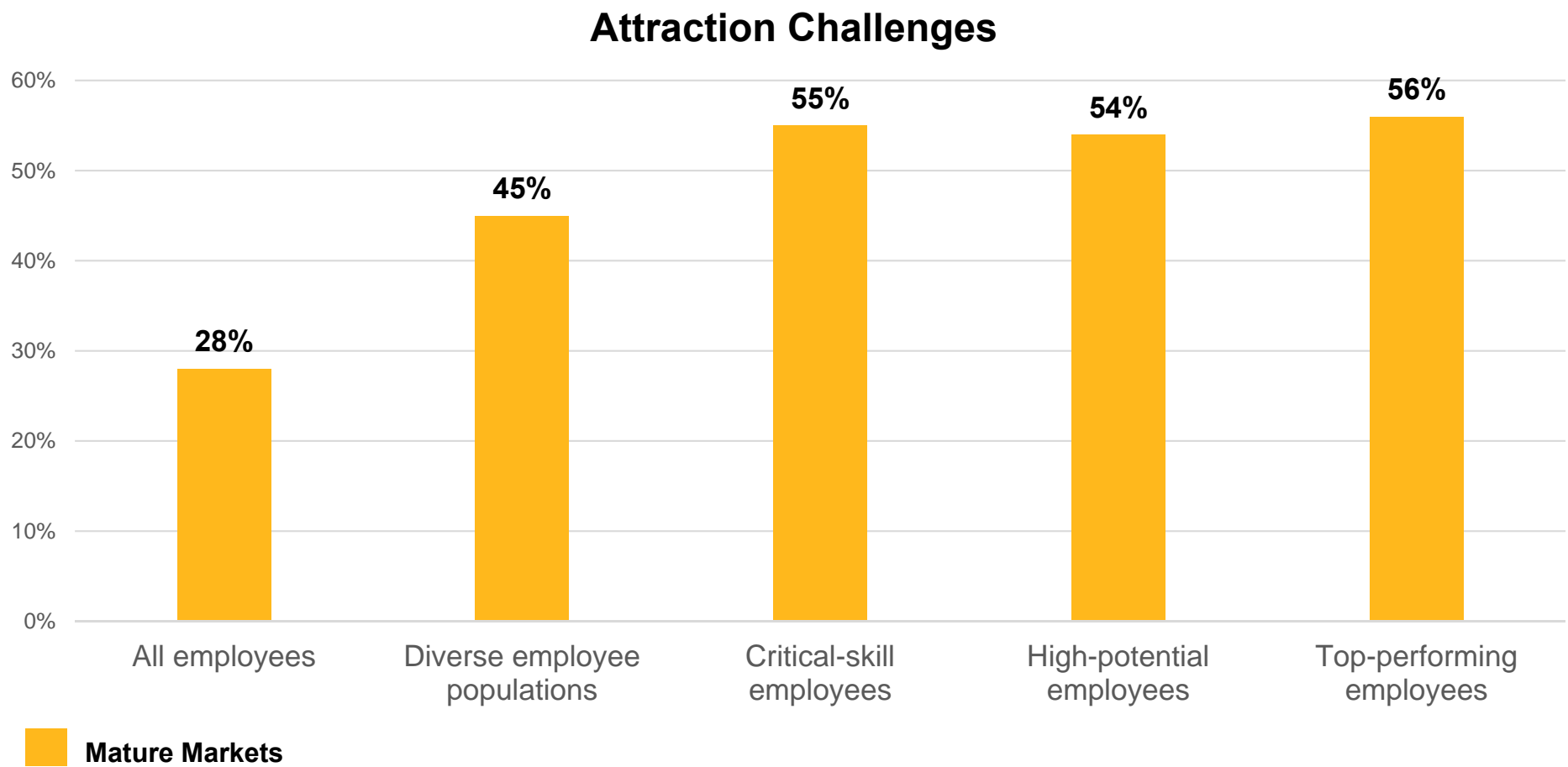
Demographic shift – It's really happening



