the future of work

TOTAL REWARDS STRATEGIES AND CANADA'S AGING WORKFORCE

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The Future of Work

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Bill McCollam • *Sun Life Financial*

There is an inherent danger in publishing a book with the word "future" in its title. Rarely do we know, with any certainty, what comes next. It is best to leave the prediction business to fortune tellers and media pundits.

Still, there are forecasts on which we can rely. Take David Foot, the famous University of Toronto economist, who promised that we would all be a day older tomorrow. We see almost as much certainty in the future of work for Canadians. Not only are we aging together, we are retiring together.

In fact, so many of us will retire in the short- to mid-term future that the workplace will be forever changed as a result. As the Canadian population continues to age, and as the country's labour force continues to thin, employers will face talent attraction and retention challenges unlike any they've ever seen.

A report by The Conference Board of Canada warns of labour shortages as early as 2011. "In the years that follow, employers will have to scramble for scarce workers, and, as a result, they will feel pressure to offer higher wages and other incentives to workers to delay their retirement."[1] The report predicts average annual increases in the labour force of 0.5% between 2011 and 2015. Between 2016 and 2025, it predicts zero growth.

"Firms will face enormous difficulties in recruiting enough young people to replace the retiring baby boomers."[2]

AN EXTRAORDINARY CHALLENGE

Our hope, and the driving force behind the book you hold in your hands, is that the strategies key decision-makers like yourself develop to address this extraordinary challenge will usher in a new era of progressive employer-employee relations.

There is good reason to consider total rewards strategies in this light. The idea of total rewards embraces a more holistic view of the employer-employee relationship. This view deepens the labour pool by accommodating workers' needs and it increases productivity by promoting health and much more. Leading organizations in this area will enjoy a competitive advantage in their efforts to attract and retain key talent.

These strategies are built on three areas of focus: compensation (both present and deferred), benefits (including life, health and pension) and a third focal point variously referred to as workplace experience/culture (a relatively broad area covering employee acknowledgment, professional development, work-life balance and other organizational culture issues)[3] and careers (including training and development, lateral moves, stretch assignments and career incentives).[4]

While not a cure-all, total rewards strategies have reached a level of popular support that compels us to present them for your consideration. We see value here, and we want to share that with you.

That's why Total Benefits from Sun Life Financial has chosen to publish *The Future of Work.* We see natural alignment with our multi-layered, customized offering — Total Benefits supports total rewards programs by integrating our clients' preferred benefit, pension, payroll, human resources information system and other providers. More than that, though, we see an opportunity to contribute information intended to make Canadian employers more competitive and their employees healthier and more productive.

We're also practising what we preach. A year ago, Dominique Mailloux, vice-president of IT services and Total Benefits at Sun Life Financial, wrote an article in *Benefits Canada* that called on benefits and pension industry providers to work more closely together on behalf of Canadian plan sponsors. In keeping with that spirit, we have assembled many of this industry's brightest thinkers to explore various aspects of total rewards for you.

AN OVERVIEW OF THE FUTURE OF WORK

Chapter 1 features a total rewards overview by Iain Morris of Mercer Human Resource Consulting. That's followed by a fascinating look at evolving employee expectations by Ron Lloyd of Hewitt Associates.

In Chapter 3, Samira Kaderali and Alnasir Samji of Towers Perrin HR Services, and Michael Tindall of ExcellerateHRO have collaborated on an examination of the return on investment employers should expect from a total rewards strategy. Another collaborative chapter follows that, with Karen Seward of WarrenShepell and Brigitte Parent of Sun Life Financial Group Benefits examining health promotion and benefit plan design in a total rewards context.

John Beaton of Aon Consulting covers pension plan design in Chapter 5. And then David Bell of Ceridian Canada Ltd. offers valuable insight on executive compensation.

Chapter 7 features Rob Landry of Magna International and Sue Hunt of Sun Life Financial Group Retirement Services on the important issue of plan member communications and employer branding strategies in a total rewards environment. Next, Terry Lister of IBM Business Consulting Services writes about the opportunity to outsource human resource business processes as part of a total rewards strategy.

The final chapter features a lively roundtable discussion on total rewards strategies for mid-sized employers. Participants include Frank Gleeson of The Williamson Group Inc., Val Holloway of The North West Company, Keith Morrallee of Heath Benefits Consulting Inc., Sonia Rea of The Research Institute of the McGill University Health Centre, Chris Payne of The Fort Group and Michael Worb of Pal Benefits Inc.

We're grateful to each of these industry leaders for their tremendous contribution. And we're grateful to you, the reader, for the extraordinary care with which you continue to do your job. Professionals in your position play an increasingly important strategic role within Canadian organizations. Now more than ever, your organization's various stakeholders are relying on your experience and wisdom.

You give us all reason to be optimistic about *The Future of Work.*

Please tell us what you think about *The Future of Work.* Email us at total.benefits@sunlife.com.

Bill McCollam is vice-president, Total Benefits with Sun Life Financial.

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[1] "Understanding the Impact of Population Aging," *Performance and Potential 2003-04,* The Conference Board of Canada, 2003.
[2] Ibid
[3] "What is Total Rewards?" www.worldatwork.org, WorldatWork, 2005.
[4] Gross, Steven E. and Moreen, Robert, "Total Employee Rewards Redefined," *Mercer Management Journal,* Mercer Management Consulting, 2005.

A Total Rewards Overview

Iain Morris • *Mercer Human Resource Consulting*

For many years, rewards programs were viewed primarily as a necessary evil to attract and retain competent employees. Although the people costs of running a business average nearly 40 per cent of revenues, rewards programs were not always aligned to reap the greatest return on this considerable investment. Attitudes towards rewards programs, and awareness of their strategic value, are now changing. Increasingly, organizations are realizing that a properly designed and executed total rewards strategy can be a powerful driver of business success. Conversely, if left unattended and misaligned, rewards program elements can clash with each other and potentially undermine the success of an organization's business strategy.

Employers have the opportunity to leverage the value of their total rewards program to provide solutions to key business challenges such as the aging workforce, competitive changes in the marketplace and the need to maximize the value of business mergers and acquisitions. Employers are also realizing that they can't merely mimic the rewards practices of other organizations. A rewards strategy must be deliberately created to support an organization's unique human capital strategy.

Consider, for example, the case of a leading Canadian manufacturer. This company operates under contract to an original equipment manufacturer, so it faces the challenge of attracting a flexible workforce. It needs highly skilled workers, but is also confronted with irregular client demand for production. Without the guarantee of a fixed employment term, how was this employer to create a value proposition for these contingent employees?

The employer turned to total rewards and designed a customized solution. Employees were offered flexible hours, shifts that started after their children left for school and benefits for part-time workers. This manufacturer used its rewards program to differentiate itself from competitors.

This chapter examines the changing definition and role of total rewards. It articulates the need for integrated total rewards programs that are affordable, sustainable and connected to business goals. And it explains how organizations can think more holistically in creating programs that best fit their unique human capital and business strategies. Ultimately, the total rewards package must influence employee behaviour and attitudes in response to shifting business needs.

TOTAL REWARDS REDEFINED

In the past, rewards generally referred to pay. Today, the definition of rewards encompasses the overall value proposition that the employer offers to the employee. It's a total package that includes compensation (comprising of base pay, short-term incentives and long-term incentives), benefits (including health, retirement and work/life benefits, which account for an increasing portion of the rewards package) and careers (including training and development, lateral moves, stretch assignments and career incentives).

This broader definition of rewards corresponds closely with employees' actual experiences. When considering employment with one company versus another, or when considering a new opportunity with their current employer, employees tend to think in terms of "What's the overall value of the deal during my tenure with the organization?" rather than just "How much do I earn now?" or "What are the retirement benefits?"

Bringing all of these different rewards together in a strategic and holistic manner is a much greater challenge than setting a competitive pay level. However, an effective total rewards package is well worth the effort, because it:

- **Connects with the business strategy to create a high-performance culture.** An organization becomes what it rewards. A rewards program can either drive or diminish organizational performance, depending on how well it supports the business strategy and how closely it tracks that strategy when it changes.
- **Generates maximum return on the rewards program investment.** Large people-related investments such as compensation, benefits and training can be measured just like any other significant capital investment.
- **Creates affordable and sustainable costs.** Certain rewards program costs such as health-care benefits are rising at unsustainable rates. An effective total rewards strategy helps organizations evaluate and better manage the overall costs of the total rewards package and make smarter choices about where to direct rewards investments. This is critical at a time when companies must balance the influence of rising costs and shrinking profit margins, while attracting new, younger workers into the business to replace retiring senior professionals.
- **Supports the employment brand.** The total rewards package is a key tool for influencing employee behaviours and attitudes, especially when a shift in business strategy requires certain behaviours to change.

BEST-FIT REWARDS PRACTICES

For the total rewards investment to deliver value, it must build and foster the capabilities, behaviours and results that drive market success. In other words, total rewards strategies must be aligned not only with the organization's business strategy, but also with its human capital strategy — who is employed, how work is processed,

TOTAL REWARDS

Compensation	Benefits	Careers
Base pay	Health and group benefits	Training and development
Overtime pay	Retirement	Lateral career movement
Short-term incentives	Paid time off	Stretch assignments
Cash profit sharing	Work/life programs	Career incentives
Long-term incentives	Death benefits	Employment stability
Recognition	Perquisites	Nature of work Reputation of employer

how information and knowledge flow, how decisions are made and how people are managed.

Rewards complement and support all of these dimensions of the human capital strategy. The critical step is discerning the organization's specific human capital requirements. Which competencies, capabilities and behaviours should be rewarded or discouraged? We stress *specific* because every organization hopes to produce a distinct competitive advantage. Rather than taking a best practices approach, companies must figure out what works specifically for them — a best-fit approach.

Copying another organization's rewards practices can lead to disaster, even for companies in the same industry. Consider two hotel firms, one a budget provider that promises low prices and the other a premium provider that emphasizes service. The rewards practices of the first should enhance productivity and drive down costs, while the rewards practices of the second should aim to create a high-quality experience for customers. It would be harmful for either firm to adopt the rewards practices of the other.

UNDERSTANDING THE EMPLOYEE'S VIEW

Effective rewards strategies take into account what employees value and what they don't. It is important to get all the facts.

One approach measures the importance and level of satisfaction that employees attach to each component of the rewards program, then compares this information to the program's cost, market positioning and business relevance. You may discover a costly program that is not important to employees or a less expensive program that is very important.

A second approach measures the connection of each rewards component to employee engagement. Research increasingly shows that organizations that have managed to engage their employees tend to have better business results.

Employee surveys and focus groups have been used for decades, reporting what employees say about their rewards programs. Understanding the rewards preferences, and the value of rewards as perceived by the workforce, can help employers adjust program components to attract and retain the necessary skill sets. Before making program changes, however, it is critical to compare employees' opinions and the actual facts of their behaviour. Sometimes employees say one thing while behavioural modelling proves they actually do another.

Employee opinions, checked against the facts and the employer's perspective, will create a meaningful agenda for education. Indeed, education may be critical to correcting misconceptions even when programs are not changed.

Employers need to clearly articulate their business goals, what they want employees to do to reach those goals, the resources available to help and what employees have to gain. Employers also need to ensure that employees understand key program information.

