

Measuring and Analyzing Total Rewards

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more and more chief executive officers realize they get better performance from engaged and connected employees. Many are rethinking their people strategies. They are developing new ways to identify, engage and retain the right workforce to deliver their corporate growth agenda. The total rewards¹ strategies these organizations are adopting reflect changes to the nature of work and employee expectations.

These strategies reflect progress in three major areas. First, employers are actively focused on future hiring needs. They are working to improve the quality of people in their workforce, by attracting and retaining the critical talent required to meet business needs. Second, employers have recognized that employee engagement affects the bottom line. Where rewards programs need to be changed, employees are involved in decision-making. Third, employers are taking advantage of new technology to access better data and metrics to support ongoing human resources (HR) decision-making.

The well-publicized threat of skills shortages is no longer purely academic. Today, hiring the right skills and competencies is a dominant action item on HR agendas. And once the right people are in the door, the focus changes to creating opportunities for people to learn and grow, so that they can contribute in a meaningful way.

That focus has to accommodate a workforce that is less homogeneous than ever. Today's labour force is diverse, multicultural and

multigenerational. Different people bring different values, attitudes and abilities to the workplace. Some seek challenging work and opportunities for rapid growth. Others seek to optimize personal wealth. Still others are focused on achieving work-life balance while maintaining income stability. Clearly, a one-size-fits-all rewards solution is no longer appropriate.

The good news is that many Canadian companies recognize these driving forces and have begun to move forward. They're asking themselves important questions. Is the business going to grow organically or via acquisitions? How many employees are needed in key job categories? Where should they, or could they, be located? Are the employees available in the current workforce or external labour market? Can employees be trained or deployed differently to meet business needs? Is there a sufficient leadership pipeline? What will the needed talent cost?

Thoughtful, disciplined responses are needed. Only with a proactive plan and an effective measurement process can organizations hope to keep up with, or surpass, their competitors.

OPTIMIZING THE FUTURE WORKFORCE

Today, companies are developing new tools and techniques to help translate the business plan to a workforce plan. The approach that follows is designed to address the questions mentioned above using business plan information, current employee data and assumptions about future workforce trends.

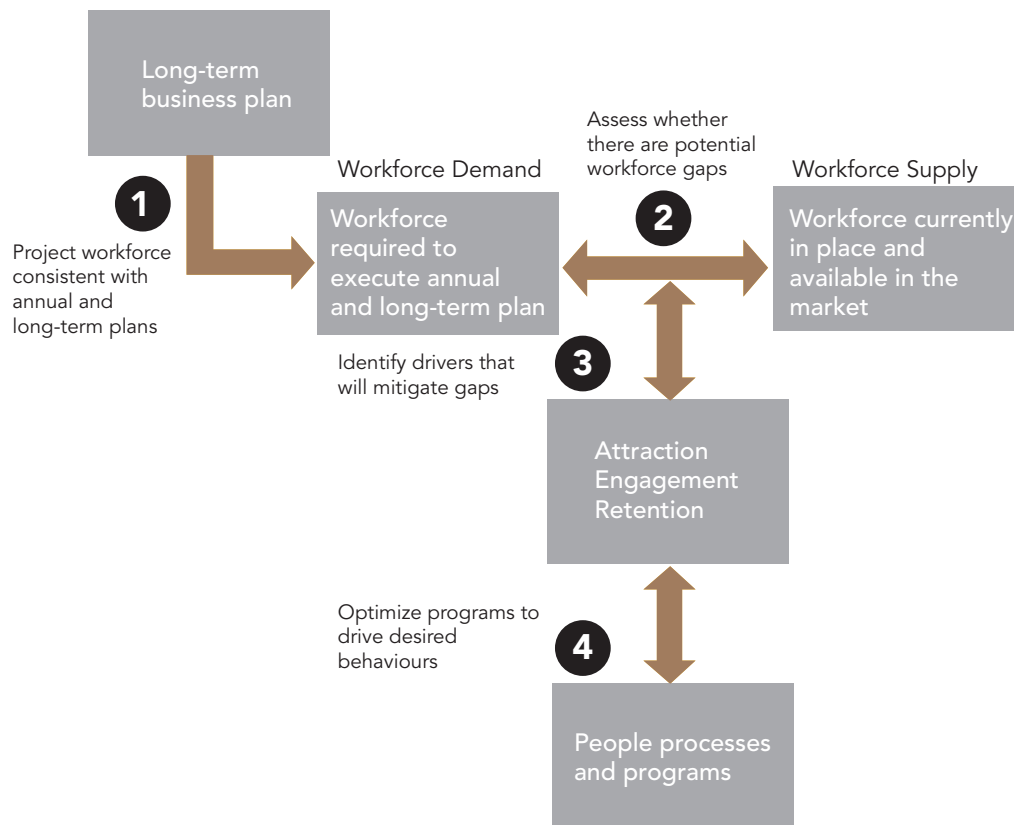
The first step entails reviewing the long-term business plan to identify the future talent needed to execute business strategies for a specified period. This period varies among organizations, depending on factors such as the industry sector and the length and volatility of the organization’s business plan. Most organizations choose a three- to five-year time frame. Some more mature businesses extend the analysis to 10 years.