Expectations of transparency and individualization

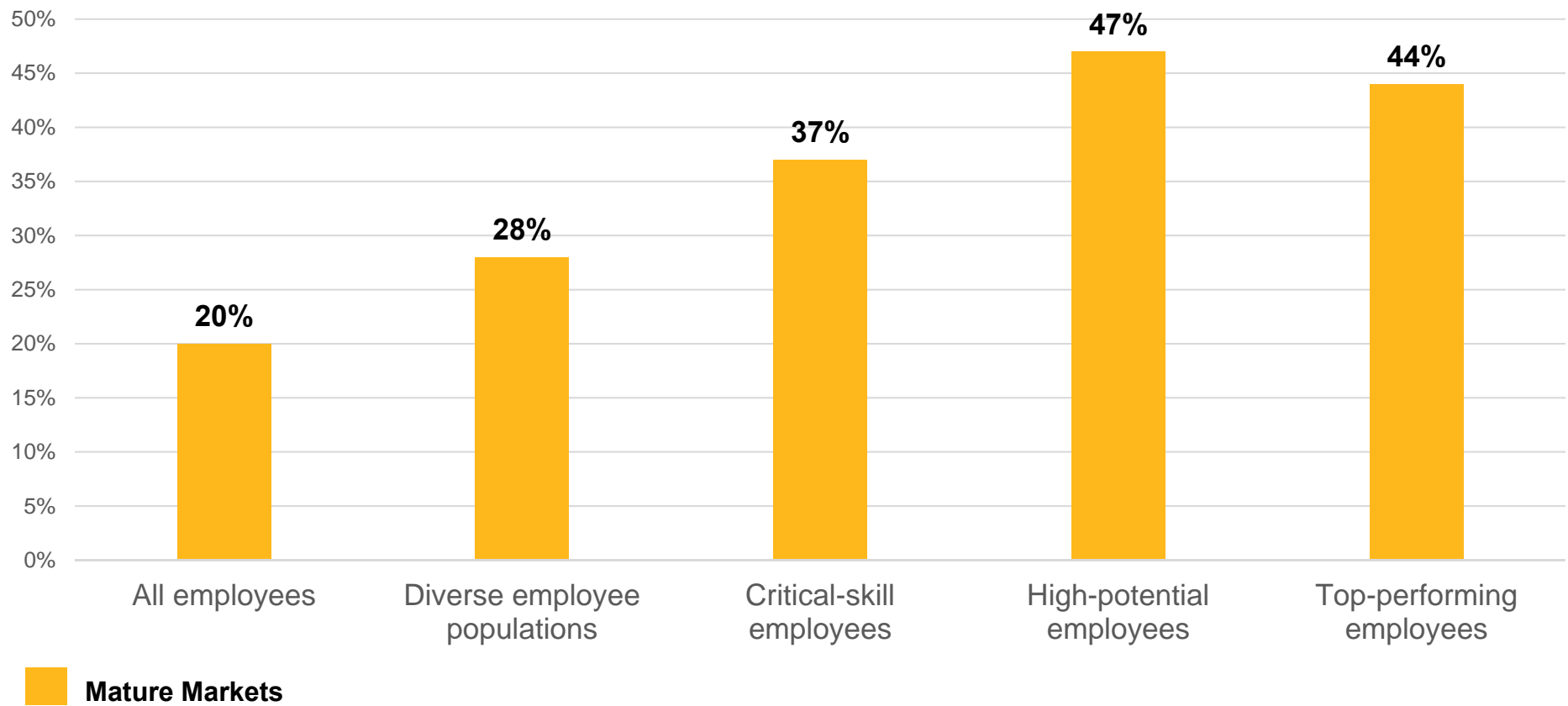


Challenges attracting employees in key workforce segments remain high overall...