THE COST PERSPECTIVE

It is easy to overspend on rewards. At times, organizations may overpay because they are looking at individual rewards components in isolation and not calculating the aggregate costs. Other firms overpay poor performers at the expense of rewarding the best. When combined with escalating benefit costs, these practices can mean the difference between business success and failure.

The wealth of employee data available today and powerful workforce analytics make it possible to identify what drives people into, through and out of a workforce over time. So an organization can answer critical questions that will help maximize direct labour investments. For example:

- What attributes, experience and behaviours does the organization actually reward?
- What job progressions and assignments clearly lead to successful employee performance? What are the business consequences of these employee performance gains?
- Which parts of the rewards package do employees truly value, as shown by their actions rather than their words?
- Which employee segments contribute the most to business value, and how?

The challenge is to create and maintain a framework for effective spending; one that sets rewards costs that are sustainable over time.

To put an effective program in place, managers must understand the total cost of rewards and of each program component, the dynamics of rewards cost growth relative to basic business parameters and the competitive marketplace and the return on rewards programs as measured by their production of business results.

CREATING A TOTAL REWARDS STRATEGY

Once an organization appreciates the value of an effective rewards strategy, it may still struggle with the actual task of creating and implementing one. Here is a process for developing a successful strategy.

- **Define the business context and issues.** What are the external and internal factors that affect your business and human capital decisions? Consider economic, geographic, regulatory, political and labour issues as well as business goals, performance metrics and needed workforce capabilities, behaviours and attitudes.
- **Set the total rewards strategy.** Develop guiding principles that represent the desired state for the total rewards program. They include a degree of emphasis for each program element, competitive positioning, cost-effectiveness, flexibility/uniformity, risk sharing and the link to performance.
- **Set the rewards change agenda.** Where are you today versus where you need to be to meet future business goals and performance objectives? This holistic assessment leads to an agenda of change, with priorities based on the impact, cost, risk and feasibility of specific rewards program alternatives.
- **Review the implementation plan.** The implementation plan includes the time frame and budget estimates for the core tasks, including the development of individual plan design details, major communication activities and administration considerations.
- **Design individual plans.** Aligning these detailed plan designs with the overall rewards program strategy is new for many organizations. It is an opportunity to link plan designs with other aspects of the rewards package and broader workforce objectives.
- **Implement.** Effective implementation requires the integration of communication and administration activities to deliver on the rewards strategy.
- **Measure and manage.** Monitoring the progress of specific program design changes and related business outcomes is critical to ensuring that the organization accomplishes what it set out to do.

The outcome of this process will be a cohesive and comprehensive rewards strategy that is value-oriented, cost-effective and aligned with the organization's business goals.

AN EFFECTIVE REWARDS STRATEGY

The development of an effective rewards strategy requires good information and analysis to make sound decisions and measure their impact. Unfortunately many companies still develop their rewards package based on instinct, anecdote, opinion, so-called best practices and external benchmarking rather than on hard, quantitative analysis of their own organization's experience and best-fit practices for their business strategy. An effective rewards strategy requires companies to move from a me-too total rewards program, based on benchmarking and best practices, to one based on solid analysis and sound strategy.

Ultimately, the effectiveness of a total rewards program depends on its fit with the employer's unique strategy and situation. The organization that can most quickly transform today's typical assortment of compensation, benefits and careers into a balanced strategy will create a total rewards package that delivers measurable business value.

Iain Morris is a principal with Mercer Human Resource Consulting. He is a member of the Canadian Research Centre of the Conference Board of Canada and is on Mercer's Global Total Rewards Strategy Faculty.

CHAPTER 2

Tomorrow's Employee Expectations

Ron Lloyd • *Hewitt Associates*

Awareness on the part of Canadian organizations of the impending labour shortage has not yet resulted in many concrete measures designed to address the issue. This lack of initiative must change, and quickly, if employers are to attract and retain the workforce they'll need to accomplish their business objectives.

While a large number of employers acknowledge that the mass retirement of the baby boomers will have some impact on them (perhaps even a significant impact), few are dealing with the problem.[1] And this is only one of the factors having a radical effect on the workforce in Canada and other industrialized nations. Significant demographic, economic, sociopolitical and technological changes are all converging. The result will be a serious and potentially long-term struggle to fill job openings.

To minimize the impact of these changes on their ability to attract and retain employees, organizations must anticipate the nature of tomorrow's workers, understand their expectations and determine how to meet them.[2]

CHARACTERISTICS OF THE NEW WORKFORCE

The workforce will be smaller and less sufficiently skilled. Canada's population is expected to grow more slowly over the next couple of decades. In fact, The Conference Board of Canada projects that Canadian deaths and births will equalize by 2025, resulting in zero growth in the natural population.[3]

Currently, the fastest growing segment of the population is those aged 55 to 59 years, up 4.7 per cent in the last year alone. The number of people aged 55 and older has grown by 19 per cent since 1998, with a 28 per cent increase in those between the ages of 55 and 64. During the same period, Canadians between the ages of 25 and 44 have decreased in number by 2.3 per cent; while those aged 15 to 24 have grown by around seven per cent.[4]

As the number of Canadians of prime working age is shrinking, older workers have been leaving the workforce in droves. They are choosing to retire at younger ages, certainly before age 65. The result is an extreme shortage of available, skilled workers.

A global labour market will emerge. Changes in immigration laws and policies, along with technological advancements, are creating a global labour market. This trend is likely to heat up as more baby boomers retire and organizations look beyond immediate borders to fill jobs. In some cases, workers will come to the jobs, but jobs will also be sent offshore to employees in other countries.

We will work together, virtually. The latest communication technologies have redefined what it means to be at work or a co-worker. Growing use of wireless phones, high-speed broadband connections and personal digital assistants means that employees can do their work almost anywhere, anytime. The current generation of new workers, those aged 15 to 24, has grown up in a virtual world so this way of working is natural to them. In addition, employees are no longer dependent on a common physical location to be able to connect. They can now collect information and collaborate with ease across the organization, around the world.

Diversity will be the norm. The new workforce will be the most diverse in history in terms of age, gender, ethnicity and lifestyle. There will be an unprecedented number of generations at work at the same time. And women, who have been entering the workforce at an increasing rate, will continue to do so.

Today, one in 10 people living in the developed world is a migrant. Roughly 175 million people are living in a country different from the one in which they were born.[5] As baby boomers retire and the supply of domestic labour shrinks, more Canadian-based employees will come from abroad.

Fewer workers are following the traditional progression through life stages — education, work and family, followed by leisure. Instead, they are mixing up the pattern and changing stages more frequently in their lifetimes. This trend is likely to continue and become even more prevalent.[6]

There will be no more gold watches. Technology and the impending labour shortage will put workers squarely in the driver's seat, in control of their professional lives. They will have the ability to switch employers with relative ease and minimal sacrifice. They will not be limited to one corporation or career path as their sole route to promotion and increased rewards. Gone are the days of retiring with 40 years of service and a gold watch.

The challenge for employers will be to build employment brand loyalty so that employees are encouraged to stay with the organization, despite frequent, even better offers from other companies.

TALENT MANAGEMENT IN THE FUTURE

A workforce is being created that is dramatically different from the one that employers have known in the past. As a result, organizations must rethink the way they manage talent. Given that scarcity and other factors will put employees in control, it is imperative that organizations anticipate the type of workforce they'll need, determine what attracts these workers, as well as what engages them so they stay.

A necessary prerequisite for anticipating workers' needs is a proactive approach to talent management, and a willingness to take steps to ensure employees are available to fill positions when the need arises. Accomplishing this would once have required a crystal ball, but new technology provides answers with relative ease.

The first step is to ensure that real-time data is always available. There needs to be continuous monitoring of current staff. Gathering information on workforce demographics and skill sets is important, of course. However, it is also useful to regularly survey employees on their attitudes towards their jobs, the workplace, leadership and the organization in general. To round out the picture, it is important to track workforce trends, both externally and internally, on a broad, company-wide scale, as well as by division and/or location.

By gathering this information and continuing to monitor it, organizations can plan for the future and address upcoming problems before they escalate. In order to do so, it is essential that up-to-the-minute workforce data be consolidated in one central repository, whether internal or external, and that advanced data analysis and customized reporting options be available. Those who opt to outsource human resources functions will also have the opportunity to access aggregate data from the provider's entire client base.

With workforce monitoring in place, the next step is for organizations to determine critical talent measures that influence business success. This will include identifying key employees who are at risk of leaving the organization — perhaps because they are nearing retirement age — and implementing measures that encourage these employees to stay longer and/or ensure a proper succession plan is in place. In addition, organizations must ascertain which groups of employees are critical to business success and determine whether there are ways to boost their productivity.

This combination of information gathering, analysis and alignment propels the role of human resources into one focused on anticipating workforce needs and preparing to meet them. While this strategy certainly creates a competitive advantage for organizations, they must also develop tactics to attract talent from outside the company as well as engage those who are currently on staff.

FLEXIBILITY IS A MUST

As a result of the workforce's new diversity, organizations will have to transcend traditional staffing practices and consider sources they have underutilized in the past. Employers will be actively recruiting women, workers with disabilities and workers from other parts of the world who will continue to work from afar.

Another major source will be older and retired workers, including former employees. As more Canadian provinces move towards abolishing mandatory retirement (the most recent being Ontario, which introduced legislation this year), barriers to working past 65 will be removed.

It may not be as difficult as one might think to persuade older workers, particularly those aged 55 to 69, to remain on the job. Recent statistics show that this group is willingly staying in the workforce longer[7] — a real reversal. This is likely for a number of reasons, including the need to increase retirement savings as people live longer.

Even if they aren't prepared to stay of their own accord, it might not take as much as some employers believe to persuade older workers not to retire. When retirees were asked why they had decided to retire, the number one response was not because they were financially able to do so (as employers responding to the same question presumed), but rather because they no longer enjoyed their work.[8]

In another survey, recent retirees indicated they would have worked longer if they had been offered flexible work arrangements.[9] It would seem that employers would improve the odds of attracting older workers if they give them interesting work to do as well as flexibility in their working arrangements.

Of course, because these incentives will likely appeal to all workers, employers will build them into the employment relationship. In order to develop their skills, provide them with variety and test their suitability for other roles, organizations will offer short- and long-term internal projects to employees. In addition, workers will be offered various work arrangements, such as part-time work, flex-time, temporary work, telecommuting, job sharing, non-traditional shifts, seasonal employment, on-call work, internships regardless of age and contract work. Phased retirement will also be a more common model offered to older workers.

In order to secure next-generation talent, some organizations will be proactive and stockpile talent for the future. Armed with a clear idea of the type of people they are looking for, they will run ads and develop ongoing relationships with recruiters, professional associations and universities. They will be ready to create roles for those who appear promising.

CUSTOMIZING REWARD PROGRAMS

Expect to see reward programs that are customized to meet the various needs of the workers of tomorrow. Reward programs will generally be designed to appeal to groups of employees, but in some circumstances, individual needs may come into play. To attract and retain a broader range of employees with diverse needs, flexible benefit programs will expand to include choice in work assignment and location, training and work-time flexibility. Some forward-thinking organizations are already moving their benefit programs in this direction, offering, for example, sabbaticals with greater frequency.[10]

The next generation of workers will also receive communications that are tailored to their particular circumstances, rather than generic mailings. For example, those workers who are approaching retirement age may receive information regarding phased retirement or other stay-at-work options so that they are aware of the choices available to them.