With an eye on the longer term, and a focus on near-term impact, organizations can manage their planning and monitor their activities

as the global environment evolves.

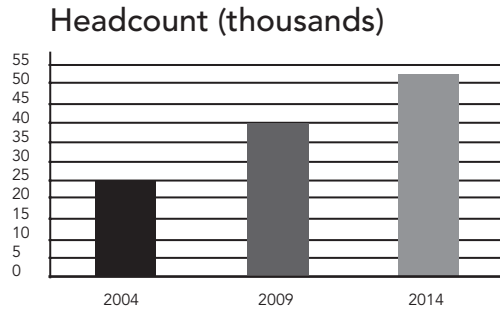
The next step is to analyze the current workforce in terms of headcount, capabilities and the cost of key talent pools required to execute the business plan. Companies are working to understand key demographics, available talent and cost trends, and to pinpoint gaps in talent the company must fill from internal and external sources. It is particularly important during this step to identify mission-critical skill-sets — competencies that are essential to the ongoing growth of the business.

CHART 1: WORKFORCE PLANNING

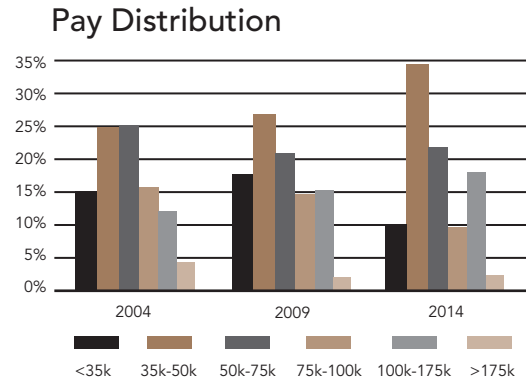


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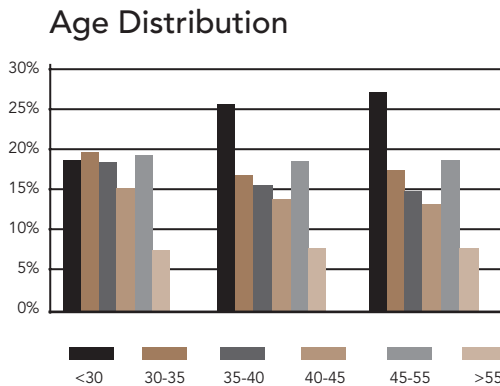
CHART 2: FUTURE WORKFORCE SCENARIO DEVELOPMENT (ILLUSTRATIVE)