... And retaining key employee groups also remains difficult

Retention Challenges



Attraction and retention challenges lead to a massive amount of value at risk in terms of lost productivity due to turnover

This combination of:

- Attraction and retention challenges and increased hiring activity
- Gaps in employer understanding of retention drivers
- Low levels of sustainable engagement

Creates considerable turnover risk

Leading to a massive amount of value at risk in terms of lost productivity

26% of employees globally indicate they intend to leave their organization within the next two years

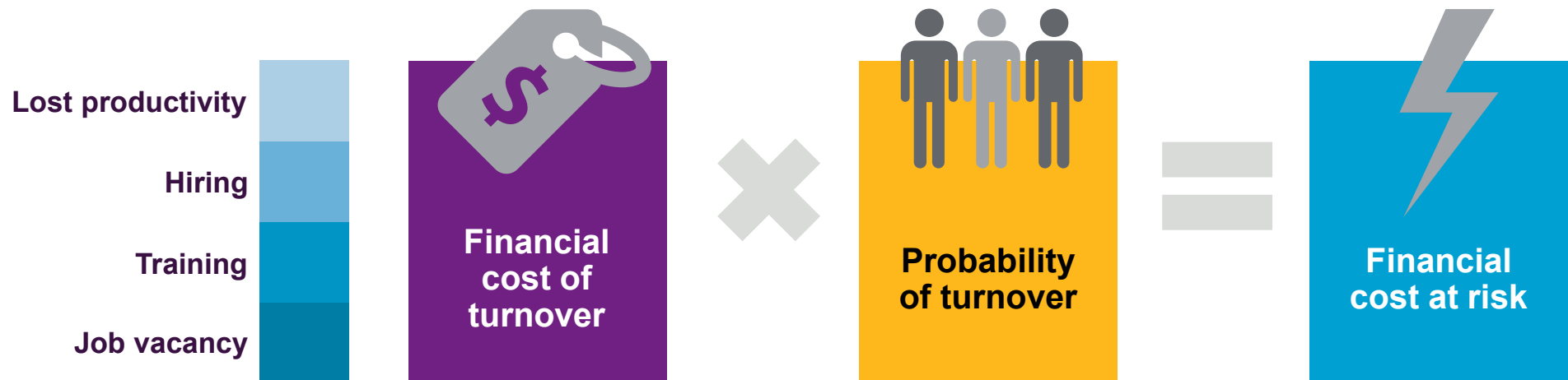
Source: 2016 Global Workforce Study

Following employee turnover, the time to productivity for new employees by job level also represents value at risk

Job Level	Time to productivity level (months)		
	33%	67%	100%
Executive	2	6	9
Supervisory/managerial	2	5	7
Professional	2	4	6
Sales & customer/client management	2	4	6
Technical Support	1	3	6
Business Support	1	3	6
Production/Operations	1	3	5

Source: 2016 Global Talent Management and Rewards Study

The cost of turnover puts significant value at risk



Job Level	Financial cost of turnover (% of annual compensation)*	% of ee's at high risk of turnover**	Financial cost at risk***
Senior Manager/Executive	74%	31%	23%
Professional	59%	25%	15%
Sales & Customer/Client Management	59%	27%	16%
Business Support	48%	27%	13%

*FCOT measured in our proprietary benchmark database

% at risk of turnover from 2016 Global Workforce Study *Financial cost at risk=FCOT*% at risk of turnover

Needed: A modernization agenda to address the challenges of today's workplace, remain relevant, and manage the risk

The Modernization Agenda – companies need to:



Be agile and nimbly respond to changes in business strategy and talent markets



Introduce flexibility into talent and reward plan design and delivery



Improve transparency in reward programs



Tailor programs to key segments of their workforce



Leverage technology to digitally engage employees



Transition from job security to relevance (career security)



Address work place stress



Modernizing also means getting the EVP (Employee Value Proposition) right

Best practice EVP companies:



Have formally articulated their EVP that is clearly aligned with what they stand for in the marketplace, and differentiates them from other organizations with whom they compete for talent



Understand their employees and potential candidates the same way they would understand their external customers



Customize their EVP for employees with critical skills



Effectively communicate and deliver their EVP, leveraging technology to understand employees and communicate differentiated messages to them



Getting the EVP right starts with understanding the top drivers of attraction

Comparing top drivers of attraction: Employees vs. Employers

Rank	Employee view - USA	Employer view - USA
1	Base pay/salary	Organization's mission, vision and values
2	Job security	Challenging work
3	Career advancement opportunities	Career advancement opportunities
4	Vacation/Paid time off	Reputation of the organization as a great place to work
5	Opportunities to learn new skills	Ability to have a real impact on the organization's performance
6	Health care and wellness benefits	Base pay/salary
7	Reputation of the organization as a great place to work	Health care and wellness benefits

You also need to understand why employees would choose to leave your organization...