The messages being sent to employees will be personalized and will focus on letting workers know that they are important to the organization and that their contribution is valued.

ORGANIZATIONS WILL HAVE TO WORK

With demand exceeding supply, organizations will have to work hard to combat threats to employee engagement, such as organizational conflict. In order to do so, organizations will cultivate a culture of inclusion, free of discrimination. The culture will unify workers, so that they all feel as though they are part of one team, regardless of their demographic or geographic diversity and the position they have in the organization. Workers will rally against a common cause — the competition. Successful collaboration will be recognized and rewarded.

Other employee engagement threats, such as job-related stress and job insecurity, will also be addressed and minimized. Employees will be put in charge of arranging their work schedule so as to meet both professional and personal demands. They will also be rewarded on the basis of results, rather than hours worked. Career progression will not be contingent on putting work ahead of life, and employees will be encouraged to achieve their own personal balance between the two.

As for job security, workers whose role within the organization is secure will be so informed, as will those whose jobs are not secure. For those who fall into the latter category, organizations will help them maintain their marketability by maintaining their skills and involving them in short-term projects.

Ready or not, the workforce is changing dramatically, thanks to a confluence of factors. Talent management must also change to accord with new realities. If organizations choose not to adapt their workforce strategies to accommodate the needs and expectations — in fact, the demands — of the next generation, they will almost certainly face a severe talent crisis.

Ron Lloyd is president, consulting, of Hewitt Associates in Canada. He has over 20 years experience in the human resources field in the U.S. and Canada.

[1] Survey Findings: Trends in Canadian Retirement Programs, Hewitt Associates, 2004. Seventy-three per cent of the 174 survey respondents indicated that their organization would feel at least some impact from the baby boomers' retirement — 35 per cent stated the impact would be significant. However, only 13 per cent had any plans to offer incentives or entice baby boomers to work longer; 57 per cent were unsure of what they would do.
[2] This chapter relies heavily on the research and analysis conducted by three Hewitt associates, Elissa Tucker, Tina Kao and Nidhi Verma, for *Next-Generation Talent Management,* Hewitt Associates, 2005.
[3] Hodgson, Glen, "Grandma and Grandpa Go to Work," *Inside Edge,* The Conference Board of Canada, 2005.
[4] Cross, P., "Recent Changes in the Labour Market," *Canadian Economic Observer,* Statistics Canada, March 2005.
[5] Karoly, Lynn A. and Constantijn W.A. Panis, *The 21st Century at Work,* Rand Corporation, 2004.
[6] Dychtwald, Maddy, *Cycles,* The Free Press, 2003.
[7] The participation rate for people aged 55 to 69 shot up from a low of 36 per cent to a record 47 per cent in 2004. The largest gain was for the group aged 60 to 64 (from 33 per cent to 43.7 per cent), while the participation rate for 65 to 69-year-olds grew from 11.5 per cent to 16.2 per cent. *Canadian Economic Observer,* supra, note 4.
[8] *Survey Findings: Trends in Canadian Retirement Programs, supra,* note 1.
[9] Béjaoui, Ali, "Working Later in Life," a presentation given at the *Exploring New Approaches to Social Policy* conference, Ottawa, Dec. 13-14, 2004.
[10] *Survey Findings: Flex-ability: Employer Attitudes toward Flexible Benefits,* Hewitt Associates, 2005.

Measuring and Analyzing Total Rewards

Samira Kaderali • *Towers Perrin HR Services* | Alnasir Samji • *Towers Perrin HR Services*
Michael Tindall • *ExcellerateHRO*

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 rewards[1] 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 homogenous 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

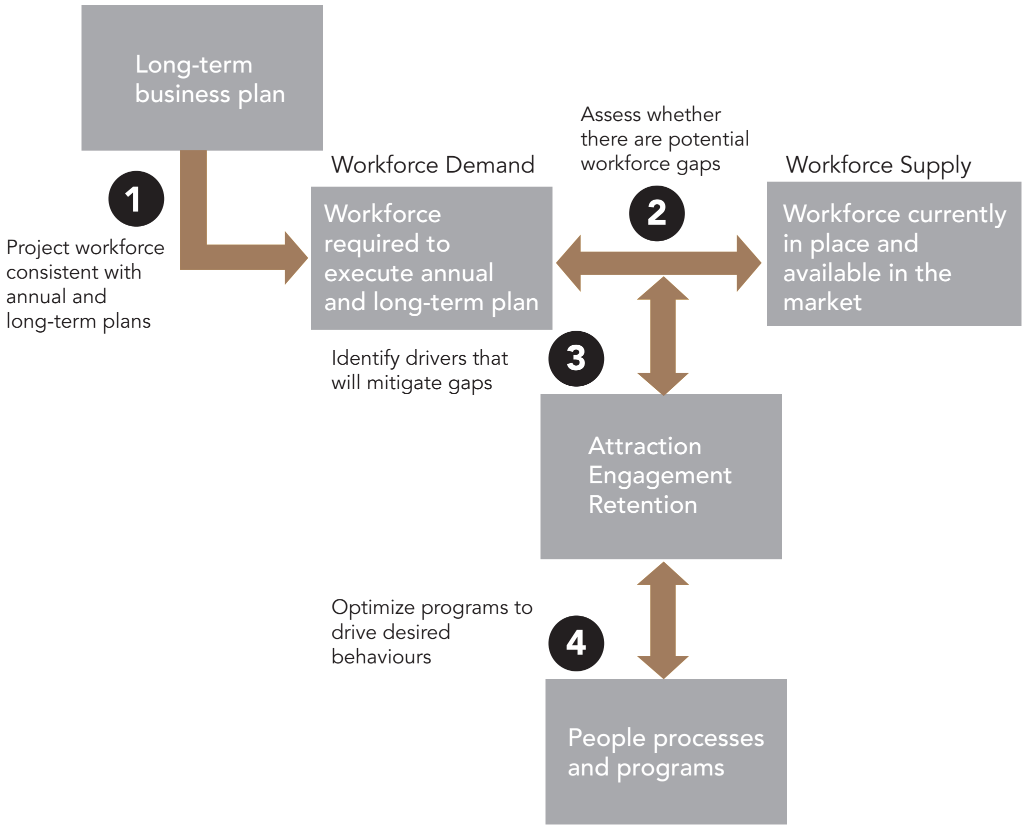

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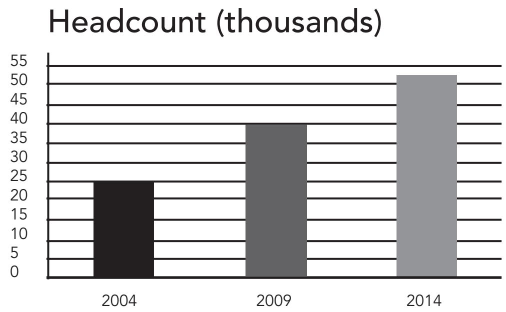
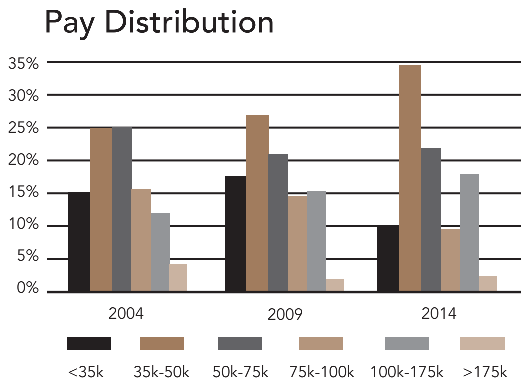
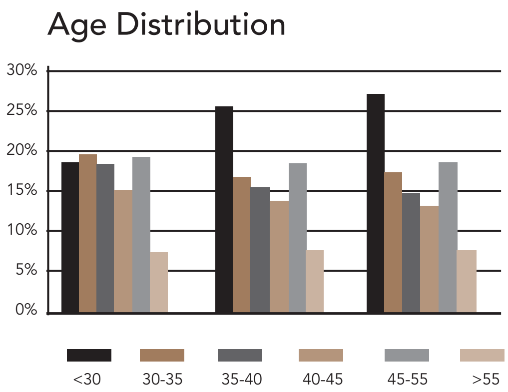
CHART 2: FUTURE WORKFORCE SCENARIO DEVELOPMENT (ILLUSTRATIVE)



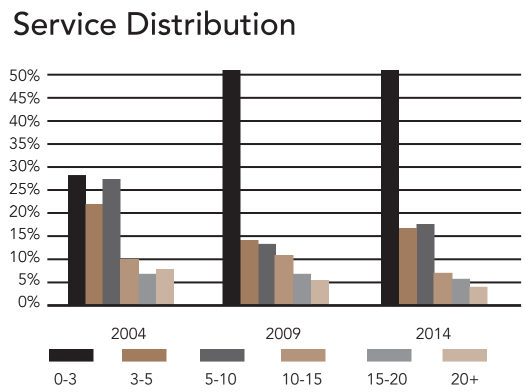
The combination of organic growth and acquisitions was expected to increase headcount dramatically.



Average pay was actually decreasing initally 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.

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

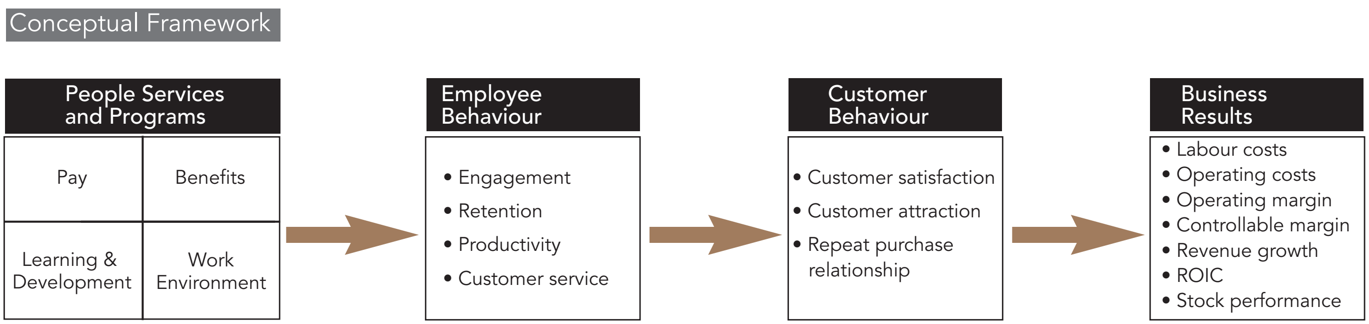
It is now generally accepted that a well-designed total rewards strategy incorporates an effective performance management program and variable pay to positively influence employee behaviour. The opposite is equally true. Poorly designed programs can create significant negative behaviour. This is illustrated 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 survey[2] 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



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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-preferences 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 remixing 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.