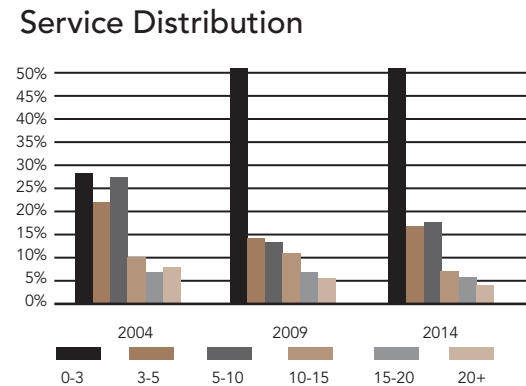
The combination of organic growth and acquisitions was expected to increase headcount dramatically.



Average pay was actually decreasing initially due to the difference between pay of separations versus new hires.



Due to the difference in new hires versus separations, the workforce would actually get younger.



Turnover and growth would mean that more than half the population would be new in three to five years from now.

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Using assumptions based on careful analysis of internal and external data, a company can compare the workforce required by its business plan to the workforce that is projected to be available. This is based on its existing employee population and the expected attrition that will result from retirements and other terminations.

Identifying the gaps between the talent needed and the talent available enables a company to develop targeted people strategies in support of business goals. These include recruiting, training and rewards processes that will attract, retain, develop and engage the right people, in the right locations, at the right cost.

The bar charts on page 16 are from an organization that entered into this process recently. Finance provided projections on revenue growth, margins and labour cost. Finance assumptions, HR data on the current workforce and trends related to turnover and salary increases were fed into a workforce-modelling tool. The results outlined the company's future workforce requirements. This analysis included information on headcount, changing demographics and workforce costs.

In addition to the baseline analysis, scenario testing was conducted that entailed varying internal and external market factors. The impact of several assumptions was ascertained, such as changes in revenue growth, turnover and increasing new-hire salaries.

This scenario testing helped the company understand the sensitivity of the workforce requirements to various changes, and to prepare for a range of possible outcomes. The data was also used to develop total rewards strategies aligned with both current and projected workforce requirements.

OPTIMIZING THE EMPLOYMENT DEAL

It is now generally accepted that a well-designed total rewards strategy incorporates an effective performance management program and variable pay to positively influence employee behaviour. The opposite is equally true. Poorly designed programs can create significant negative behaviour. This is illustrated below.

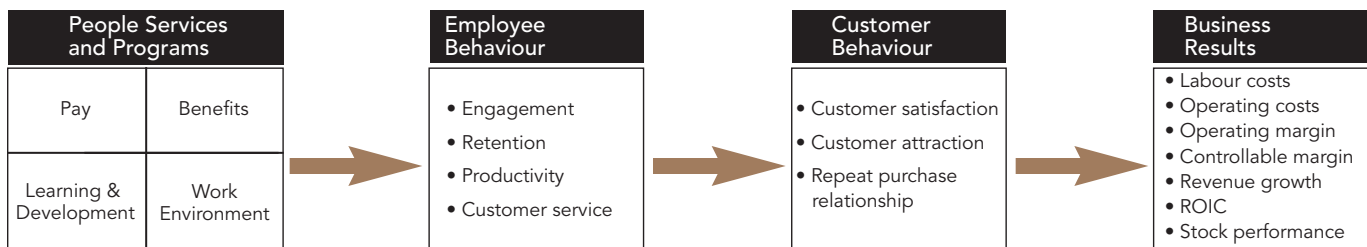
When an organization aligns its people programs and practices in a way that maximizes return on employee engagement, the results can include increased customer satisfaction and loyalty, and ultimately even improved financial results.

Employee engagement is complex. Chart 4 summarizes the top 10 engagement drivers identified by 4,500 survey² respondents.

Employers are asking themselves how best to reallocate funds to get the strongest return on their total rewards investments. Because of the increasing importance of employee engagement, many use both qualitative and quantitative analysis to explore the options.

