

MERCER

Consulting. Outsourcing. Investments.



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The logo for Mercer Signature Series, featuring the word 'MERCER' at the top, 'SIGNATURE' in large vertical letters, and 'SERIES' at the bottom.

MERCER
SIGNATURE
SERIES

September 18, 2008

Analytics and Predictive Modeling to Inform HR Policy and Transformation A Case Study

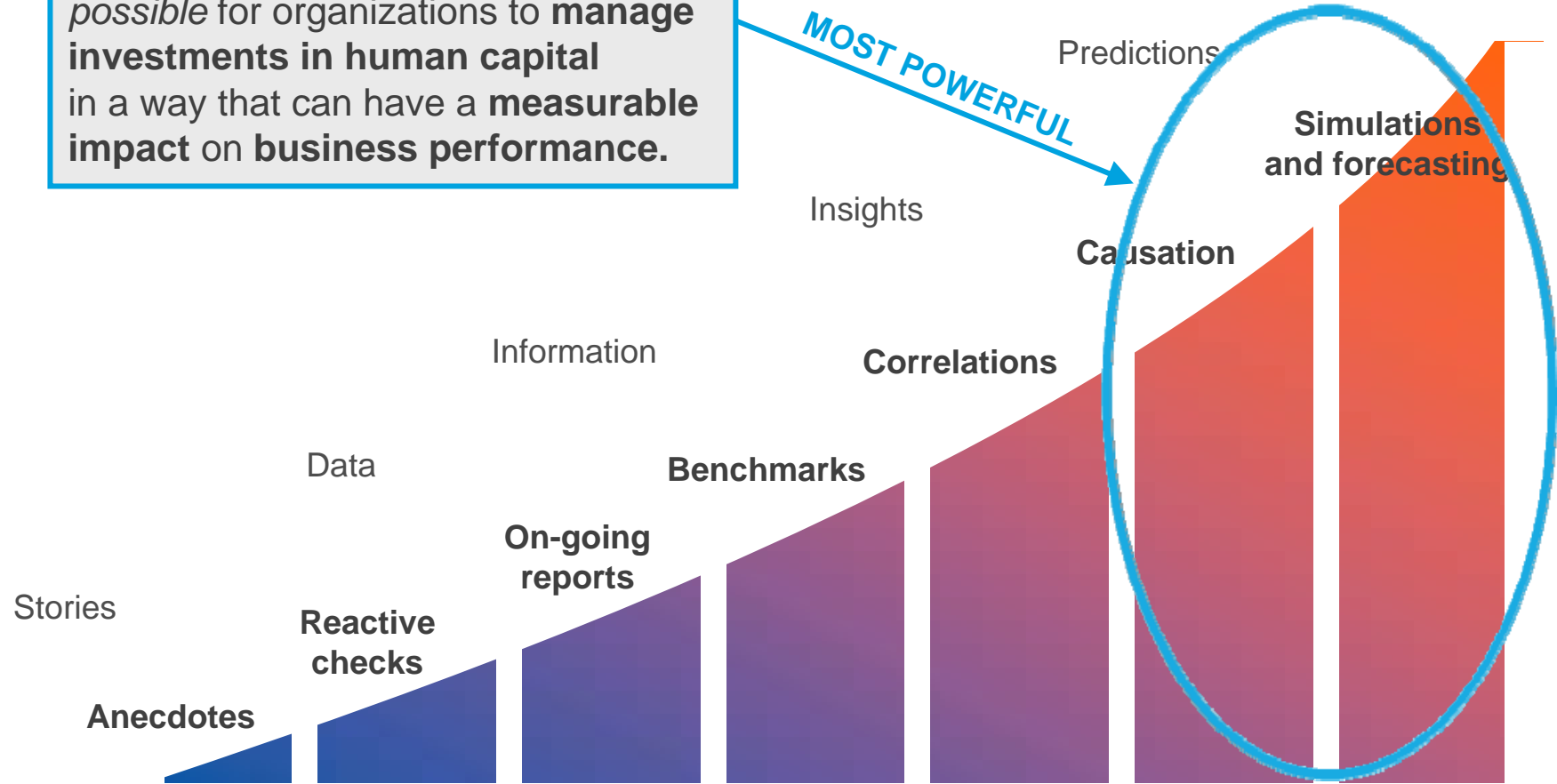
www.mercer.com

“People are our greatest asset”

***“Are you truly optimizing your
Human Capital investment?”***

Measurement is crucial to human capital decision-making, but data and analyses range from unreliable to very sophisticated

Advances in **information technology** and **analytic methods** are making it *possible* for organizations to **manage investments in human capital** in a way that can have a **measurable impact** on **business performance**.



A new era of human capital management

TODAY

TOMORROW

-
- | | | |
|---|---|---|
| ▪ What employees <u>say</u> | ➔ | ▪ What employees <u>do</u> based on actual behavior |
| ▪ What Human Capital programs <u>cost</u> | ➔ | ▪ <u>True returns</u> on investment |
| ▪ What <u>others do</u> | ➔ | ▪ What <u>works for us</u> |

UnitedHealth Group profile



UnitedHealth GroupSM

- Preeminent health and well-being company
- Multiple business segments – \$75B in revenues

OptumHealthSM

OVATIONS
A UnitedHealth Group Company

PrescriptionSolutions
A UnitedHealth Group Company

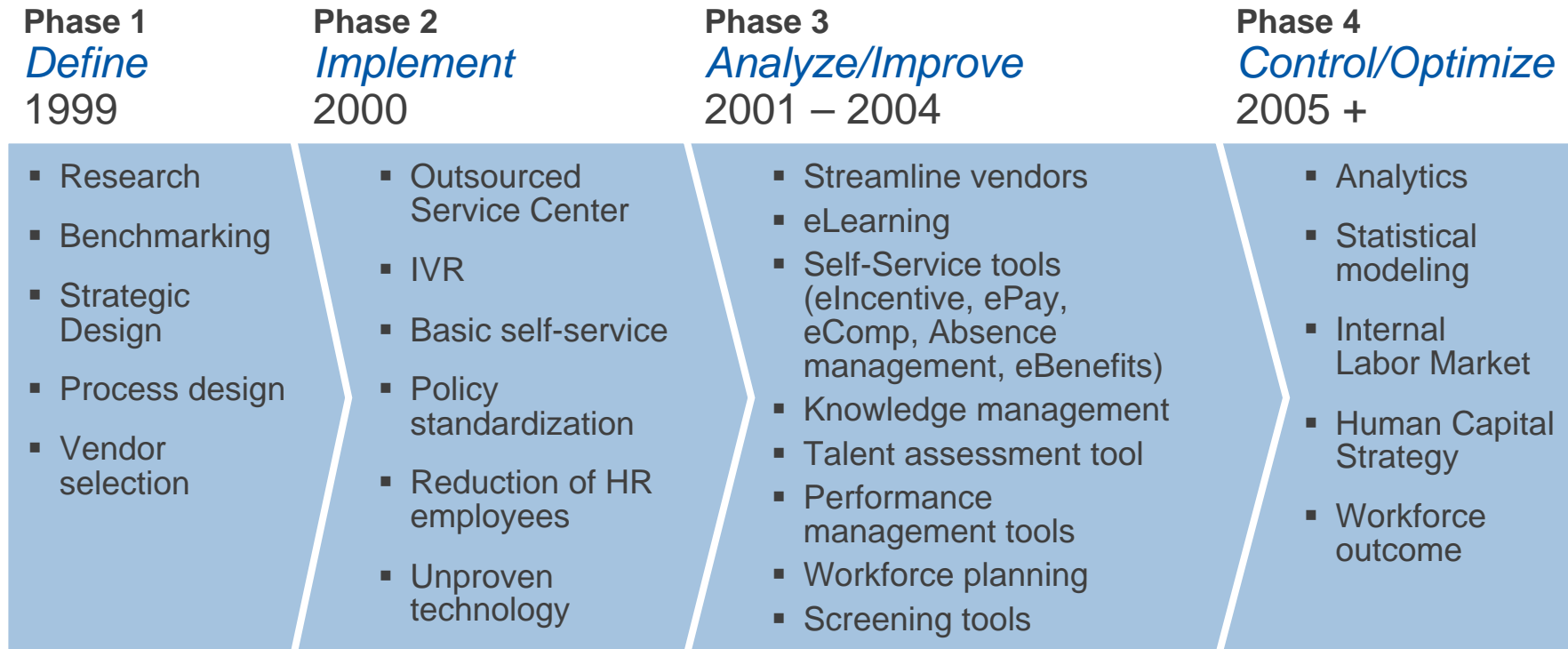
UnitedHealthcare[®]
Healing health care. Together.[™]