CHAPTER 4

Promoting Organizational Health

Brigitte Parent • *Sun Life Financial* | Karen Seward • *WarrenShepell*

Now, more than ever, Canadian companies are adopting total rewards strategies to engage employees and compete for top talent. At the same time, there is mounting evidence to show that improving overall workplace wellness can lead to a healthier bottom line. A growing number of employers are beginning to capitalize on the convergence of these two trends, and are positioning health and wellness initiatives as valuable elements of a total rewards package.

Just as the central tenet of a total rewards strategy is to align compensation, benefits and other incentives with business goals and employee needs, the same holds true when implementing effective health promotion strategies. In both cases, the objective is to understand the relevance and perceived value to the employee, and then design a program that optimizes the potential for achieving the organization's goals.

Those goals can be crystal clear. According to a 2005 Ipsos-Reid poll, 66 per cent of Canadian chief executive officers rank physical and mental health problems as a threat to their companies' productivity and competitiveness. This is driving the need for creative solutions to foster employee health.

Unhealthy, unsafe and stressful workplaces cost Canadian employers billions of dollars annually, says the Industrial Accident Prevention Association's 2004 report, *Creating Healthy Workplaces.* The good news is that comprehensive healthy workplace interventions cost far less than they are likely to save the company. In fact, the report estimates that such interventions can return as much as $8 for every dollar spent.

The National Quality Institute's Canadian Criteria for a Healthy Workplace measures workplace health based on the following components:

- Commitment to the value of people in the organization.
- Planning goals and objectives, allocating financial resources, conducting formal employee needs assessments and creating a process for plan design.
- Implementation and documentation of processes for demonstrated management commitment, for employee input and assessment and for programming and measurement.
- Sustainability of initiatives and effective communication of the results.

While workplace health strategies can be comprehensive, they don't need to be complicated. Initiatives should encompass core physical and mental health issues, and address employees' needs as members of their workplace, family and social communities.

Employers can leverage a total rewards strategy to support a healthy workplace through a variety of initiatives. Access to the right care at the right time is critically important. Wellness programs can prevent and control illness while employee assistance programs will help manage issues at home and work. Information and education will help employees reduce health risks, and at the same time encourage employees to be more conscientious health-care consumers.

IT STARTS AT THE TOP

Creating and sustaining healthy workplaces doesn't happen simply by launching new programs. Successful programs are fully endorsed at the most senior levels, where managers are trained to clearly understand the critical role they play. These programs make employees feel valued and accountable for being at work and healthy. So, the first question organizations must ask themselves is whether or not they are ready to make that kind of commitment.

"So far, we know that firms with leading practices in health promotion that contribute to productivity have aligned these practices with business strategies, use an interdisciplinary approach, are supported by leaders who make resources available and include operations managers on the team," says Dr. Graham Lowe, president of The Graham Lowe Group, a workplace consulting and research firm, and author of *The Quality of Work: A People-Centred Agenda.* "These exemplary firms view improvements in the quality of work life as a prerequisite to reduced health costs and increased productivity. They also place a premium on communicating, learning and improving when it comes to workplace health and wellness."[1]

To design a plan that reaches out to employees with diverse needs, lifestyles and at various life stages, the key is to start with an organizational assessment and an employee lifestyle screening tool. This can provide a better understanding of the group's current health state, the inherent health risks and the policies and practices that may be affecting employee behaviours. That understanding can then form the foundation on which to build a strategy that is manageable, sustainable and targeted.

The analysis phase is therefore perhaps the most important stage in program development. It can also be the most challenging.

Organizations have access to a wealth of data from sources such as their benefit providers, employee assistance program partners, employee satisfaction surveys, absence and disability statistics and turnover records. But they often need help to consolidate that data and turn it into meaningful information they can use. Many employers are looking to their benefit consultants and providers for that support.

Once data is gathered and analyzed, the next step is to consider what supports and services need to be in place to achieve the organization's health goals. For example, does the benefit plan design support the new health strategy? If it is too narrowly focused on intervention, what changes are needed to move it to a broader focus on prevention?

Another issue to consider is whether the benefit plan should offer more non-traditional benefits. Some employees place a higher value on non-traditional benefits such as massage and nutrition counselling. They are viewed as more relevant and therefore more valuable than traditional benefits. Non-traditional benefits have also been found to play a key role in helping employees manage stress and prevent other health risks.

It is important to ensure your benefits and employee assistance programs are accessible, credible and relevant to the entire employee population. At the same time, they must target the specific needs of high-risk employee groups. Programs should be integrated and aligned whenever possible, and providers should be challenged to continually offer innovations that keep pace with changing needs and best practices.

PROMOTING MENTAL HEALTH

Employees' mental performance drives business success in today's knowledge-based global economy. Mental health is vital to ensuring creativity, innovation and positive work relationships. Yet according to *The Global Business and Economic Roundtable on Addiction and Mental Health,* poor mental health now accounts for an estimated 30 to 40 per cent of disability claims. It is also a leading driver of drug benefit costs.

Much mental illness and stress-related chronic physical disorders can be prevented through early intervention, detection and treatment. The key is to start by listening to employees, such as through employee satisfaction surveys and focus groups. Programs that look for and eliminate sources of work-related stress can begin the cultural shift toward a more mentally fit workplace.

Many organizations are beginning to design reward programs that meet the diverse needs of its employees at various life stages and with different lifestyles. Innovative work-life programs give employees flexibility in their work arrangement or schedule, and support personal fitness goals and community involvement.

According to Gretchen van Riesen, vice-president, global pensions and benefits at CIBC, her organization has created a host of innovative workplace policies and practices that link health promotion initiatives, a healthy workplace culture and a total rewards strategy. For example, its online health risk assessment tool for employees has consistently identified psychological distress as the number one health risk with the most potential to affect productivity.

"Our assessment technology has provided us with the aggregate data needed to analyze areas of risks where productivity is vulnerable and where there is readiness for change," says van Riesen. "We've also found that one of the fundamental determinants of health is actually the employee-manager relationship. A behavioural approach to returning employees to work during an absence, where the manager and employee meet on a regular basis, has been highly effective.

"We continue to refine our process," she adds. "But introducing risk management to our program has been a win-win situation for all."

CREATING TEACHABLE MOMENTS

Effective, clear and consistent communication is critical to raising awareness and achieving maximum participation in health and wellness programs. By using five key communication principles, employers can create teachable moments that will make their health initiatives relevant and compelling for employees, and engage them to take action.

1. Target communications to attract those at highest risk.
2. Stage communications to catch people at different levels of readiness to change.
3. Demonstrate wellness as a corporate value and design programs that encourage healthy behaviour. This includes fostering healthy competition among employee groups, which encourages uptake and program penetration and fosters team building and social support networks.
4. Protect employees' right to privacy. Offer programs that are engaging, not invasive.
5. Approach communication as a continuous process, not an occasional task. Benefit providers can use their websites to present health information at the right time and in the right context, such as when an employee is inquiring about their coverage or about a claim.

Offering health promotion programs alongside a flexible benefits package can also prove effective. Encouraging employees to make informed choices, and to take accountability for those choices, will ultimately lead to a better employee understanding of the value of their total rewards.

SUPPORTING THE BUSINESS CASE

In the past, workplace health programs have often not been properly measured in terms of return on employer investment. Today, insurers and health program providers are developing more reliable metrics to help companies measure key performance indicators. Those include program participation and satisfaction levels, drug and other health claims incidence and costs, productivity measures (including casual absenteeism), disability or worker compensation claims and employee morale.

One example where such metrics are being developed is a health and wellness study conducted by the Atlantic Health and Wellness Institute and co-sponsored by Sun Life Financial with Pfizer Canada Inc., AstraZeneca Canada Inc. and the Nova Scotia Public Service Commission. The four-year study will implement a comprehensive program of workplace wellness initiatives and evaluate them based on a range of clinical and economic factors. A goal of the program is to help employers formulate the business case for their health and wellness initiatives and track their return on investment. Learnings from the study will assist with the development of the necessary measurement tools employers need to do that.

Workplace wellness initiatives can go a long way toward fostering a nurturing, high-performing workplace. But they can't succeed without the right level of trust and commitment on the part of the organization and its employees.

The ultimate goal is to create a fully integrated, prevention-focused health and wellness strategy across the organization that supports employees and at the same time makes them accountable for managing their health. The right tools, at the right time, focused on the right opportunities, can turn a healthy workplace into a winning culture and a healthier bottom line.

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Karen Seward is vice-president, marketing, research and business development for WarrenShepell. She founded and continues to lead the WarrenShepell Research Group, which conducts original research into today's most critical employee psychosocial issues.

[1] Lowe, Dr. Graham. "The dollars and sense of health promotion," *HR Reporter,* Sept. 23, 2002.

Pension and Savings Plans in Concert

John Beaton • *Aon Consulting*

We have seen that demographic shifts will increase employer competition for human resources. On the pension and savings plan front, this will likely result in employers combining a variety of designs. The fact is, pension and savings programs of different types appeal to different employees. Some will receive substantial inheritances from their baby-boom parents and be able to take aggressive risk/reward positions with their retirement savings. Given the trend towards multiple careers and an emphasis on self-sufficiency and adaptability, many will want control of their own finances. Others will want to build security and be taken care of. Employee preferences will be diverse.

As competition for human resources becomes more intense, employers will become more responsive to this diversity. To support their ability to recruit and retain across the labour market, they will want pension and savings programs that cater to employees of various types. This will lead to the development of programs that incorporate different types of plans as options and in combinations.

Additionally, employees will want to know that their employer's plans are competitive in the context of total compensation, and employers will want employees to understand and appreciate those plans. Wherever possible, employers will seek a fit between plan design and corporate culture.

In future, employers will build pension and savings programs out of some or all of six components. These components are defined benefit (DB) pension plans, defined contribution (DC) retirement plans, defined contribution (DC) savings plans, true profit-sharing and share-based savings plans, hybrid plans and supplemental plans.

DB PENSION PLANS

DB pension plans cater to employees and potential recruits who seek security and who look to their employer to provide a safe and convenient foundation for their retirement income. This is an attractive target employee group because they will seek long-term careers and be easier to retain than other groups.

This category covers a broad set of retirement plans, all of which offer pensions determined according to a set formula. In many DB plans, the benefit and contribution formulae have carve-outs to integrate them with the Canada and Quebec Pension Plans.

In collective bargaining situations where unions negotiate on behalf of groups of workers with fairly homogeneous earnings levels, the flat benefit plan is common. In flat benefit plans, the pension earned each year is expressed as a fixed dollar amount. For example, a plan giving $50 per month per year of service will provide a pension after 30 years of $1,500 per month, or $18,000 per year. These plans often have periodic updates to compensate for inflation. The unions and the employer negotiate the formula going forward, along with any updates for past service.

DB plans often help retain employees up to an early retirement age such as 55, and facilitate early retirement after that age. With future skills shortages on the horizon, employers may redesign these plans to provide more incentive to continue in employment up to and beyond current normal retirement age, and to accommodate periods of transition to retirement. For instance, they may allow employees to work part-time and receive partial pensions, a concept pioneered in Quebec and now spreading across Canada.

DC RETIREMENT PLANS

DC retirement plans cater to the preferences of employees who want control over their retirement savings, full portability of their entitlement and/or a say in the investment of their funds for retirement.