CHART 3: THE LINKAGE MODEL

Conceptual Framework



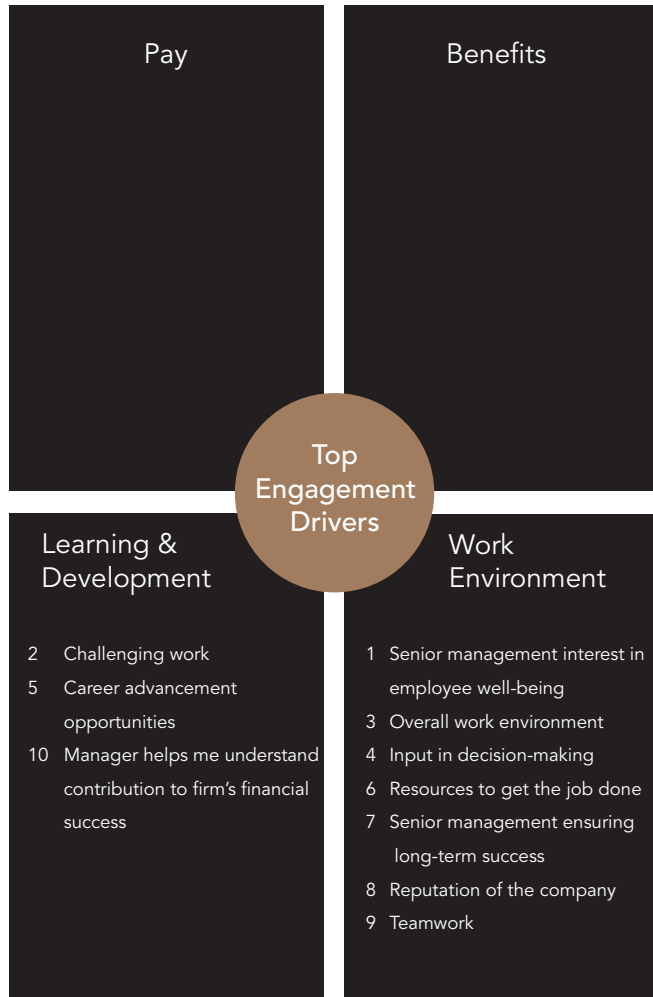
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Applying a total rewards optimization technique, organizations can identify the rewards different groups of employees most value, and use this data to restructure their total rewards programs. Organizations that have conducted appropriate employee-prefer-

ences research can reduce their rewards spending, increase employee engagement, decrease turnover and/or enhance perceived fairness in the total employment proposition.

When remixing portfolios, it is important to recognize that the current workforce may not have the attributes and qualities required for future business success. With this in mind, companies must consider programs for both their current employees and their anticipated future workforce when they seek to optimize rewards.

CHART 4: TOP 10 DRIVERS OF ENGAGEMENT IN CANADA



Source: Towers Perrin 2003 Talent Report

CASE STUDY: OPTIMIZING TOTAL REWARDS

A large pharmaceutical company in Canada decided it was time to examine its current rewards program and the costs allocated to this program. It wanted to determine how it aligned with employee preferences. Fact-based analyses of demographics, competitive landscape and available cost data were key inputs to the project.

A total rewards optimization study defined potential reward portfolios and identified possible change issues. Using conjoint analysis, a statistical technique commonly used in marketing, employees were asked to make reward trade-offs and rank the value and importance of rewards in the full portfolio of benefits (rather than evaluate each item individually).

Analysis of survey results showed significant differences, based on age, position and tenure within the organization. This data confirmed that even within this one workforce, different employees value rewards in different ways.

For example, older employees placed a significant premium on increases in variable pay. Younger employees reported the reverse.

The conjoint analysis validates and directs the rebalancing of costs and rewards. In this case, a review of the analysis provided data on the current employee base and makeup of the current workforce that enabled a redesign of the rewards system.

