Optimizing Rewards and Employee Engagement

Improving employee motivation and engagement, and identifying the right total rewards strategy to influence workforce effectiveness.

Kevin Aselstine, Towers Perrin

October/November 2006
# Employee engagement

<table>
<thead>
<tr>
<th>What it is</th>
<th>Why it matters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees’ willingness and ability to help their company succeed, largely by providing discretionary effort on a sustained basis</td>
<td>■ Correlation with better business results</td>
</tr>
<tr>
<td></td>
<td>■ Linkage to high performance employee behaviour</td>
</tr>
<tr>
<td></td>
<td>■ Reduces regrettable turnover</td>
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</tbody>
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The new reality for employers - a dynamic and changing labour market

- **On the supply side:**
  - It’s getting harder to find and attract new people
  - Turnover rates have started to rise and retention of talent is becoming an issue in many industries
  - Pure population demographics are a major uncontrollable factor

- **On the demand side:**
  - Businesses are turning to people-dependent strategies for growth
  - Line management is looking for “the best talent”, the “a-players”, and a fully engaged and productive workforce
  - Globalization, technology change and other factors are changing the kinds of skills that companies need to survive & thrive
  - Boards and shareholders are increasingly savvy about workforce and organizational health, succession planning and talent management - putting added pressure on management as well as HR

The successful business of the future will be the successful employer of talent. The successful employer will understand and act upon what is needed to manage talent currently and in the future.
There’s an ongoing transformation in views about people as a source of competitive advantage

- **1980s**: What does the employee cost the organization? *(Focus on reducing total labour costs)*
- **1990s**: What is the employee worth to the organization? *(Focus on maximizing human capital ROI)*
- **2000s**: What is the organization worth to the employee? *(Focus on engagement — unleashing discretionary effort)*

Our Most Important Investors

Our Greatest Asset

Our Highest Cost

Real competitive advantage...
Leaders across the organization are starting to ask tough questions about how to engage their workforce

<table>
<thead>
<tr>
<th>Role</th>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>“How do I shift people from a cost mindset into a growth mindset?”</td>
</tr>
<tr>
<td>Committee of the Board</td>
<td>“How are we retaining and engaging future leadership talent?”</td>
</tr>
<tr>
<td>CFO</td>
<td>“How are we managing labour costs and optimizing our total rewards spend?”</td>
</tr>
<tr>
<td>BU Head</td>
<td>“How can we get people focused on the right “stretch” targets?”</td>
</tr>
<tr>
<td>VP of OD</td>
<td>“What really drives employee retention and engagement?”</td>
</tr>
<tr>
<td>VP of Recruiting</td>
<td>“What are factors that drive attraction for key segments?”</td>
</tr>
<tr>
<td>SVP of HR</td>
<td>“How can I integrate and focus all of our talent and rewards programs?”</td>
</tr>
<tr>
<td>VP of HR Ops</td>
<td>“How does the HR function need to be aligned around our talent needs?”</td>
</tr>
</tbody>
</table>
Engaging employees is part of a broader strategy that needs to capture the employee perspective as well as employer needs.

**Human Capital Strategy**

**Employer perspective:** Increasing shareholder value

**Employee perspective:** Meaningful, rewarding work

- **Strategy**
  - Organization capabilities
  - Organization values

- **Workforce demand vs. Workforce supply**

- **Staffing and selection strategy**

- **Change management and communication strategy**

- **Total Rewards Strategy**
  - Pay
  - Benefits
  - Learning and Development
  - Work Environment

- **External influences**

- **Internal influences**

**Aligned employee behaviours that yield desired business results**
**Attraction**

Within our Canadian data, variations by age suggest the importance of understanding your target workforce.

<table>
<thead>
<tr>
<th></th>
<th>Canada Overall</th>
<th>Ages 18 – 29</th>
<th>Ages 30 – 44</th>
<th>Ages 45 – 54</th>
<th>Ages 55 +</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitive base pay</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Work/life balance</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Career advancement opportunities</td>
<td>3</td>
<td>1</td>
<td>3</td>
<td>5</td>
<td>9</td>
</tr>
<tr>
<td>Competitive benefits</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Challenging work</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Salary increases linked to individual performance</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>Learning and development opportunities</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>9</td>
<td>—</td>
</tr>
<tr>
<td>Competitive retirement benefits</td>
<td>8</td>
<td>—</td>
<td>8</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>Calibre of co-workers</td>
<td>9</td>
<td>10</td>
<td>9</td>
<td>10</td>
<td>6</td>
</tr>
<tr>
<td>Reputation of the organization as a good employer</td>
<td>10</td>
<td>8</td>
<td>10</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Variety of work assignments</td>
<td>—</td>
<td>9</td>
<td>—</td>
<td>—</td>
<td>10</td>
</tr>
</tbody>
</table>
Improving retention means building employee confidence that the organization *cares* about talent management.