AmeriChoice

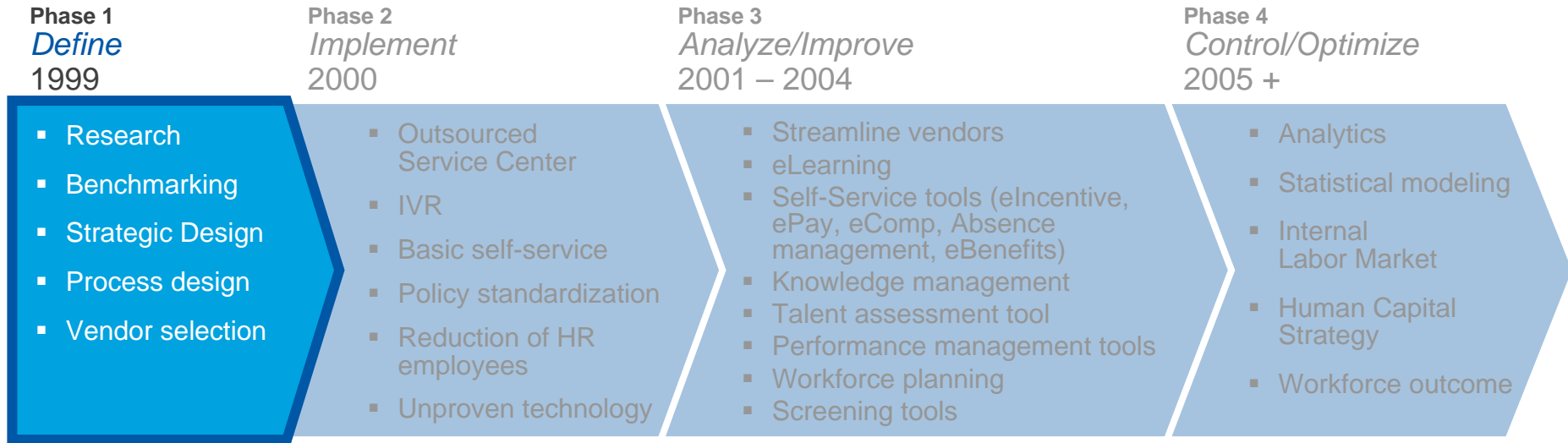
INGENIX[®]

- 70,000 employees – global footprint
 - Customer service representatives
 - Clinical professionals
 - Sales personnel
 - Actuarial experts
- Frequent, significant acquisitions