Using total rewards optimization conjoint analysis, combined with cost data and portfolio optimization analysis, a total rewards efficient frontier was developed. It mapped the level of engagement against the cost of the rewards portfolio, which illustrated the mix and level of investment required to optimize engagement. By remix-

ing its current rewards portfolio to reflect employees' preferences, the company could increase engagement by 18% at an additional cost of \$1 million. Further investments to improve engagement were found not to be cost-efficient.

For this company to hit the most efficient point on the engagement frontier meant remixing its base and variable pay formula, offering incentives for choosing a lower medical option in the flex plan, including a discount stock plan and introducing a new work-life balance program and additional vacation days. Many of these changes would come at a minimal cost to the company, but would have significant impact on employee engagement. On the flip side, the results showed that reducing retiree benefits would have significantly disengaged employees while not providing significant savings.

OPTIMIZING REWARDS DATA AND DECISION SUPPORT

Many organizations that carry out optimization exercises or program redesign want to measure their return on investment. Did the project resolve the turnover issue? Did it increase engagement? Did it help retain the people and skills required to meet the company's growth plan? Before and after making changes, HR professionals are often asked to answer such questions and determine each issue's impact on the company's overall business plan.

To respond with strategically sound answers, HR needs access to data from all functional HR areas, and the technology to collect, analyze and interpret information. With this in hand, it is possible to draw meaningful conclusions and make fact-based decisions.

This is referred to as business intelligence. The collection, access and analysis of this information supports strategic HR decision-making by:

- Providing accurate, meaningful and actionable information.
- Introducing modelling capabilities that use real data to make projections about the changing dynamics of a company's workforce in advance of, during and after policy, regulatory and other changes.
- Delivering the methodologies, tools and analysis to understand the business impact of workplace trends, decisions and policies.
- Identifying and linking performance drivers and critical workforce

trends that better inform the strategy for end-to-end business solutions.

The first step is to extract and combine data from the various vertical HR functions, such as benefits, payroll and staffing. This integrated information can then be examined using appropriate metrics and analytics to produce business intelligence on which HR professionals can base strategic decisions.

By accessing HR data horizontally across functional areas, companies can establish an information baseline that allows them to measure the results of HR programs and practices, and gain critical insights into their workforce. They can also examine trends over time and build a base for modelling and conducting what-if projections for the future.

The value of business intelligence is greatly enhanced when it allows comparisons with industry norms and benchmarks. As the HR outsourcing industry has matured, and more organizations outsource more of their HR administration, more third-party vendors and industry groups are developing databases. Benchmarking information is much easier to access today.

Business intelligence provides important data for measuring the value of a company's workforce because it supports the linkage model discussed earlier in this chapter. These inputs enable HR to better understand the impact its programs have on employees, and to identify the changes they need to make to more effectively align behaviour with results.

As organizations turn to people to drive their business growth, they now realize that the HR-supported programs that influence employee behaviour are essential to their overall success and competitive advantage. Times are changing — so are employees and the employment deal. Companies that fail to take a broader, holistic view of the employment deal will be left behind.

Employers that focus on an optimal alignment of their total rewards with their workforce, and that use appropriate metrics and analytics to support their business objectives, can enjoy the benefits of increased employee engagement, decreased or more efficient allocation of rewards expenditure, lower turnover and better customer

retention. Whatever measure a company uses to determine its return on investment, total rewards offers a value proposition that targets the bottom line.

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¹ Total rewards describes what a company offers to current and potential employees. Broadly, this includes components such as pay, pensions, benefits, learning and development and work environment and culture. Developing coherent total rewards strategies allows companies to package and brand their value proposition, to optimize the return they get on their investment in employees and to demonstrate, internally and externally, that they offer the best employment deal.

² Towers Perrin Talent Report (2003) — Canada, www.towersperrin.com.

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