<table>
<thead>
<tr>
<th>Top 10 Drivers of Retention in Descending Order of Importance</th>
<th>Employee View of How Their Organizations are Doing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organization retains people with needed skills</td>
<td>Favourable: 34%  Mixed: 30%  Unfavourable: 36%</td>
</tr>
<tr>
<td>Opportunities to learn and develop new skills</td>
<td>Favourable: 59%  Mixed: 21%  Unfavourable: 20%</td>
</tr>
<tr>
<td>Competitive base salary</td>
<td>Favourable: 30%  Mixed: 40%  Unfavourable: 30%</td>
</tr>
<tr>
<td>My manager understands what motivates me</td>
<td>Favourable: 38%  Mixed: 27%  Unfavourable: 35%</td>
</tr>
<tr>
<td>Satisfaction with the organization’s people decisions</td>
<td>Favourable: 22%  Mixed: 38%  Unfavourable: 40%</td>
</tr>
<tr>
<td>Retirement benefits</td>
<td>Favourable: 30%  Mixed: 44%  Unfavourable: 26%</td>
</tr>
<tr>
<td>Senior management acts to ensure the organization’s long-term success</td>
<td>Favourable: 57%  Mixed: 26%  Unfavourable: 17%</td>
</tr>
<tr>
<td>Fairly compensated compared to others doing similar work in my organization</td>
<td>Favourable: 46%  Mixed: 23%  Unfavourable: 31%</td>
</tr>
<tr>
<td>Appropriate amount of decision-making authority to do my job well</td>
<td>Favourable: 61%  Mixed: 19%  Unfavourable: 20%</td>
</tr>
<tr>
<td>Reputation of the organization as a good employer</td>
<td>Favourable: 56%  Mixed: 28%  Unfavourable: 16%</td>
</tr>
</tbody>
</table>

Source: *Towers Perrin 2005 Workforce Study* - Canada
Employee engagement – emotional & rational elements

**Emotional Engagement**
- I would recommend my company to a friend as a good place to work
- My company inspires me to do my best work
- I am proud to tell others I work for my company
- My job provides me with a sense of personal accomplishment
- I really care about the future of my company

**Rational Engagement**
- I understand how my unit contributes to the success of my company
- I understand how my role is related to my company’s overall goals, objectives and direction
- I am willing to put in a great deal of effort beyond what is normally expected to help my company succeed
- I am personally motivated to help my company be successful

Source: Towers Perrin Global Workforce Study
Why engagement matters:
It is highly correlated with financial performance

![Graph showing the relationship between employee engagement and financial performance metrics such as revenue growth, cost of goods sold, and selling, general, and administrative (SG&A) costs.]

For a $3B company, that’s $24,000,000.

Source: Towers Perrin 2003 Talent Report. Financials are illustrative and do not represent specific company.
Why engagement matters: It links to high performance behaviours

I can positively impact quality

- Disengaged: 45%
- Moderately Engaged: 66%
- Highly Engaged: 85%

I can positively impact costs

- Disengaged: 22%
- Moderately Engaged: 39%
- Highly Engaged: 64%

I can positively impact customer service

- Disengaged: 38%
- Moderately Engaged: 56%
- Highly Engaged: 74%

I can positively impact overall profitability

- Disengaged: 16%
- Moderately Engaged: 29%
- Highly Engaged: 53%

I can positively impact revenue growth

- Disengaged: 14%
- Moderately Engaged: 25%
- Highly Engaged: 46%

Key:
- Disengaged
- Moderately Engaged
- Highly Engaged

Source: Towers Perrin Global Workforce Study - Canada
Why engagement matters:
There’s a clear relationship with retention

Highly Engaged
- No plans to leave: 63%
- Not looking, but would consider another offer: 26%
- Actively looking for another job: 8%
- Made plans to leave current job: 2%
- Plan to retire in the next few years: 1%