The transformation journey

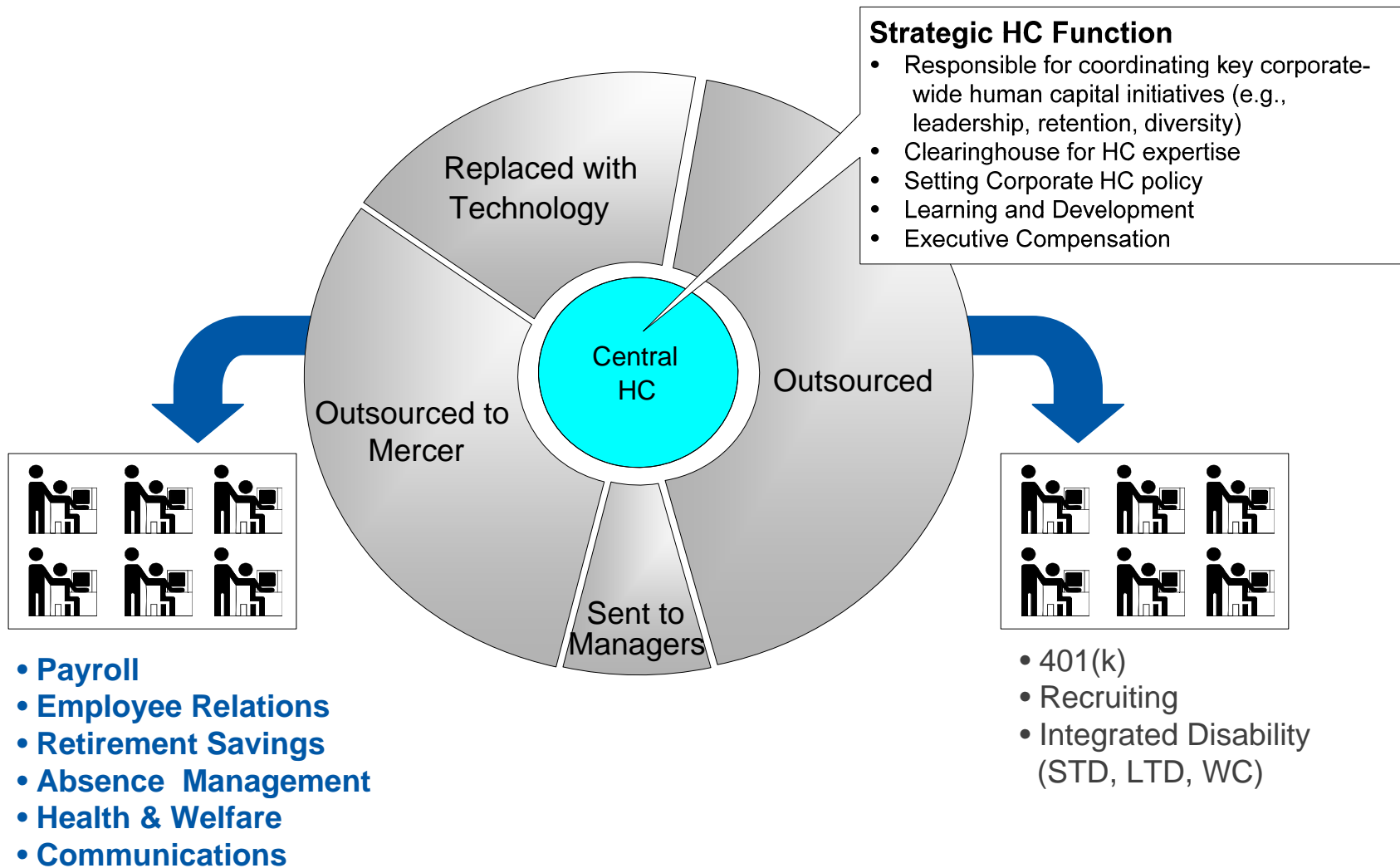


The transformation journey

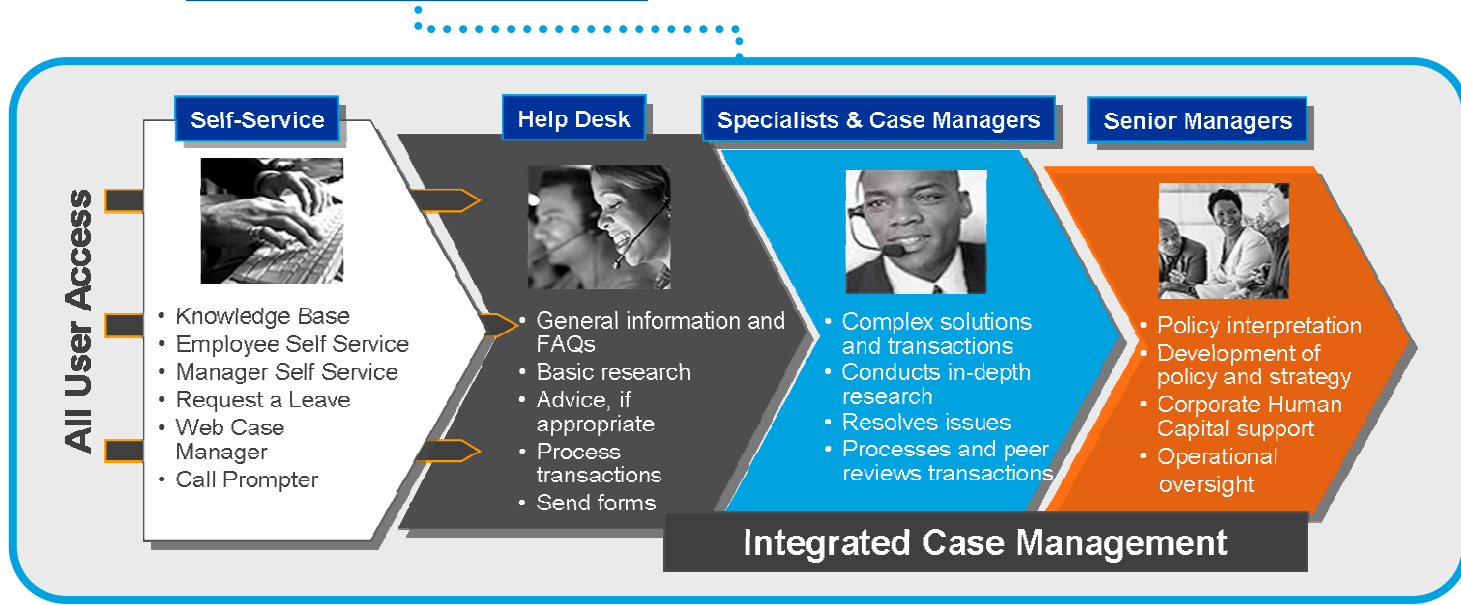
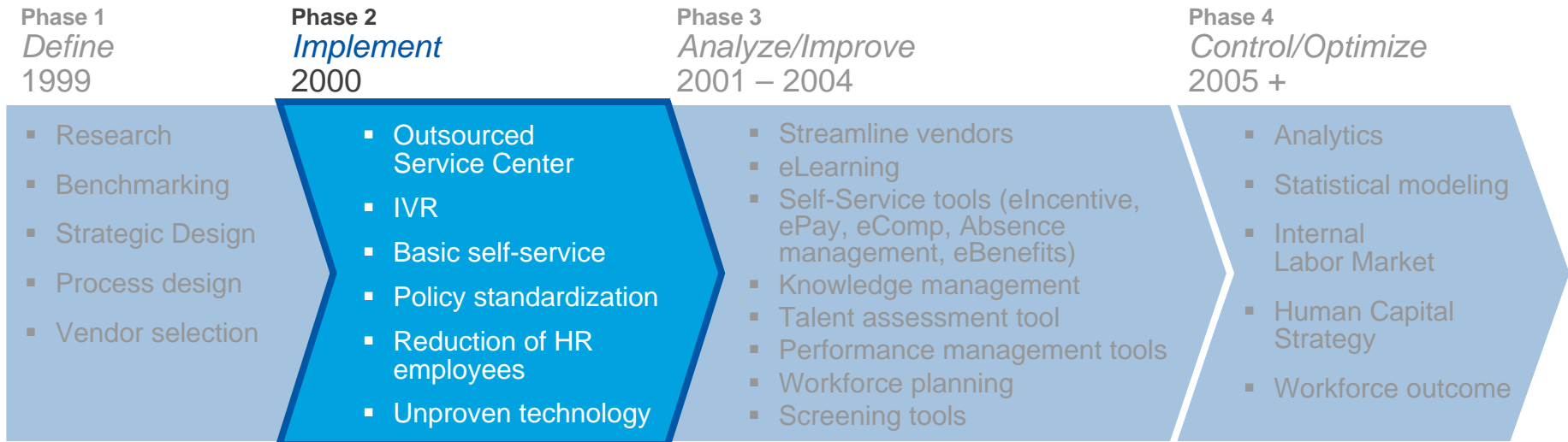


<p>Human Resources</p> <p>From Labor Cost</p> <p>From HR Function</p> <p>From Compliance</p> <p>From Owning the People</p>	<p>to</p>	<p>Human Capital</p> <p>Strategic Assets</p> <p>Strategic Competence</p> <p>Risk Mitigation and Governance</p> <p>Supporting managers with tools to identify, develop, retain Top Talent</p>
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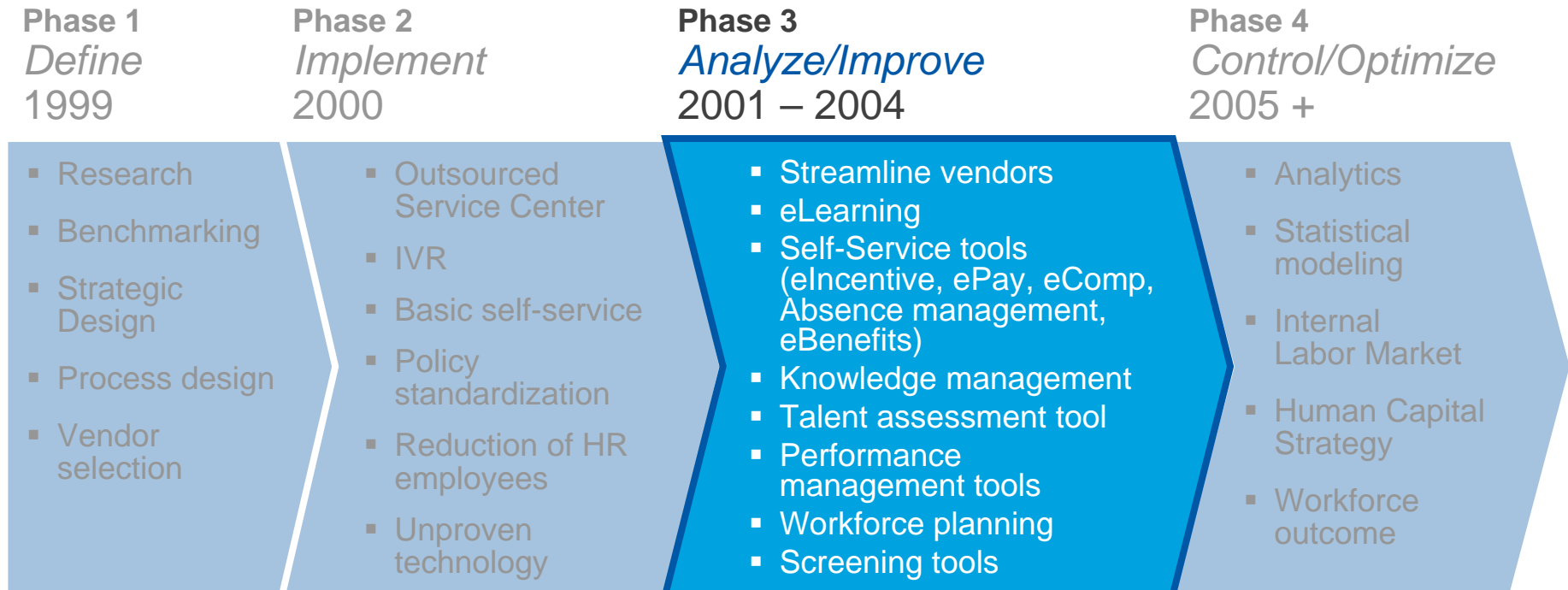
Smaller, more focused HR function