Under these plans, contributions are usually expressed as a percentage of pay and are accumulated in investment accounts. These accounts are then used to provide retirement income. Often, the employee has considerable choice as to how the funds are invested.

DC retirement plans include DC pension plans (also known as money purchase pension plans), which are registered under tax legislation and locked in under provincial or federal pension standards legislation. They also include locked-in group registered retirement savings plans (RRSPs). These are RRSPs that prevent withdrawal of contributions during, and in some cases after, employment.

The locking-in provisions of these plans ensure that money is accumulated for retirement and not spent on other purposes. Group RRSPs can include provisions to accommodate members who want to use their funds to invest in education or in a first-time home purchase. They also offer spousal accounts for income splitting.

DC SAVINGS PLANS

DC savings plans are like DC retirement plans. But by allowing withdrawal rights during employment, they do not require that the funds be used for retirement income. This flexibility will appeal to those employees who seek more autonomy in managing their finances.

DC savings plans come in many forms. Tax-sheltered varieties include group RRSPs and deferred profit-sharing plans.[1]

With the growth of financial and retirement planning education that helps employees estimate the funds necessary to top up plan benefits to target levels, savings plans are evolving to accommodate optional additional contributions. Employers can present such plans as vehicles for overall employee saving. They usually offer low expense charges along with excellent and unbiased financial information and education.[2]

As more employees use employer plans to save, we will likely see the growth of non-registered components to more fully accommodate voluntary contributions and transfers-in.

For employers, this will be an inexpensive way of providing a service that appeals strongly to many employees. Employers will complement their savings plans by including more and better financial and retirement planning and education services in their offerings.

TRUE PROFIT-SHARING OR SHARE-BASED SAVINGS PLANS

These plans help employers create corporate cultures that foster a sense of ownership. As employees adapt to a fast-changing marketplace and multi-career job progression, they will develop entrepreneurial business attitudes in the management of their own careers. An entrepreneurial employment environment and sense of ownership will appeal to a growing number of them.

These plans are generally like DC savings plans, except that the contributions will vary with profits and/or consist of company stock or stock-based holdings such as stock options.

Stock plans involve actual or potential share ownership. Contributions to true profit-sharing plans are akin to dividends. These plans therefore place employees in a similar position to shareholders and, when backed by appropriate communications, offer potential to support a culture of alignment between employee and shareholder interests.

HYBRID PLANS

Hybrid plans may combine attractive features of some of the above components. For instance a flexible pension add-on to a DB pension plan allows for accumulation of additional funds under a DB structure in a way that has many of the features of an unusually tax-effective DC retirement plan.

As competition for labour drives employers to differentiate themselves through innovation, new hybrid designs will emerge. One of the most important of these is likely to be the target benefit plan, a design that offers employees a DB promise that is subject to an affordability test. The affordability test will share the funding risk between employees and the employer and foster a culture of partnership and mutual responsibility. This design will allow the employer to offer a modified DB promise, without exposure to the balance sheet liabilities that may arise from DB pension plan accounting rules.

SUPPLEMENTAL PLANS

Supplemental plans will allow employers to cater to needs that they cannot accommodate through other components of their program. In particular, they will provide useful assistance with the hiring and retention of high earners and employees on international assignments.

A supplemental plan can wrap around any of the above types of plans, but most will be associated with registered arrangements where benefits are subject to tax limitations. Many supplemental plans that exist today provide top-up pensions or contributions in excess of the limits permitted under registered plan tax rules. Many are unfunded promises to pay the benefits when they fall due and are subject to the employer's financial ability to honour them at that time. Some are pre-funded as retirement compensation arrangements or other types of plans. Pre-funding provides security, but comes with a tax cost.

Supplemental plans will be useful in recruiting situations where the candidate faces pension losses on leaving an existing employer's plan to accept a job offer. They will also be helpful in ensuring that employees on international assignments can move from country to country without incurring pension losses. Finally, if structured outside the scope of provincial pension legislation, supplemental plans can incorporate strong vesting features, which will assist in retention of key employees and executives.

PUTTING THE PIECES TOGETHER

In order to appeal to a wide spectrum of employees, progressive employers will combine the above components in ways that project diverse and vibrant images. Such combinations may be constructed as multi-component plans and they will generally involve employee choice. They may have varying degrees of built-in prudence.

For instance, many employers will want to ensure that there is a retirement plan to provide a floor of protection and some may want to keep the use of true profit-sharing and share-based plans consistent with moderate concentration of risk.

Here is one example of what a plan of the future might look like:

Component A

- *Retirement plan.*
- *Choice between target benefit and DC options.*
- *Supplemental plan to deal with tax limits, international employees and pension losses at hiring date.*

Component B

- *DC savings plan.*
- *Optional contribution levels.*
- *Tax-sheltered and non-tax-sheltered options.*

Component C

- *True profit-sharing plan.*

General choices

- *All component A.*
- *Half component A, with the other half split between components B and C according to the employee's election.*

Employers will seek to provide employees with online access to attractive illustrations of total compensation value. With the advent of web-based pension administration systems and modelling tools, employees can now go online and do what-if projections of fund accumulations or pensions. Employers are enhancing these tools to show employees the value of their programs expressed in total compensation terms, that is, as equivalent additional salary.

This is now possible even with DB pensions. Employees can model the annual compensation values of such plans in different scenarios — for example, employees can get estimates of the annual compensation value of their pensions should they decide to leave the company after five years of service or work to a given retirement age. Employers are beginning to use such projection tools as part of their recruitment packages.

By illustrating the extra value these plans produce at retirement, projections will help employers use pension retention power to the full.

Employers will design communication programs to provide clear and well-presented explanations of the options available to their employees. They will emphasize connections between their programs and corporate culture objectives. For instance, a range of plan options will support a culture of employee empowerment and flexibility and a significant profit-sharing or share-based component will help align employee and shareholder interests.

Properly managed, Canadian retirement and savings plans will help employers deal with the competition for human resources. To attract and retain employees from a talent pool with diverse preferences, progressive employers will cater to those diverse preferences by offering innovative combination plans.

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[1] Many deferred profit-sharing plans are not really profit-sharing plans; contributions are fixed percentages of pay rather than of profits. The confusing terminology arises because the relevant Income Tax Act provisions originally contemplated true profit-sharing plans.

[2] It should be noted that employee contributions are not allowed in deferred profit-sharing plans.

Executive **Compensation**

David Bell • *Ceridian Canada Ltd.*

A well-designed executive compensation plan focuses on a number of important objectives. It attracts and retains the talent necessary to lead complex organizations to success. It aligns the interests of executives with those of shareholders. It focuses the efforts of executives on achieving the organization's business goals, both short- and long-term. Finally, it provides programs that are regarded as credible and responsible by investors and other stakeholders, and that meet legal and regulatory requirements.

While these objectives have not changed, the manner in which companies are achieving these objectives is evolving rapidly. This is unfolding in a context of growing demands for transparency and accountability.

An organization developing an executive compensation program will improve its chances of success by following five approaches. First, define the organization's short- and long-term strategies, objectives and key measurements. Second, vest responsibility for executive compensation in a compensation committee consisting of independent board members. Third, take a total rewards perspective by looking at each component of the compensation program as part of a portfolio of provisions rather than stand-alone items. Fourth, establish the executive compensation portfolio to provide an appropriate allocation of base and variable (at risk) compensation, short- and long-term programs and performance incentives versus retention and attraction incentives. The optimal mix will vary by company. Fifth, make the program as simple as possible.

PERFORMANCE OBJECTIVES AND MEASUREMENTS

All executive compensation programs and decisions should derive from the performance objectives and measurements of the participating executives.

Traditionally, executives' performance measurements have been focused on hard financial metrics such as earnings-per-share, total shareholder returns, revenue and profit before tax.

In recent years, there has been an increasing concern that an excessive focus on financial results will actually cause a decline, over time, in financial performance. The argument is that financial results are the result of doing everything else well. Executives should also be measured on that.

Executive performance has normally been measured against the organization's pre-established targets. An emerging practice is to measure company performance, and reward executives based on the organization's performance relative to that of a designated group of similar companies (usually in the same industry). Since publicly available performance data from other companies is almost all financial in nature, so are comparative performance metrics.

THE EXECUTIVE COMPENSATION PORTFOLIO

In crafting the executive compensation program, companies need to determine where they want to position their compensation relative to the market. Most want to be at the market median, while a substantial minority seeks to be above market.

One major challenge in establishing market-competitive compensation provisions for executives is identifying an appropriate group for benchmarking. That benchmark can consist of direct competitors, companies with comparable revenue or employee populations, companies in the same region and companies that the organization would like to emulate.

The executive compensation portfolio can be made up of six elements.

1. Base pay. This comprises a decreasing portion of executives' total compensation. That is a natural corollary of the increasing importance of incentive-based rewards. In recent years, base pay annual increases for executives have averaged only a few tenths of a percentage point more than increases for the broader employee population.

For chief executive officers (CEOs) of companies in the S&P/TSX Composite Index, base pay averaged about one-third of total compensation. It averaged about one-fifth for the 60 largest companies on the index.

The mechanics of executive base pay programs are much the same as for other employees. Executives earn increases based on individual performance, internal equity and competitive market rates for comparable positions.

The percentage of total compensation made up by base pay is inversely proportional to the executive's ranking in the organization.

2. Non-discretionary cash bonuses. These are a significant element of executive compensation. They are the largest incentive compensation component in organizations that are privately held, and where stock-based incentive programs are not applicable.

Non-discretionary bonuses are tied to the achievement of measurable targets. There is usually a threshold level of performance required before any payout is made, a target level of performance at which the target payout is made and a higher level of performance at which the maximum allowable payout is made.

These bonuses are usually based on performance within a fiscal year. The shorter time frame for measuring and rewarding performance is consistent with short-term (quarterly and annual) shareholder expectations.

3. Discretionary cash bonuses. These bonuses are not linked to specific performance measurements or targets.

Discretionary bonuses may be appropriate where company performance is weak, thresholds for non-discretionary cash bonuses have not been met and where there is a need to provide additional compensation to key executives for retention purposes. In some cases they are used for valued achievements that are not rewarded through other components of the compensation package.

Despite these opportunities, they are decreasing in use.

4. Stock options. Stock options, or other share-based instruments, are intended to align the interests of executives with those of shareholders by encouraging executives to increase share prices.

A stock option program provides an executive with the option to buy shares — typically at the fair market value (FMV) of the stock as of the day the option grant is issued. Some companies have begun to price options above the FMV so that the options will not have any value unless the stock price attains a stipulated increase in value.

The options usually vest over a period of three to five years. The option recipient usually has five to 10 years from the option grant date to exercise the options. One emerging trend has companies making the vesting of options dependent on the achievement of specified performance objectives, rather than simply on the passage of time.

Stock options do not completely align the interests of executives and shareholders. Unlike direct share ownership, stock options do not entail the possibility of financial loss, and do not reflect returns to shareholders via dividends. Accordingly, an increasing number of companies are requiring executives and board members to have a defined amount of personal share holdings.