Comparing top drivers of retention: Employees vs. Employers

Rank	Employee view - USA	Employer view - USA
1	Base pay/salary	Career advancement opportunities
2	Career advancement opportunities	Relationship with supervisor/manager
3	Job security	Base pay/salary
4	Trust/Confidence in senior leadership	Ability to manage work-related stress
5	Opportunities to learn new skills	Flexible work arrangements
6	Length of commute	Trust/Confidence in senior leadership
7	Ability to manage work-related stress	Opportunities to learn new skills

... And address the drivers of sustainable employee engagement

Sustainable Engagement Drivers	
Rank	USA
1	Senior Leadership
2	Workload & Flexibility
3	Image & Integrity
4	Supervision
5	Clear Goals & Objectives

What is Sustainable Engagement?

- **Engagement** – Rational, emotional and behavioral attachment to the company
- **Enablement** - A local work environment that supports productivity and performance
- **Energy** - Individual physical, interpersonal and emotional well-being at work



Setting the Stage

The Modernization Agenda

Getting it right

Effective Leaders are Critical to a Compelling EVP

Addressing the Work Component of the EVP

Employers need to focus on workplace stress and wellness

Achieving Effective Performance Management

Implications for Total Rewards



In the modernization agenda, we (re)define the term “leader”

However, what the leader leads is dependent on the role within the organization

In simplest terms, a leader is someone who leads –

not necessarily a specific role or title
(e.g., a manager or executive)

Manager ←-----→ **Executive**

The manager-leader:

- Makes sure things are done right
- Engages others in getting the work done every day
- Manages the work/outcomes while leading others
- Creates a local environment for success and fulfillment

The executive-leader:

- Makes sure the right things are done
- Engages others in building and driving the business
- Leads others while managing outcomes/results
- Fosters a broad culture of success and fulfillment

What makes a leader effective?

Based on our research, the requirements of the leader are guided by **three performance factors** and the impacts needed from the leader



Employees give senior leadership low marks on key aspects of their role

Item	Favorable
How would you rate the job that senior leadership is doing to:	
Grow the Business	60%
Manage Costs	54%
Develop Future Leaders	41%
I believe the information I receive from senior leadership	52%
I have trust and confidence in the job being done by the senior leadership of my organization	45%
Senior leadership at my organization has a sincere interest in employees' well-being	47%

41% think their organization does a good job of developing future leaders

The responsibility-respect mismatch: Less than half of all employees think the role of the manager is respected



The **People manager** role is highly respected in my organization

37%

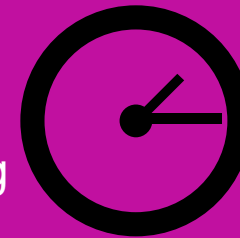
Yet so much is expected of them, and having the necessary skills is the number one facilitator of performance management



**My line manager/
supervisor has the
necessary skills**

55%

**Inadequate time
spent in their role as
people manager**



Managers
are spending
3.5 hours
per employee/year
on managing
performance

So what does it take to be an effective people leader?

Effective people leaders demonstrate these key competencies

Rank	How effective is your manager at...	Favorable
1	Developing Talent	56%
2	Leading Change	54%
3	Engendering Confidence and Trust	53%
4	Building Effective Teams	54%
5	Displaying Entrepreneurial Spirit	54%
6	Focusing on Customers	52%
7	Articulating the Vision	52%

Source: Willis Towers Watson 2016 Global Workforce Study – Global.

Engagement is significantly higher among employees who rate their managers favorably on these competencies

So what are companies doing around leadership development?