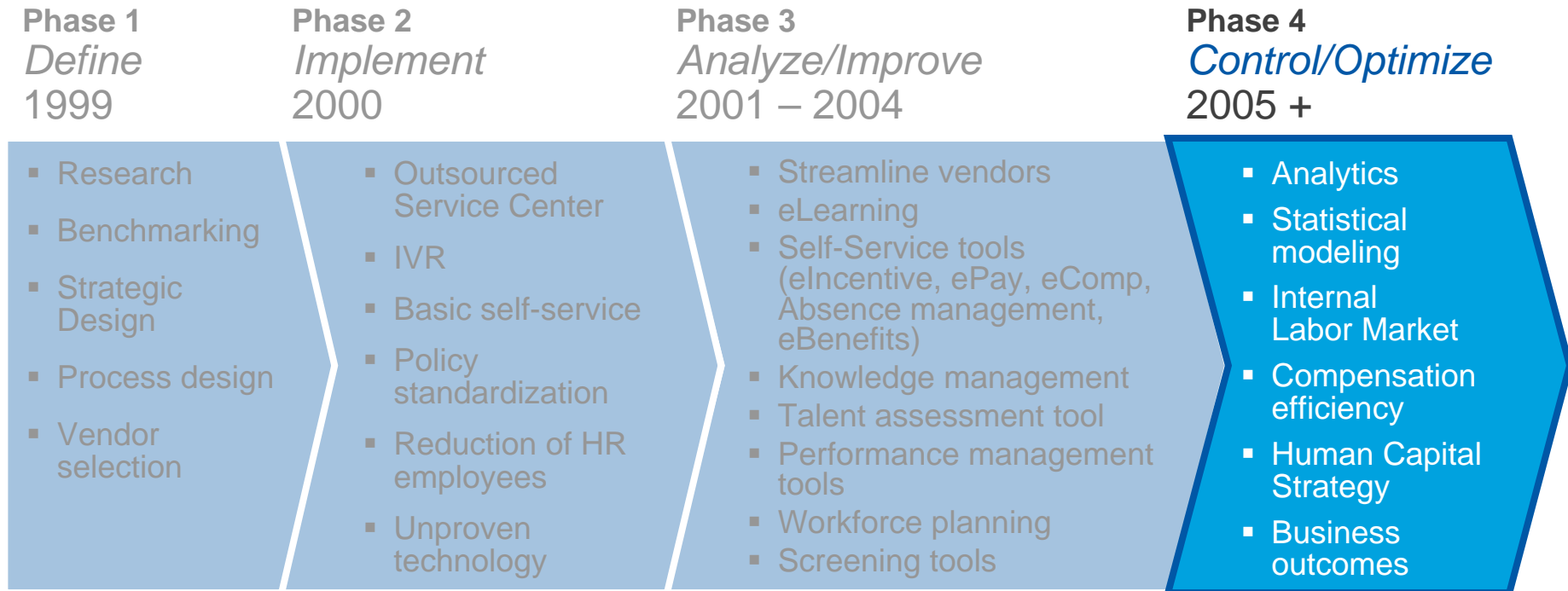
The transformation journey



The transformation journey



The transformation journey

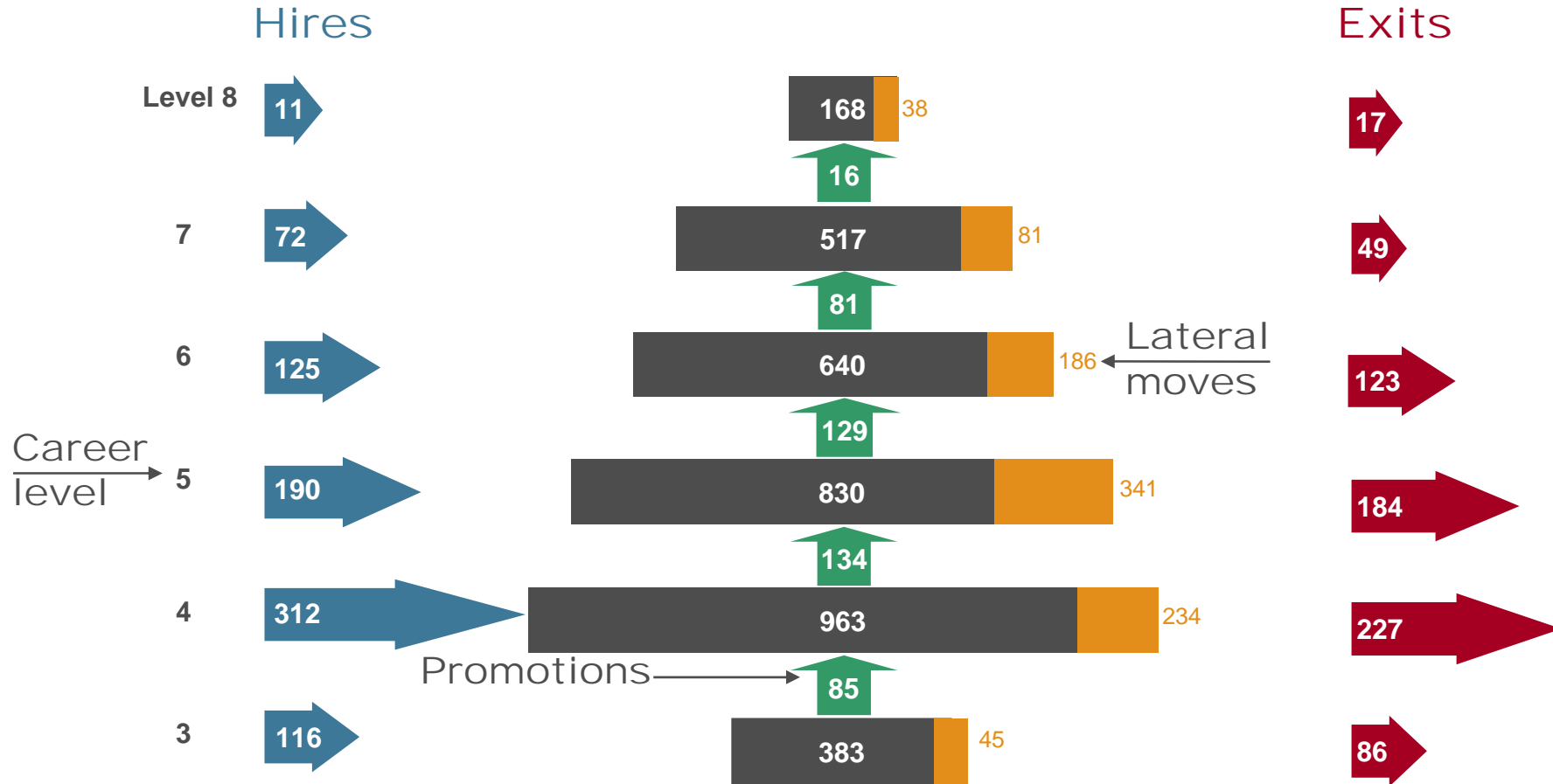


The Internal Labor Market:

The core of a data-driven approach

- Like all employers, UnitedHealth Group operates its own unique internal labor market
- The internal labor market is defined by how we recruit, hire, train, develop, compensate, transfer, promote, coach, retain
- The internal labor market should create two desired sets of outcomes
 - Workforce outcomes
 - Employee engagement, enhanced workforce capability, and a strong performance culture
 - Business outcomes
 - Growth, profitability, high levels of customer service

An ILM map: “Mapping” the flows that determine what your workforce is and what it is becoming



Managing the ILM requires good data

Dashboards for Monitoring

Deep-Dive Analytics

Facts

Counts, rates

Proven inferences about cause-and-effect relationships

Delivers...

Current-state information such as:

Answers to questions such as:

- What is our turnover rate?
- How many promotions did we make?
- What are our spans of control?

- Why do people quit?
- Do lateral moves make employees promotable?
- What experiences drive employee engagement?

Uses

- Reporting (internal and external)
- Tracking progress toward goals
- Monitoring trends

- Strategy-making
- Forecasting
- Problem-solving

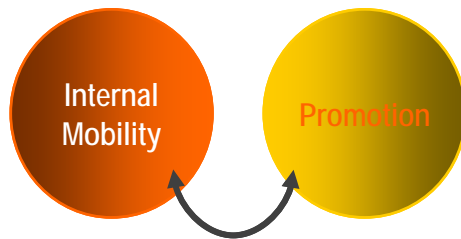
Other

Business intelligence tools

Statistical modeling techniques

Proving cause-and-effect

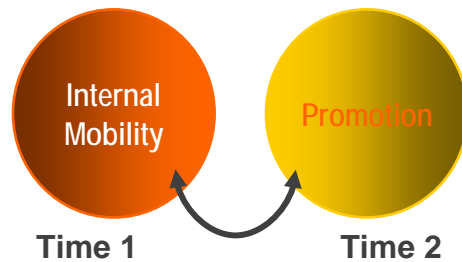
Three conditions must be met



1. Correlation

A practice and individual performance must be related

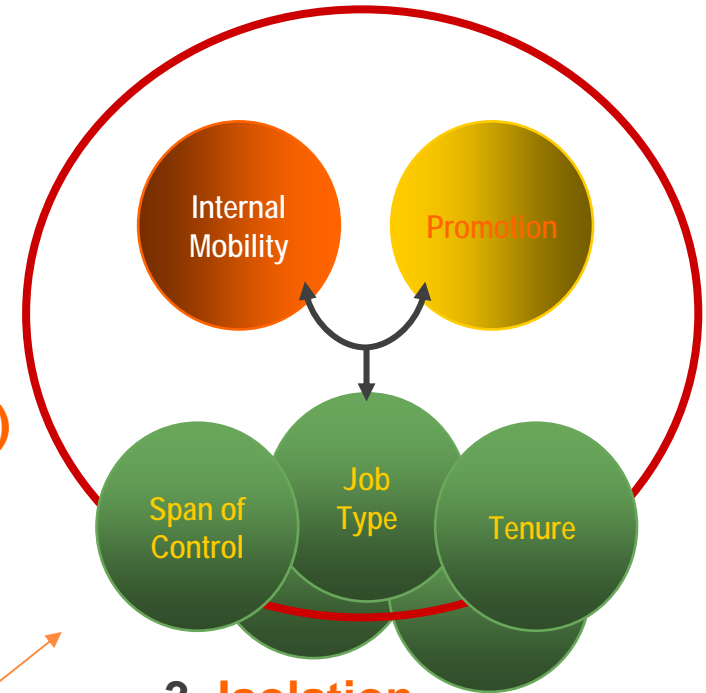
We test how events in a prior year – e.g., a move between segments – affects outcomes in the following year



2. Time (directionality)

The event or condition must precede measured performance

We isolate impact through statistical modeling, requiring results to be robust across several tests