One of the criticisms of stock options is that, in a bull market, even poorly managed companies experience an increase in share price. That rewards executives even when their organization's performance is below average. Companies can mitigate this risk by pricing options above the FMV as of the date of the grant, or by providing shorter time frames (perhaps five years rather than 10) for the exercise of options.

Conversely, well-run companies may experience a decrease in share price during a bear market. That can have a significantly negative impact on executive morale and retention. In such cases, some companies have chosen to revalue their options (reduce the price at which they can be converted into shares).

This can be perceived as sheltering executives from the pain felt by shareowners, which violates the principle of aligning the interests of executives and shareholders. Option revaluation is becoming rare.

A less controversial approach to this problem is to reduce the stock option component of the executive compensation package, and to increase the bonus component (especially non-discretionary bonuses based on the individual's performance rather than the share price).

Option income is currently taxed as a capital gain. Individuals are not taxed until the options are actually exercised. In this way, option income is more tax-effective than regular income.

Until 2004, options had not been expensed by companies. They acted as an expense-free form of compensation. Now that they must be expensed, many companies are expecting to grant fewer options to fewer staff.

5. Stock appreciation rights. These are like stock options, except that the recipient does not actually have to buy and then sell the shares vested. Stock appreciation rights involve notional stock.

They have the advantage of providing cash compensation if the share price increases, but not diluting shareholder equity. They are often used by multinational corporations for executives in countries where stock option programs are not allowed by law.

6. Share unit plans. Under stock option and stock appreciation rights plans, executives are compensated only on the increase in the value of the shares over the option price.

Under share unit plans, executives receive the full cash value of each share unit granted rather than just the appreciation of the share price. Depending on the plan, the share unit holder may receive cash or actual stock at the point of exercise. Share unit holders will also normally receive the same dividends as regular shareholders.

Because each share unit has more value than a stock option, fewer units need to be granted to provide the same compensation value to the executive.

Share unit plans can be criticized for rewarding executives even though the stock price may have declined. Also, because of the smaller number of units typically granted, there is less upside (compared to stock options) for increases in share price.

However, they encourage executives to protect or increase the existing value of shares, and to preserve or enhance dividend yields.

Income gained under share unit plans is currently taxed, upon receipt, as ordinary income. There are three types of share unit plans:

Restricted share units. These units vest under a predetermined schedule, typically at the end of a specified period such as three years.

Performance share units. These are increasing rapidly in popularity as an alternative or complement to traditional stock options. Performance share units vest depending upon the achievement of certain predefined and time-bound performance objectives.

Deferred share units. With these units payment is deferred until the executive's employment with the company ends. They direct executives' attention to the long-term performance of the organization. An unintended consequence of deferred share units may be to encourage executives to leave if they anticipate a significant reduction in share price.

EXECUTIVE BENEFITS AND PERQUISITES

Company practices on benefits and perquisites differ widely. The general trend is towards a reduction in special provisions for executives.

For benefits, the most common practice is for companies to provide the standard insurance programs to their executives. Where the amount of a benefit provision is contingent on income (life or disability coverage, for example), some companies will adjust the standard maximums for coverage to reflect the higher levels of income that will need to be replaced in the event of the death or disability of an executive.

Similarly, for companies with defined benefit pension programs, applying the standard income tax maximums for registered pension plans will result in executives exceeding the maximum benefit levels. Some companies will bridge this gap through supplemental executive retirement plans. These plans cannot be financed from a pension fund. Payouts are treated as regular business expenses.

A large portion of executive compensation is based on incentive rewards rather than salary. As a result, companies have to decide whether income-contingent benefits such as pensions should be calculated on the executive's salary only, or on salary and bonuses.

Perks should be congruent with the company's desired culture. A hierarchical organization will tend to have more. A flatter, more egalitarian organization, or one with an active board or shareholders, will tend to minimize perks.

Justifiable perks are usually related to the nature of the demands of the executive's job. For example, memberships in golf clubs, social clubs or business associations are sometimes provided for the purpose of customer meetings and networking.

PSYCHOLOGICAL COMPENSATION

While compensation discussions tend to focus on financial provisions, a total rewards approach also looks at non-financial or psychological compensation. This is directed at more intrinsic motivators.

An executive's psychological compensation is most likely to come from the characteristics of his or her work environment or individual nature. Examples include congruence between work and values, degree of autonomy, relationships with peers and more senior executives or board members, relationships with the people they lead, the opportunity for visible achievement and public recognition, intellectual and professional challenge and the ability to have an impact outside the company by being involved in charitable, educational, public policy or other community endeavours.

In summary, executive compensation has become a subject of considerable public scrutiny. The result has been a marked improvement in transparency and accountability, compensation program design and governance. Boards and compensation consultants are becoming more creative in developing incentive programs tailored to reward specific individual performance and behaviours.

The prerequisite for an effective executive compensation program is a clear understanding and definition of the organization's business objectives, performance drivers and performance measurements. Once these have been established, the design of a total rewards package becomes an exercise in crafting an appropriate mix of the various executive compensation components to drive the behaviours required to achieve the organization's short- and long-term objectives.

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CHAPTER 7

The Importance of Employer Branding

Susan Hunt • *Sun Life Financial* with Rob Landry • *Magna International*

"There is no truth. There is only perception." — Gustave Flaubert

Whether Flaubert got it right or not, the idea that perception is reality certainly plays a big role in the concept of total rewards. Employers use a variety of tools to influence how employees perceive the overall value of their employment relationship. What's surprising is how often the world's best perception management tool — branding — is not given the attention or credit it deserves.

In fact, employer branding is the marketing tool that delivers the benefits of any total rewards strategy. Employer branding and total rewards have a wonderfully symbiotic relationship — the more effective the branding, the greater the perceived value of any given reward component within (or consistent with) that brand. So when the objective is to maximize your organization's equity by attracting, retaining and motivating the right employees, as an employer it pays to focus on your brand.

WHAT IS BRANDING?

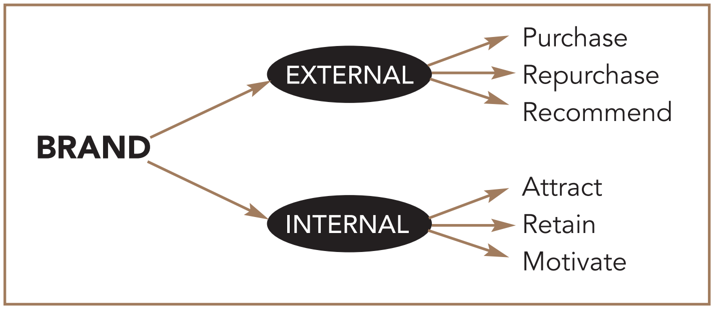
We all talk about our brands. We talk about brand equity and brand standards. But far too often we fall into the narrow view of branding — the tactical application of a logo or trademark to a company's packaging or other communications.

In its broader sense, branding is a process, an ongoing practice where all the tangible and intangible elements that constitute a company's image and reputation are organized and communicated. In this sense, branding takes on a life of its own. It becomes a driver of satisfaction and loyalty. It becomes a significant differentiating factor. When branding is understood as the personification of a company, it becomes a primary asset that deserves conscious, careful and complete deployment.

Marketers have done an incredible job of getting us to understand and respond to consumer or product brands. To a somewhat lesser degree, we also have a pretty good idea what a company's external corporate branding stands for. Just think about Windows and Microsoft. Or Big Macs and McDonald's.

It's only more recently, however, that business has started to focus on the power of employer branding. It started with the idea that marketing to employees was a more successful strategy than mandating. If we want to align our employees' talents and behaviours with our business objectives, we need to attract and retain employees who identify with our values so that we become their employer of choice, not chance.

Consumer or external branding works to influence customers' propensity to purchase, repurchase and recommend our products and services. The goal is to become a product or provider of choice by manifesting key characteristics that the customer values. Employer or internal branding works to influence employees' propensity to be attracted to, remain with and be motivated to sustain our business objectives. The goal is to become an employer of choice by reflecting those attributes that employees value.



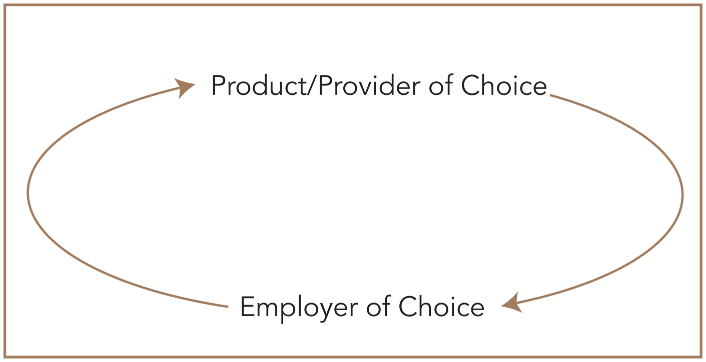
ALIGNING EXTERNAL AND INTERNAL BRANDING

Every organization has both an external and an internal brand. For decades, however, business has focused almost exclusively on consumer or external branding. That situation is changing.

The importance of external branding in securing customer loyalty is well documented. And we are now coming to appreciate how important internal branding can be. There is a fast-growing body of research that clearly shows internal branding is an important driver of external brand success. What is not to be overlooked, however, is how internal branding helps to feed that employer-of-choice status that keeps the system in balance.

Simply put, there is a direct link between how your employees perceive the company and how they help you to deliver your external brand promises. In other words, if they believe in you, they'll go to bat for you wholeheartedly. The only way to align their perceptions is to communicate your brand so your employees can understand and know that they share the underlying values.

But the key to success is that the communication has to be holistic. We all know stories about organizations that claim people come first, but then fail to follow through on the commitment. Any disconnect between words and behaviour belies the promise and inevitably leads to failure.



From this point of view, total rewards looks like a marketing tool. It's a strategy designed to give employees a combination of tangible and intangible proofs of the value system that drives all aspects of a company's business life. The idea is that people who work for you because you are their employer of choice are a lot more inclined to deliver the level of quality and service that you need to make your organization a provider of choice for customers.

At this point you may well be saying, "Wait a minute. I thought total rewards was a human resources strategy, a human asset management tool."

It is. Yet just like external and internal branding form a closed-loop system, so do internal branding and total rewards. They work together like chickens and eggs (or eggs and chickens, depending on your perspective).

INTERNAL BRANDING IN THE TOTAL REWARDS ENVIRONMENT

Employer branding has become a focal point for recruiters in their search for talent. And it's taking on an ever-more important role in employee retention and motivation programs. So how does employer branding feed that employer-of-choice objective that underlies total rewards?

First, a strong employer brand helps to differentiate your organization within an increasingly competitive employment market. By earning a reputation for sustaining the same values internally as your brand promises externally, or simply by creating a highly recognizable internal brand, potential employees are predisposed to give increased weight to your company's intangibles when seeking employment or considering an offer.

The other side of this positioning is that your brand as an employer serves as a talent self-selection tool. When an organization's expectations and commitments are well articulated, there is a much greater potential for cultural fit to be appropriately self-assessed before a candidate ever presents her or himself.

Second, the trend to outsourcing various components of your total rewards strategy makes those rewards more generic. Employer branding is the way to differentiate them. Within the context of a strong employer brand, individual reward components take on the attributes of the bigger picture and the whole package becomes a unique offering.