Overall there is room for improvement



Our organization develops leaders who will be able to meet changing business needs

Strongly Agree/Agree

60%



My organization makes effective use of a leadership competency model

Strongly Agree/Agree

55%

Leadership development technology in my organization:

Currently have

53%

Plan to add in next year or two

31%

No plans

16%



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Three-quarters of US employers identify stress as the top workforce health risk issue

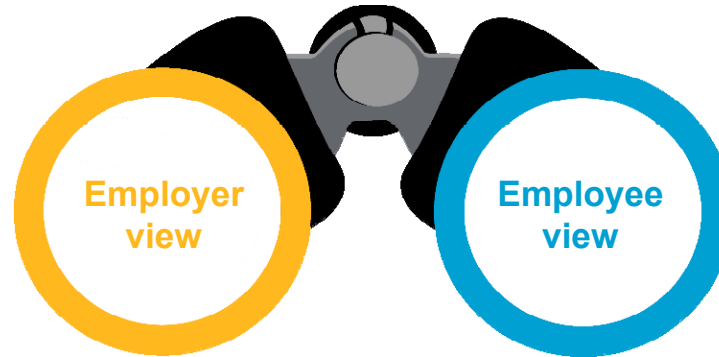
Rank	Top Workforce Health Risk Issue
1	Stress (75%)
2	Overweight/ Obesity (70%)
3	Lack of physical activity (61%)
4	Poor nutrition (50%)
5	Lack of sleep (31%)

Source: 2015/2016 Global Staying@Work Survey

Addressing workplace stress involves addressing staffing issues, rethinking pay, and changing an organization's culture

Causes of stress: main disconnects between employer and employee views

#1
Lack of work/
life balance



#1
Inadequate
staffing

Lack of work/life balance	#1 ≠ #6
Inadequate staffing	#2 ≠ #1
Technologies that expand day	#3 ≠ #12
Company culture	#12 ≠ #3
Low pay	#11 ≠ #2

Source: 2015/2016 Global Staying@Work Survey and 2015/2016 Global Benefits Attitudes Survey
GBAS sample: US and Canada full-time employees with an employer health plan. Rest all employees.

Note: Rankings based on options 3/4/5 on a 5-point Likert scale

So what does it take to build a culture of health and well-being?

- 1 The employer role:** Move from 'pull' (encouragement) to 'push' (driving change) gradually – build employee permission.
- 2 Trust:** There is a strong connection between health engagement and the broader employment deal. Address concerns on privacy of personal information.
- 3 Social connections:** Leverage worksite and support interactions and competitions around health. Important for managers to be effective advocates of employer programs.
- 4 New technology:** Use technology, peer groups and personal communication to motivate action.



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Employees continue to say that performance management – as they experience it – is not very helpful...

The extent to which employees agree with the following statement:	Favorable
People are held accountable for their performance at my organization	51%
The people who evaluate me have clear visibility of my performance on the job	62%
My performance was accurately evaluated in my most recent performance review	54%
My organization does a good job explaining our performance management process	54%
My performance reviews have helped me improve my performance	45%
High-performing employees in my organization are rewarded for their performance	46%
There is a clear link between my job performance and my pay	44%

This represents a lost opportunity to address a top driver of sustainable engagement: **clear goals and objectives**



Managers also say they spend too much time filling in forms...

The amount of time I spend on the performance management process:	Too little	About right	Too much
Collecting feedback from colleagues is...	17%	59%	24%
Ongoing conversations with employees about their individual performance is...	17%	56%	26%
Helping employees set performance goals or objectives is...	16%	74%	10%
Understanding and using performance management technology is...	16%	74%	10%
Year-end performance feedback sessions is...	17%	75%	8%
Participating in calibration sessions is...	16%	56%	28%
The process overall is...	17%	74%	9%
Completing forms is...	4%	70%	25%



And **not enough time** on setting goals, collecting feedback and discussing individual performance