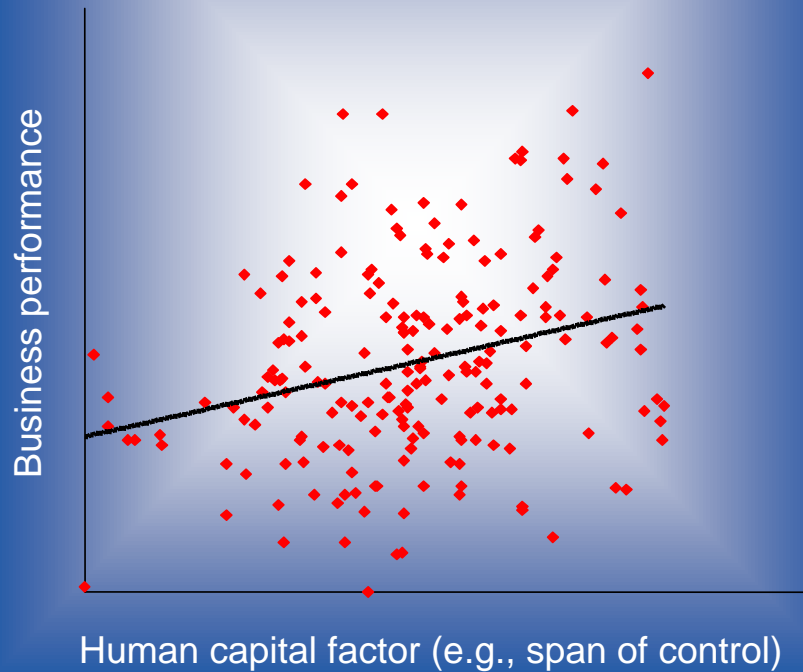


3. Isolation

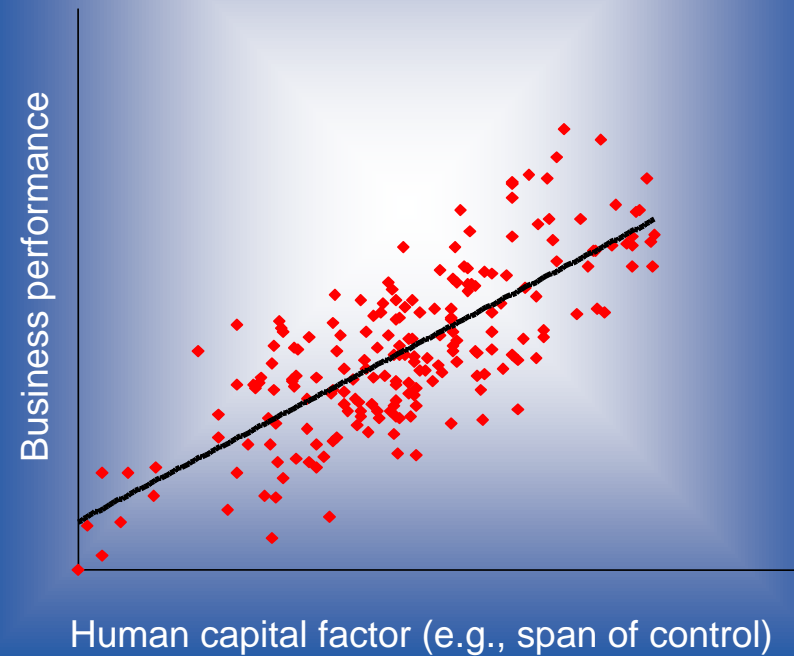
Other factors that could influence promotion are identified and accounted for

Modeling serves to clarify complex relationships

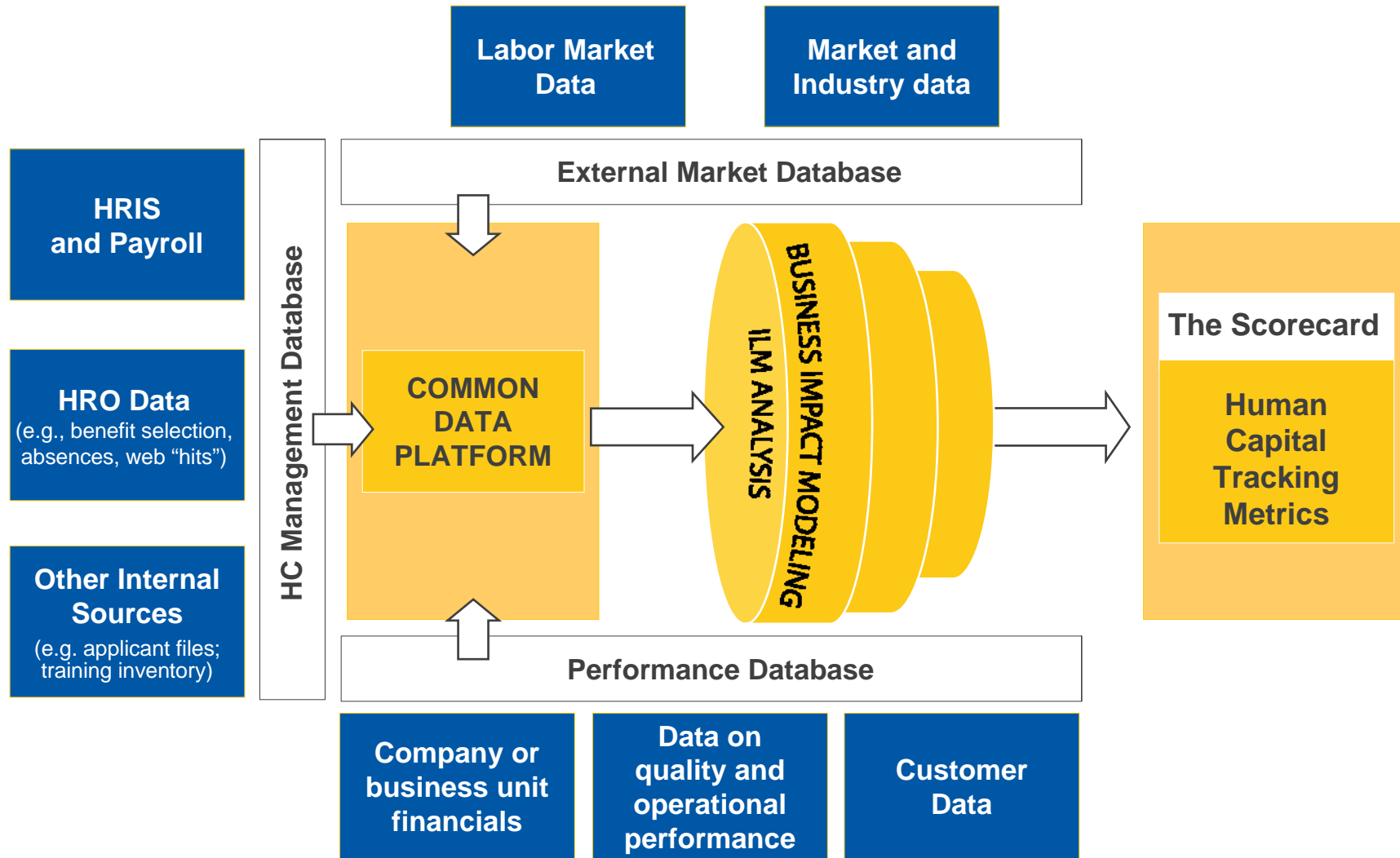
A typical, simple relationship is plagued by “noise” – and can produce misleading findings