Third, a well-managed employer brand not only helps to define the parameters of an effective total rewards strategy, it facilitates the implementation of individual components. The objective of continually strengthening the employer brand may provide a clear indication of what needs to be added or changed within the total rewards package. Then when it's time to implement something new, the strength of the internal brand may greatly assist in characterizing the initiative as being of value to the employees. This preconception of value not only opens the door to receptivity, it sustains an environment of interest and acceptance as the following case study illustrates.

CASE STUDY: MAGNA INTERNATIONAL

Magna International Inc. is a leading global supplier of technologically advanced automotive components, systems and modules. With more than 82,000 employees and 220 manufacturing facilities around the world, the Magna brand promises quality, innovation, efficiency and price competitiveness to the international automotive industry.

In many circles, Magna is equally as well known for its fair enterprise philosophy — a success formula that is incorporated into its Corporate Constitution and physically attached to its logo with the phrase "A Fair Enterprise Corporation." One of the direct results of that philosophy is an Employee Charter of Rights that sets out a range of principles — from job security to a safe and healthful workplace, to employee equity and profit participation.

"Our Fair Enterprise philosophy is an integral part of our entrepreneurial culture," says Rob Landry, Magna's chief labour counsel and a senior HR executive. "This philosophy is embodied in our Corporate Constitution and Employee Charter, which include well-defined commitments regarding the need to balance the interests of Magna's key stakeholders. Magna is able to leverage this Fair Enterprise brand to engage employees to produce a better product at a better price. And we're also able to leverage that philosophy when we have to make a program change so that we're reinforcing employees' perceptions rather than trying to change them."

A case in point is the company's recent redesign of its retirement savings program. In response to the dynamics of the Canadian and U.S. marketplace — factors like the new Capital Accumulation Plan Guidelines, the U.S. Sarbanes-Oxley Act and cyclical nature of the auto industry — Magna wanted to make some changes to its employee equity and profit participation program (EEPPP) on both sides of the 49th parallel.

"EEPPP is a big part of our total rewards strategy and our Fair Enterprise philosophy. Amidst all this regulatory activity and the dynamics of the automotive industry, we recognized that certain aspects of our EEPPP needed updating," says Landry. "We wanted to create greater diversification within the plans, while at the same time retaining employee ownership and a tie to company profits."

The challenge was to achieve the plan redesign, and amalgamate service providers, in two countries, across four affiliated companies, in nine languages, in 142 locations, in 120 days. "If we hadn't been able to rely on the equity of our Fair Enterprise culture, in essence, our employer brand," according to Landry "there's no way we could have had a successful launch."

Magna's communications strategy combined face-to-face, online and video messages with more than 18 different print components. A team of 25 educators conducted over 325 on-site employee meetings. The retirement program website, including a suite of online tools, was completely redesigned and integrated with the company's group benefits website. They even created an interactive DVD/CD for new hire orientation. And regardless of business group, language or country of residence, Magna's employer branding tied it all together.

"Because we try to align everything that we do with our Fair Enterprise philosophy, the Magna logo helps to tie any new initiative back to the values of the organization. It certainly does with programs rolled out to our employees," says Landry. "The strength of that internal branding instantly characterizes a program change — like the one we implemented for our EEPPP — as being consistent with our overall Fair Enterprise commitments."

What makes employer branding such a compelling proposition is the fact of compounding benefits. A strong internal brand supports the human resource goals of total rewards. With talented, motivated, committed people working in the organization the external brand promise, and the business itself, are strengthened. And around it goes.

"Our culture is of value to our people," says Landry. "It's an intangible, non-economic benefit. But when you say, 'I work at Magna,' that means something special. Something special that translates into financial success for the business — success that every employee not only contributed to, but also shares."

Now that's totally rewarding.

Susan Hunt is the director, national marketing and brand development with Sun Life Financial Group Retirement Services.

Robert Landry is Magna's chief labour counsel and a senior human resources executive.

Partnering with a **Total Rewards Provider**

Terry Lister • *IBM Business Consulting Services*

Changing market expectations place businesses under constant pressure to raise performance. So all eyes often turn to human resources (HR) to increase the productivity of knowledge workers. HR leaders today play a pivotal role in translating business strategies into performance through people. And as HR leaders know, attracting and retaining the talent needed to deliver high performance requires excellence in total rewards.

Faced with an increasingly diverse workforce and a highly competitive labour market, HR leaders have to be creative in fashioning total rewards. Careful thought must be given to the combination of comprehensive benefits and compensation packages, including tangible and intangible rewards.

IBM research shows that salary ranks relatively low as an employee satisfier — with health benefits and other work-life balance factors providing greater differentiation. But there are significant differences across employee segments. No longer does one size fit all, if it ever did. Young recruits want cash compensation to pay off student loans. Experienced staff members want a full range of health, dental and insurance benefits. But some want to mix and match so that their spouses can optimize the combination. Employees want family-friendly policies. Some want sabbatical leaves. Others prefer different work-life balance options. Many want rewards for performance and better access to learning. Total rewards for optimal talent management include compensation and benefits, as well as career development and work-life programs.

EMPLOYEE VALUE PROPOSITIONS

The days of a simple compensation strategy are long gone. HR leaders have had to take a page from the books of their marketing colleagues and develop employee value propositions that allow for a wider range of choices, enhance performance and yet remain fair and equitable. And, managing total rewards takes more and better information. It is necessary to track uptake by employees, and constantly modify and improve the package.

The challenge is that the creativity in total rewards seems to run into direct conflict with goals of cost-effective administration. The dilemma seems to be that the old-fashioned simple compensation regimes are easy to communicate and administer, yet they are not the approaches that will attract and retain a diverse array of talent. The rewards that align to individual employee performance and personal situations are complicated to communicate, deliver and manage.

Delivery alone is insufficient. Innovative total rewards must be clearly communicated to staff so that they can make the best choices and appreciate the rewards. HR leaders need quality information to manage the programs.

Fortunately, there is a way to reconcile the dilemma. By partnering with a total rewards provider, HR leaders acquire delivery service, package design, expertise and insight to improve the delivery and management of total rewards for better talent management.

TOTAL REWARDS OUTSOURCING

A growing number of Canadian and global companies already outsource elements of their HR activities — most commonly pay and/or benefits administration. Outsourcing total rewards is much more than a simple benefits delivery arrangement. It changes the delivery of one of the most intimate working relationships an employee can have with his or her employer.

According to a 2003 survey by *The Globe and Mail,* 46 per cent of Canadian organizations expected outsourcing of HR clerical transactions to increase as companies sought potential cost savings by contracting out functional tasks such as handling payroll and information about dental plans and pensions.

HR leaders have found that as total rewards became more complex, with more individual choice, the risks of inconsistent communication and delivery increase. The approach to delivery is under pressure.

In the past, when a company decided to outsource HR functions, including pay or benefits administration, executives generally expected considerable cost savings. In the context of total rewards and talent management, cost is only part of the equation. Still, outsourcing is expected to yield a significant cost advantage, commonly in the 15 to 20 per cent range. Savings are realized because transactional work can be done cheaper, better and faster by an organization that specializes in these services.

But in the context of talent optimization, cost savings are no longer the prime motivating factor in outsourcing HR, particularly in outsourcing total rewards. In almost every survey and study, HR leaders report they are working to transform their function from administration to strategic talent management. They want to align the HR function with the business, to help management deliver better performance.

It is this orientation to improved business performance that now prompts them to look more closely at partnering for total rewards delivery. Outsourcing total rewards means optimizing reward design, streamlining delivery processes, improving service to employees and getting the most from the rewards. It's a huge cultural shift.

STRATEGIC FOCUS

Freed from routine paperwork and time-consuming transactions, HR professionals are able to adopt strategic roles more suited to their skills and training, and make a difference to the enterprise. They can focus on senior recruiting, succession planning, identifying and promoting top talent, performance measurement, management and alignment in the marketplace, training, coaching and talent development.

Most organizations find the key to successful HR outsourcing is in deciding what activities are core to their business and keeping these in-house. Knowing why outsourcing is an option — whether it is to reduce costs, improve service or enhance technology — will help in essential decision-making.

Core HR work — strategic hiring, executive recruitment or performance management — should be kept in-house because these functions offer distinct competitive advantages to the company. The question of how to scope the outsourcing needs to move beyond the basic dichotomy between strategic and transactional work. For effective talent management, the reality is that transactions must be performed superbly and the related data aggregated and analyzed to gather important insights on optimizing workforce engagement. Better metrics are critical to better management.

A CASE STUDY

The following case study shows the evolution of talent management in the face of such a dilemma. Business executives had challenged HR to deliver more value for employees, and to recognize the diversity of employee expectations while continuing to reduce total costs and build a long-term talent management strategy. Since outsourcing is firmly embedded as part of this organization's overall business service delivery, it was not a huge leap for HR executives to engage a total rewards partner.

Like many companies in a turbulent economy, this company had experienced volatility in demand for its products and services. There was a significant change in its workforce composition, with more knowledge work under way. Moreover, the company faced a pending demographic shift with an aging workforce and fewer new recruits available.

In some areas of the business, the workforce was not being used to full capacity. Other areas were experiencing high rates of unanticipated overtime. With the risk of higher turnover — both from attrition and an aging workforce — and a more challenging recruitment environment, better talent management was essential. Innovative total rewards, with flexibility to adapt to the requirements of a diverse workforce, were a critical ingredient in the talent management strategy.

At the same time, HR practitioners were continuing to process a high number of transactions that had created long queues and risked poor service. HR leaders were concerned that the positive features in their total rewards design would be dissipated as employees encountered difficulties accessing services or even in understanding the benefit packages. Rising levels of formal complaints were already evident.

The company provided service to over 20,000 active employees and 5,000 pensioners. It had four objectives for transforming talent management and total rewards delivery. First, to improve efficiency, effectiveness and customer service. Second, to decrease operational costs and establish a scalable solution platform. Third, to realign and refocus on strategic drivers required by the business. And fourth, to leverage global synergies for low-cost service delivery.

The solution began by addressing three key questions. What does talent management mean for us? How can we support employees in all phases of their life cycle? How can we optimize the impact of our innovative total rewards strategy?

The organization needed a more flexible and scalable model to support growth, a reduction in costs by leveraging economies of scale and better information for more insightful talent management. It required a vehicle to standardize processes and data, and to improve the quality of talent management services and data that would support a one-face-to-the-customer model. At the same time, it had to accommodate local and individual requirements. The aim was to leverage best practices and technology to release HR business units to focus on their core competency tasks of providing strategic guidance and value to the business.

The design adopted was an employee services contact centre that provides one-stop shopping for all employee reward inquiries and services. It includes a case manager tool to track and report on contact centre transactions and an escalation handling system for exceptional cases. A redesign of business processes consolidated in-scope services and merged similar functions under single leadership, gaining increased efficiency by reducing duplication of work. A previously management-heavy organizational structure was replaced with a more streamlined model.

The result is that employee service levels improved, with consistent levels of service achieved for all employees. Strategic design stayed within the company. The tiered delivery model provides consistent quality and accuracy at a low delivery cost. Service is driven by life and business events, not by traditional functions. It ensures the right service is delivered to the right person at the right time via the right channel.