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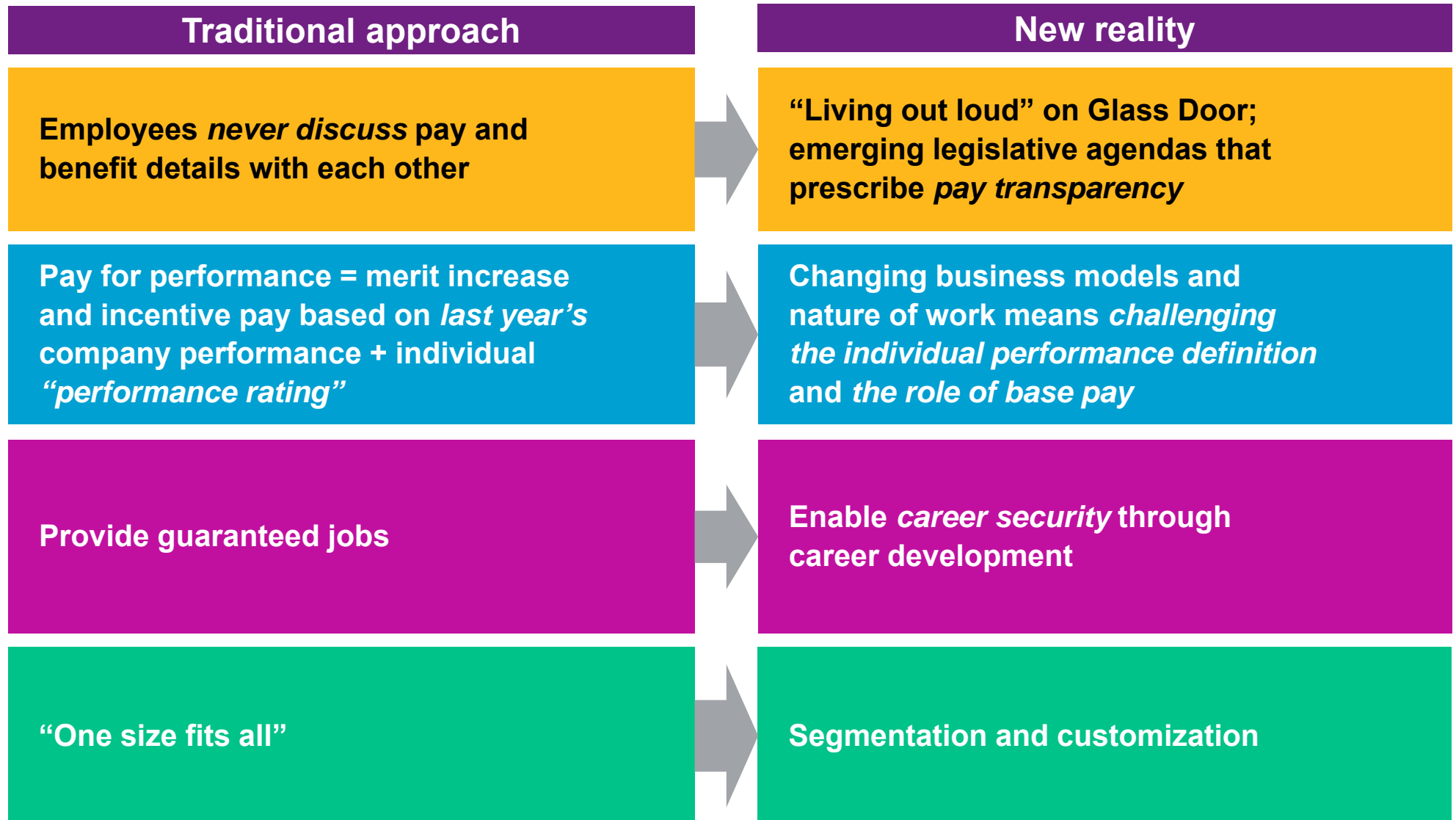
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Modernizing Total Rewards means challenging conventional thinking