With appropriate controls, findings will be more accurate

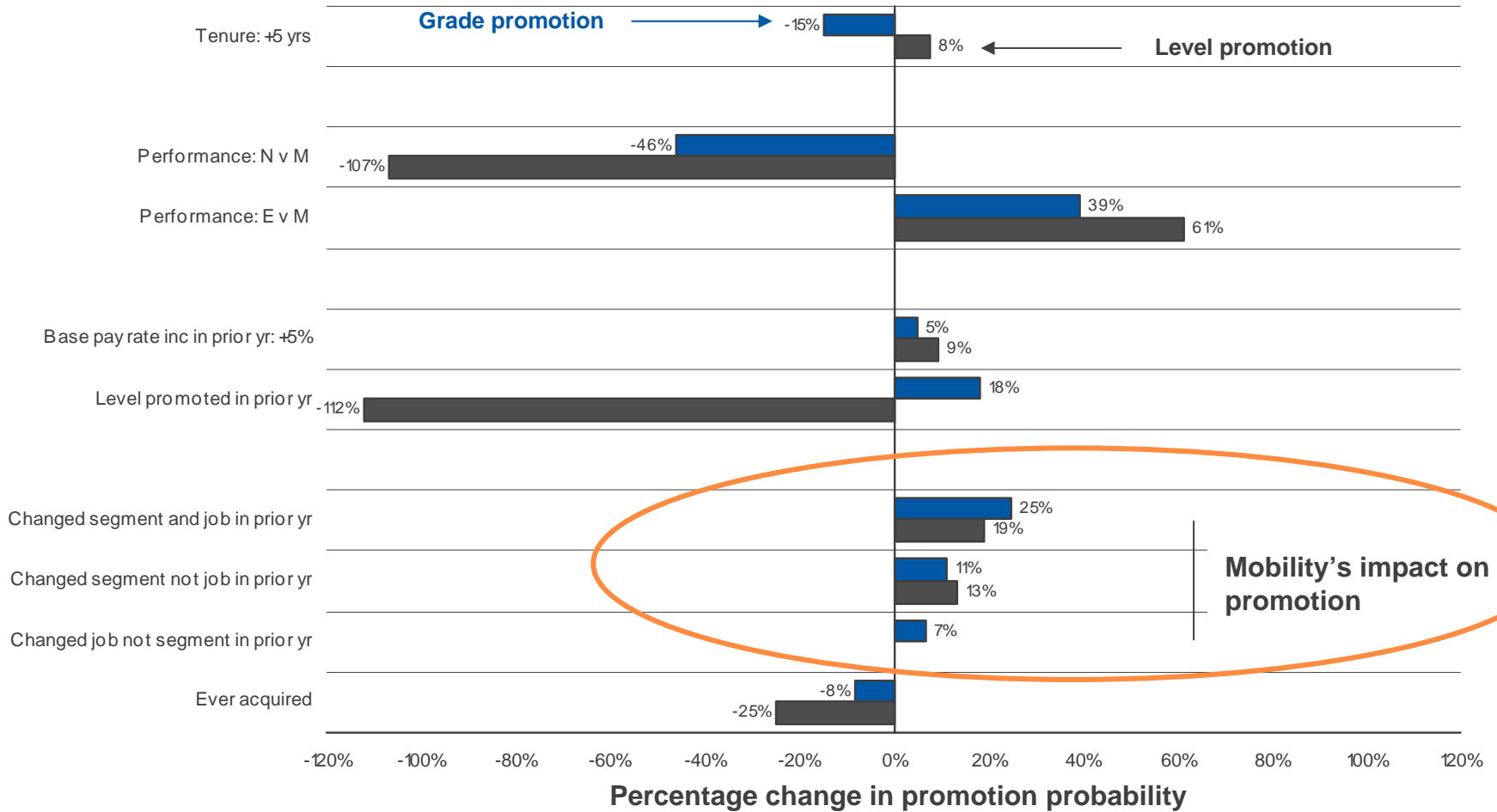


Data from multiple sources is brought together to inform decision making

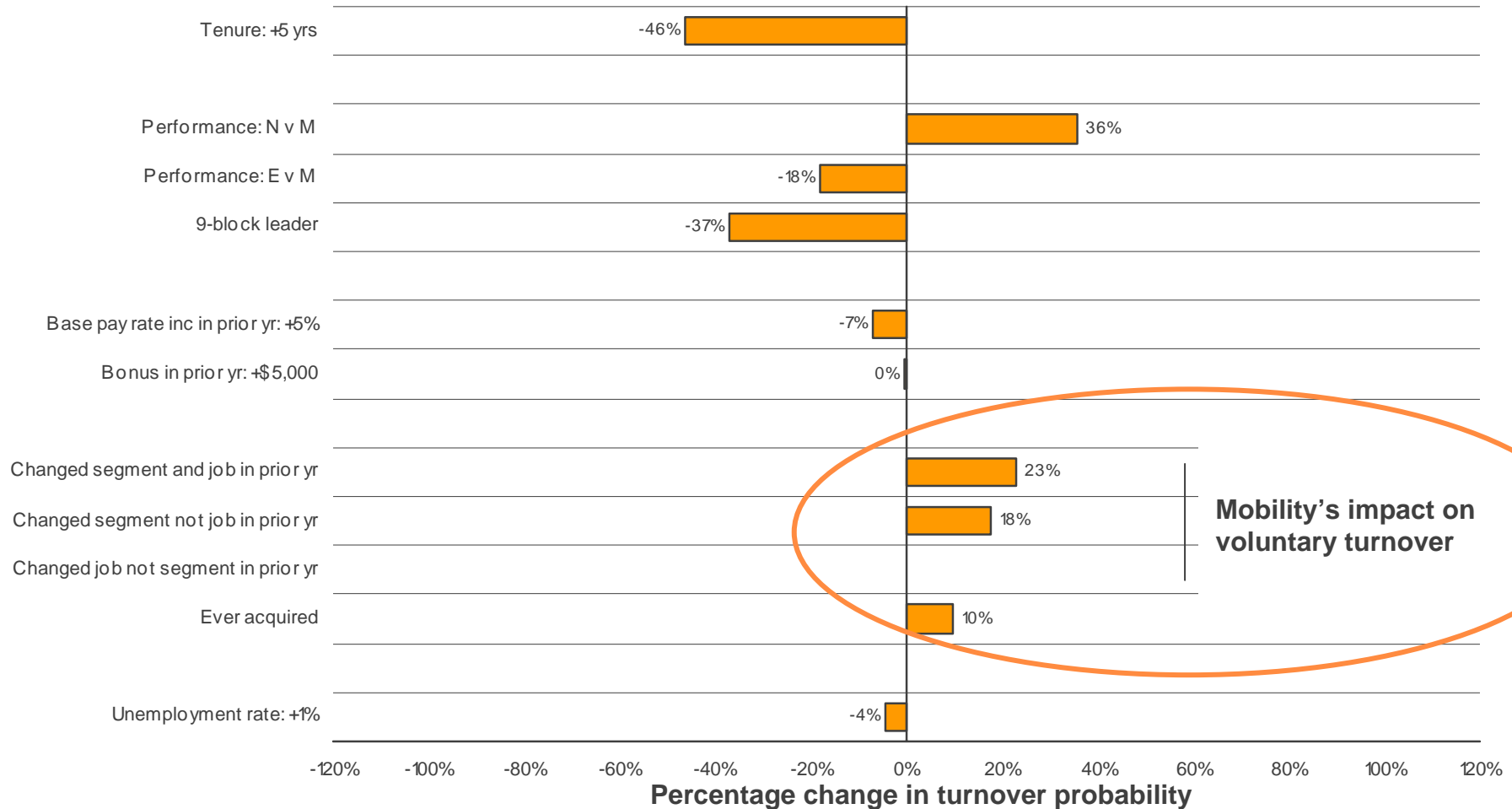


How do we BUILD talent?

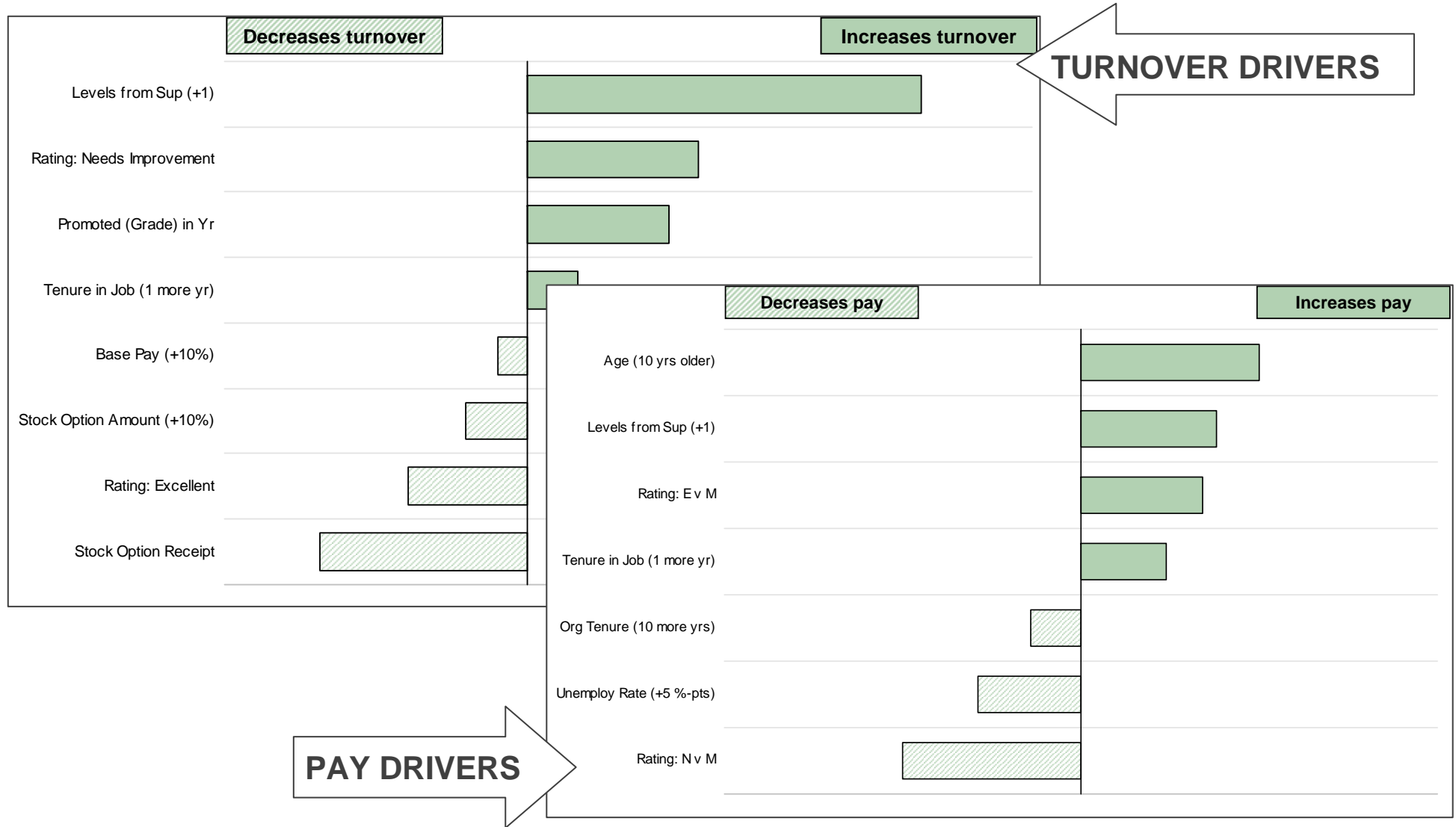
Modeling result #1: Mobility makes promotion more likely ...