Several components remain in-house:

- Design and development of all HR programs.
- Employee relations.
- Workforce management.
- Diversity strategy and execution.
- Management development strategies and administration.
- Staffing and recruiting.
- Workforce management.
- Organizational transition support, or onboarding design and development.
- Campus relationship management and strategy.

These functions were outsourced:

- All transactional components of benefits, compensation, pension, HR administration, HR information technology, HR reporting, recruitment, talent and expenses.
- Candidate recruiting and university recruiting.
- Applicant tracking.
- Employee referral.
- Candidate screening.
- Hire and offer administration.
- Pre-employment verification.

The outsourcing transition was seamless, although it's always difficult to know if there were teething pains experienced by employees.

For the average employee, the changes were only obvious when they needed advice and had to go to a computer to access information rather than asking a staff member. Self-service puts a lot more control in the hands of the employee, but it can require more time and effort.

In a knowledge economy, companies that have the best talent win. HR executives should spend their time and skills making the most of a company's human resources — finding the best hires, nurturing the stars and fostering a productive work environment. HR should be joined at the hip to business strategy.

The delivery of total rewards and the provision of information for better analysis of the links between talent and rewards can be delegated to a partner. What's left is the more important strategic role of raising the reputational and intellectual capital of the company, linking people to business performance and having the evidence to prove it.

Terry Lister is a partner in IBM Business Consulting Services. She leads IBM's HR strategy consulting for Canada.

CHAPTER 9

Total Rewards for **Mid-sized Employers**

This chapter is the result of a roundtable discussion, facilitated via e-mail by Sun Life Financial.

Total rewards strategies focus on compensation, benefits and workplace culture or career issues. Can mid-sized employers provide total rewards as successfully as their larger counterparts?

Sonia Rea: Most mid-sized employers are working with constrained financial budgets. Therefore, more control is exercised in managing compensation and benefits costs as this represents a large expenditure on operating budgets. As for workplace culture, this is equally important to both mid-sized and larger employers. As human capital is an invaluable resource to ascertain long-term survival, companies, large and small, are putting every effort into obtaining employees' commitment, respecting their diversity and ensuring their integration. Innovative programs are put in place to acknowledge and motivate employees. Work climate is periodically assessed to ensure that it remains relatively positive, as this will definitely impact productivity and profitability. It is a useful tool in targeting scarce resources and urges employers to identify solutions to address challenging HR areas.

Val Holloway: Mid-sized organizations have the same opportunities as larger ones. Depending upon the culture and diversity of the organization, larger firms may find it more difficult to target a specific business unit.

Frank Gleeson: Smaller companies are clearly able to — and generally do — offer significant attractors beyond cash and cash-like rewards. Chief among them is work-life balance, which can be a major feature for people tired of the stress of large company demands. Other critical elements include less bureaucracy and simplified decision-making. Combined, they provide a greater sense of control and engagement, as well as accelerated learning opportunities and more employee autonomy. That generally leads to a deeper sense of personal accomplishment and better alignment with — and personal influence on — corporate culture and values.

Michael Worb: I agree with the comment about work-life balance, but just want to clarify that work-life balance may be just as tenuous in a small or mid-sized company as it is in a large one. It all depends on company culture, resources and expectations about output. For example, flexible working hours — which is a great response to helping employees juggle work and life demands — requires the right mix of employees who have complementary skills as well as complementary schedules. Finding, or creating, that mix can be challenging for an employer of any size.

Keith Morrallee: The smaller the organization, the tighter it is economically, culturally and socially. This affects compensation and workplace culture. Compensation ranges tend to be narrower in smaller organizations. However, average compensation across the organization may in fact be greater than is found in larger organizations. Similarly, workplace culture is likely to be more easily enriched in smaller organizations compared to larger ones, simply because there is a greater relative requirement for interpersonal contact throughout the organization. In respect of benefits programs, however, small and mid-sized organizations remain disadvantaged for the simple reason that they do not have the same economies of scale.

Chris Payne: This can depend on the industry sector. Some sectors are quite profitable. Manufacturing is greatly restricted by the money they have available for both benefits and compensation.

Are mid-sized employers sufficiently focused on human resources (HR) strategy?

Gleeson: They tend not to have the expertise to address this important area. Usually they do not devote budget to a dedicated, professionally trained HR executive on their senior team. It is usually seen more as a support or administrative function rather than a strategic contributor.

Morrallee: The willingness to invest in strategic HR functionality is, naturally, subject to cost-benefit considerations. That's often hampered by difficulties in understanding the value of the HR function relative to other areas of corporate operations.

Payne: Mid-sized employers are more reactive than proactive. I do not believe that most would have the time or ability to actually come up with or implement a true HR strategy. They are pushed for time on all levels and end up just putting out fires, rather than thinking long-term.

Rea: I believe that mid-sized employers are sufficiently focused on HR strategy. More and more, we see HR working closely with senior management and boards of directors to ensure HR strategies are properly aligned with corporate goals and mission statements. Communication at this level is valued. HR can powerfully affect the bottom line.

Do employees who work for mid-sized organizations have unique expectations?

Gleeson: They tend to have greater expectations regarding flexibility in work-life arrangements. There also seems to be a greater level of comprehension that smaller companies are sometimes constrained in matching what larger companies can achieve on a cash compensation basis. Employees are often with smaller companies by choice. As such, they can be more demanding that non-cash benefits meet their needs.

Morrallee: There are fundamental differences in the work environments of mid-sized organizations that shape employee expectations. Work often does not fall neatly within job descriptions. In smaller organizations there is more opportunity to participate in decision-making at all levels and to have a collegial team approach to work, rather than a top-down approach. These requirements dovetail effectively with total rewards practices.

What should a typical mid-sized organization offer as part of a total rewards strategy?

Rea: Monetary and non-monetary incentives including pay, benefits, training and development and work-life balance programs.

Worb: Self-motivated, personally driven employees will appreciate educational or skill-development opportunities. Others might welcome an opportunity to acquire additional vacation days, subsidies for gym memberships or the like. Understanding childcare needs and providing resources is often popular with employees. In fact, it is probably one of the single rewards most likely to positively affect company loyalty and can often be achieved relatively painlessly through flex work times. On the benefits side, we know that many employees quietly use employee assistance programs. And, at any given time for any size organization, reward and recognition efforts are critical. As for affordability, the costs of a total rewards program may be built into the margins. When customers know that a fee or cost includes a superior customer response mechanism or a reliable product, they are often willing to pay more. Of course, that must be strategically communicated in order to heighten customer awareness of the value they are receiving.

Gleeson: Base compensation and benefits still need to be sufficient to provide a lifestyle reasonably consistent with what the employee had before joining. In addition, there needs to be an upside in terms of time away from work, which for many is the trade-off they wish to make. It needs to be clear that the employee will have a greater sense of ownership of their work and know that they are making a difference. Finally, a sharing of upside rewards in some way for value contributed would be a real benefit for potential recruits.

Morrallee: Mid-sized organizations might aspire to offer full total rewards, but realistically focus on those areas that can most effectively deliver bang for the buck. As starting points, recognition and acknowledgment of workplace achievements foster large payoffs at low cost. Supporting work-life balance will tend to result in productivity and health gains that will offset much of the costs.

Holloway: A reward does not have to cost a lot to provide enormous intrinsic value. The organization has to continually monitor what employees value, and then determine what works well, and what doesn't, at what price.

What are the most innovative mid-sized employers doing?

Morrallee: They are tailoring total rewards to basic needs unique to the workplace culture. Common examples include permitting and empowering work from home to assist employees in balancing domestic requirements with work requirements, fitness allowances, personal technology equipment purchase and finance programs (which may empower work from home), a well-equipped lunchroom and casual attire days.

Rea: The most innovative mid-sized employers are linking total rewards strategies with performance and company objectives. Unique programs such as innovative peer recognition award programs enable employees to recognize or be recognized by co-workers for outstanding service and performance.

Worb: Pay for results rather than time. An employee's real contribution to an organization isn't the hours worked, but rather the results he or she brings to the business. This should be balanced by a supportive, encouraging culture. Another big win with employees is to work with them to help build savings — not just by giving — but by providing them with educational tools and a mechanism that will help them build a future pot of money with which to retire.

How widely are total rewards strategies implemented among mid-sized employers?

Gleeson: Fewer than 25 per cent are following this approach.

Holloway: It would be a huge competitive advantage to have a plan. The organization then knows where they are, what they want to offer their employees and how they are going to achieve their goals.

Morrallee: Total rewards is still in its infancy for mid-sized employers. The upside in terms of competitive advantage is significant. Gains begin with improvements in attracting and retaining employees, and expand to productivity, health and motivation gains. The key, however, is to implement total rewards in a way that meshes appropriately with the organization's culture, rather than as a reactive response to what a competitor may be doing.

Why the delay?

Holloway: It's a hard sell. When a company is small, they may follow a total rewards strategy informally. But as they grow and business issues require greater attention, the people issues begin to fall by the wayside.

Gleeson: Often, mid-sized companies are so focused on merely surviving or keeping up with rapid growth that all their energy is consumed. There's no time left for stepping back and thinking about total rewards and how it can represent a competitive weapon.

Worb: Perhaps it will take time for employers to get over some skepticism and to see and hear about how other employers have achieved success with this. Of course, they need to see how this is going to directly relate to their bottom line and productivity. But this is more than just economics. This is a cultural shift in addressing the whole employee and it takes time for that to become widespread.

Rea: What they don't realize is that this may have a direct impact on the long-term survival of the organization and that human capital is to be valued more than bricks and mortar. They will need coaching on how to implement this at a reasonable cost.

Are those who adopt a strategy realizing the necessary return on investment?

Rea: Realizing investment takes time. However, statistics on recruitment, retention, disability claims and workplace climate will provide management with an indication of the direction they are taking. Firms adopting a total rewards strategy will realize the return on investment both directly and indirectly.

Morrallee: Quantitative assessment of returns on investment may be problematic. Measurement areas may include turnover, staffing costs, disability costs and productivity. Difficulty arises in distinguishing the impact of total rewards from other external environmental influences. These measurement challenges should not deter employers from implementing total rewards, particularly if it is likely to demonstrably raise employees' job satisfaction and there is a belief that happier employees provide for improved customer relations.

Worb: In order to realize the desired return on investment, an organization must be able to measure it. Measurement tools exist, but they must be carefully crafted. Data needs to be collected that will, as much as possible, show actual behavioural change. Has turnover been reduced? Have the numbers of individuals participating in educational or upgrading opportunities gone up? Have disability claims due to stress been reduced? When implementing a total rewards approach, an organization should determine ahead of time what success would look like. Then, with the help of a professional, decide how much effort and resources can be devoted to ascertaining success. Then work within that budget.

Holloway: Business and workforces change over time and organizations have to have a handle on how they are evolving. Having a total rewards strategy allows an organization to focus its effort in a certain direction.

Payne: If they don't buy into this strategy, I believe their business will suffer.

Gleeson: Unquestionably. The essence of an HR strategy is having the right people in the right jobs doing the right things (well). Providing them with the right rewards package for the circumstances at hand will ensure they stay and are motivated in the desired direction. That can only make the company stronger and more competitive, and most importantly, positioned to be more profitable.

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