Employers promise pay for performance differentiation, but fail to deliver

24%

Of US employers think that base salary increases drive performance

Only

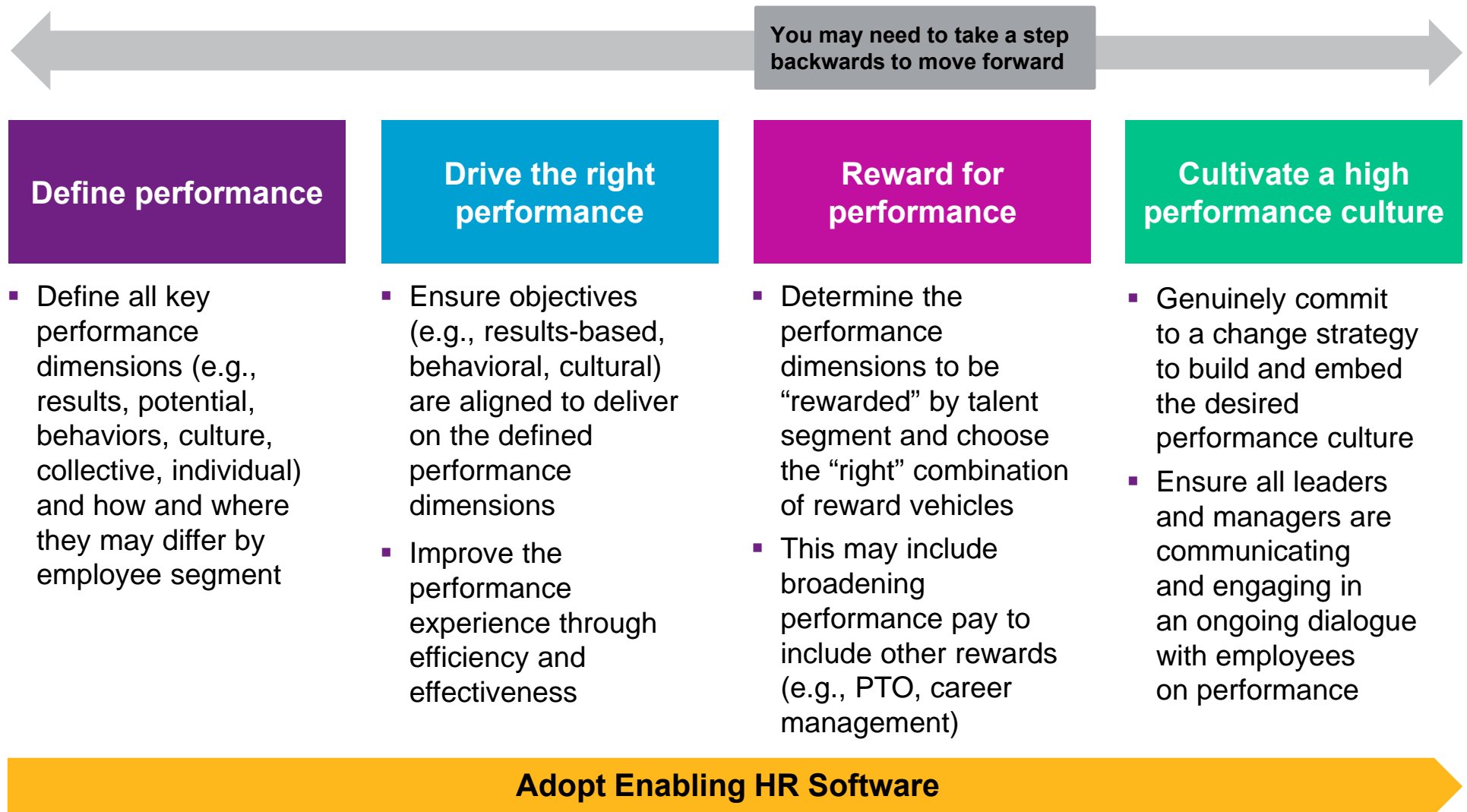
40% in the US
think that short term incentives do

Perceptions of **differentiation effectiveness** are mixed

The need for consistency in performance reviews and compensation decisions raises the importance of job leveling and career frameworks

How do we put “pay for performance” back on track?

Get crisp on what performance needs to be rewarded and adapt programs accordingly



In summary, the new Total Rewards reality suggests...

1



Transparency is a core principle

2



Career security is the new job security

3



Changing nature of work demands modern approach to pay for performance

4



Base pay needs an identity check, it's purpose may be lost

5



Recognize that the “total” in total rewards includes flexibility and a move away from “one size fits all”

Modernization will address human capital risk

Key Leverage Points for Employers to Improve



Leadership – Instill trust and confidence/build trust-based relationships; role model the EVP, develop the next generation of leaders



Supervision – Make room for managers to have the time needed to provide effective people management



Transparency – Heighten transparency



Performance Management and Pay for Performance–
Re-define performance management and differentiate



Flexibility – Create flexible career paths, embrace flexible work arrangements



Technology Enablement – Leverage digital media to drive engagement





Thank you

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