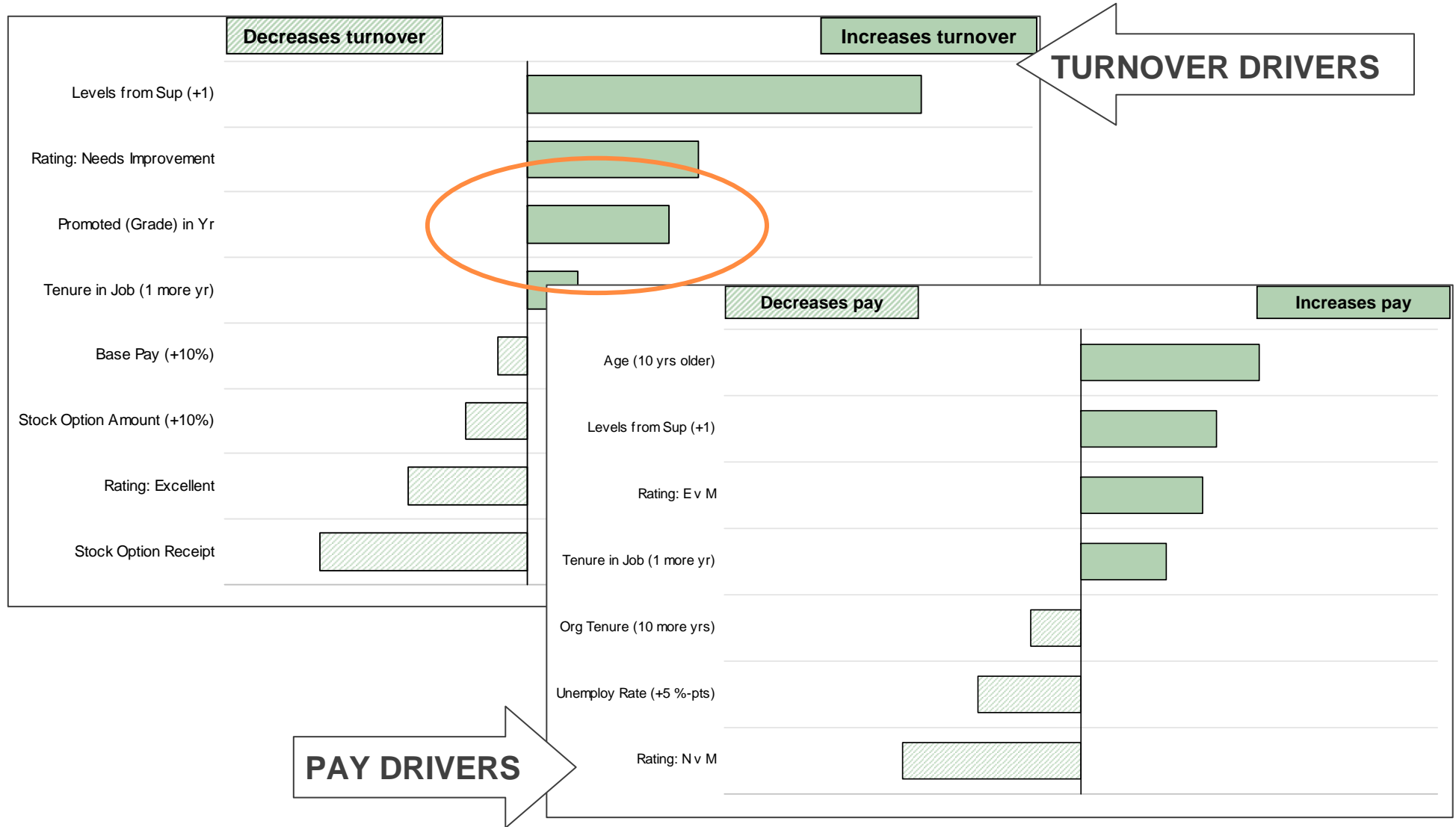
Modeling result #2: ... But moving to a new segment also makes voluntary turnover more likely



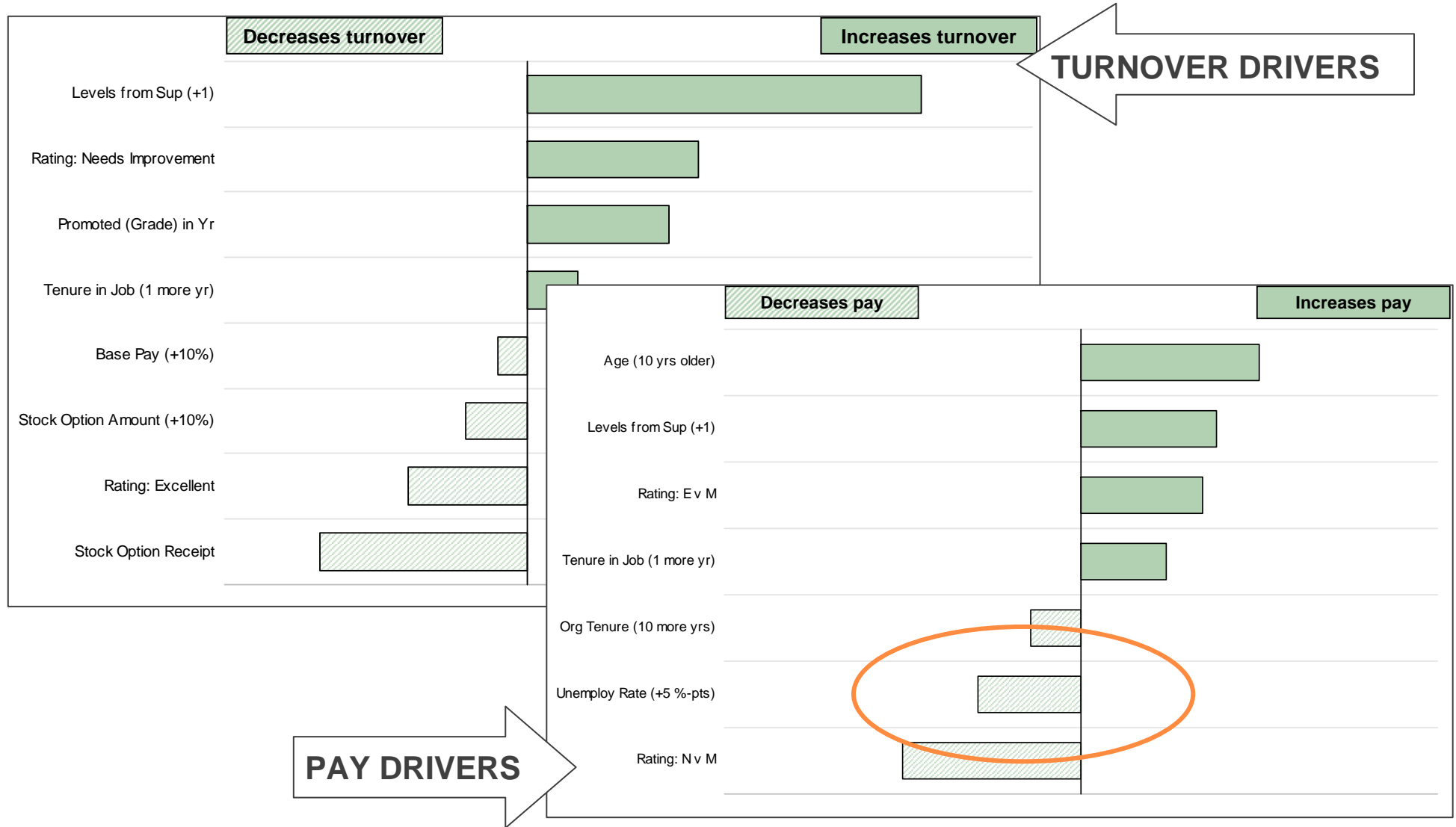
Looking across models generates key insights



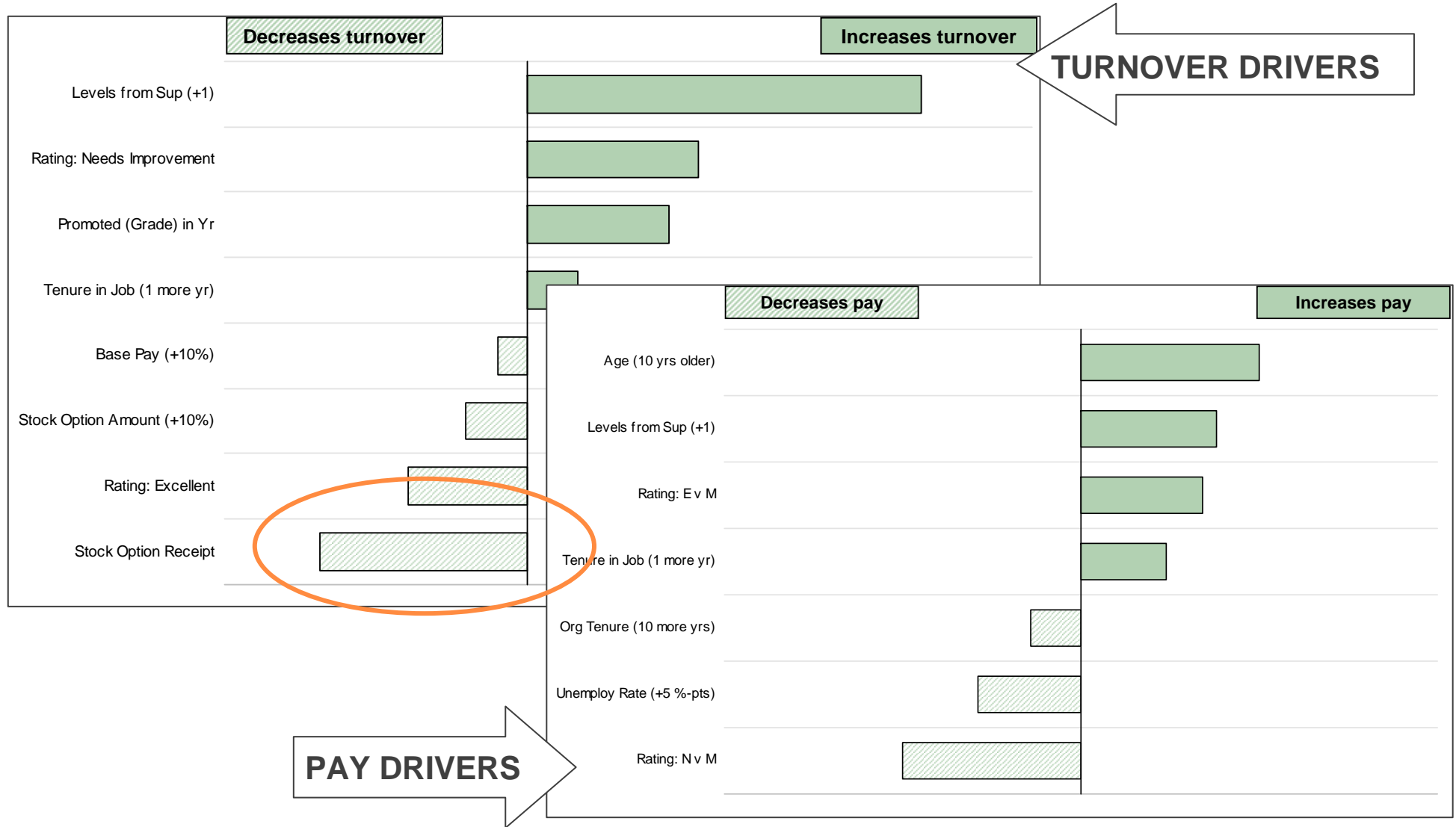
Modeling result #3: Promotion increases likelihood of turnover



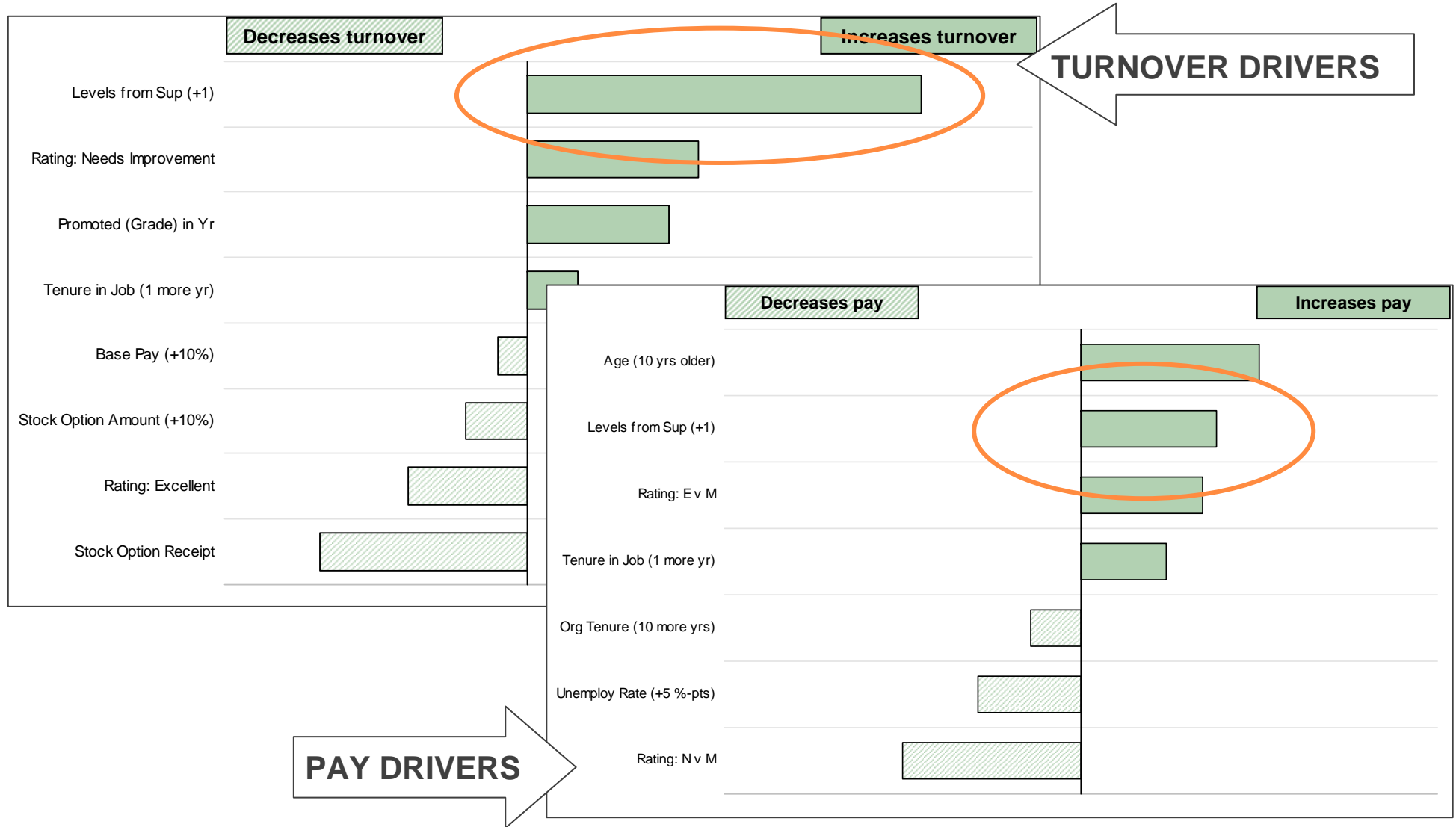
Modeling result #4: External conditions drive pay



Modeling result #5: Equity receipt reduces turnover



Modeling result #6: "Supervision" drives turnover and cost





So, how do we BUILD talent?

- Encourage transfers
- Provide value to “career” employees
- Increase developmental support



Lessons learned

- Say-Do problem
- Intuition and benchmarking can be dangerous
- Human capital is unique
- Large scale HR outsourcing can support strategic decision making



Questions?



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