Moderately Engaged
- No plans to leave: 48%
- Not looking, but would consider another offer: 30%
- Actively looking for another job: 9%
- Made plans to leave current job: 10%
- Plan to retire in the next few years: 3%

Disengaged
- No plans to leave: 38%
- Not looking, but would consider another offer: 12%
- Actively looking for another job: 12%
- Made plans to leave current job: 9%
- Plan to retire in the next few years: 29%

Source: Towers Perrin Global Workforce Study - Canada
Engagement levels – Canadian workforce

Source: Towers Perrin Global Workforce Study - Canada
In Canada, senior management has the most influence on employee engagement

**Top 10 Drivers of Engagement in Descending Order of Importance**

- Senior management interest in employee well-being
- Improved my skills and capabilities over the last year
- Reputation of the organization as a good employer
- Input into decision-making in my department
- Opportunities to learn and develop new skills
- Pay determination fair and consistent
- Organization focus on customer satisfaction
- Appropriate amount of decision-making authority
- Employees understand what it takes to satisfy customers
- In combination with government programs, my benefits meet my needs

**Employee View of How Their Organizations Are Doing**

<table>
<thead>
<tr>
<th>Factor</th>
<th>Favourable</th>
<th>Mixed</th>
<th>Unfavourable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior management interest in employee well-being</td>
<td>39%</td>
<td>24%</td>
<td>37%</td>
</tr>
<tr>
<td>Improved my skills and capabilities over the last year</td>
<td>79%</td>
<td>15%</td>
<td>6%</td>
</tr>
<tr>
<td>Reputation of the organization as a good employer</td>
<td>56%</td>
<td>28%</td>
<td>16%</td>
</tr>
<tr>
<td>Input into decision-making in my department</td>
<td>60%</td>
<td>18%</td>
<td>22%</td>
</tr>
<tr>
<td>Opportunities to learn and develop new skills</td>
<td>59%</td>
<td>21%</td>
<td>20%</td>
</tr>
<tr>
<td>Pay determination fair and consistent</td>
<td>39%</td>
<td>26%</td>
<td>35%</td>
</tr>
<tr>
<td>Organization focus on customer satisfaction</td>
<td>70%</td>
<td>19%</td>
<td>11%</td>
</tr>
<tr>
<td>Appropriate amount of decision-making authority</td>
<td>61%</td>
<td>19%</td>
<td>20%</td>
</tr>
<tr>
<td>Employees understand what it takes to satisfy customers</td>
<td>67%</td>
<td>22%</td>
<td>11%</td>
</tr>
<tr>
<td>In combination with government programs, my benefits meet my needs</td>
<td>61%</td>
<td>23%</td>
<td>16%</td>
</tr>
</tbody>
</table>

*Source: Towers Perrin Global Workforce Study - Canada*
Leading organizations make the critical link between people, programs and results

“People systems” should start from and support the organization’s specific performance goals
Polling Questions: Yes or No?

1. Do you measure employee engagement (versus employee satisfaction) in your organization today?

2. Have you analyzed your business plan to determine talent gaps and future recruitment needs?

3. Do you feel that your pay and performance systems are properly aligned with your business value drivers?

4. Do you know how to optimize your rewards spend and still attract, retain and engage the people you need?
Use employee research to determine what drives attraction, retention and engagement
Understand employee preferences to “optimize” ROI on your total rewards

**Cost/Benefit Scenarios**

- **Current State:** No change to investment; Current employee engagement

**KEY**

- **A) Optimal cost savings:** The reward mix that maximizes cost reduction with a neutral impact on employee engagement
- **B) Optimal reallocation of current investment:** The reward mix that reallocates the current total spend across programs in a way that maximizes employee engagement
- **C) Optimal investment:** The reward mix beyond which there are diminishing returns in employee engagement
# Five main areas where leading organizations are focusing to build engaged, productive workforces

<table>
<thead>
<tr>
<th>Ensure senior leadership alignment, talent pipeline and communication</th>
<th>Enhance learning and career development framework</th>
<th>Improve front-line manager effectiveness</th>
<th>Align total rewards strategy</th>
<th>Refocus organization communications</th>
</tr>
</thead>
<tbody>
<tr>
<td>- More visible ownership of talent agenda</td>
<td>- Review of core and functional competencies</td>
<td>- Ensure better goal-setting and informal recognition, and richer performance assessments</td>
<td>- Optimize investments against key attraction, retention and engagement drivers</td>
<td>- Emphasis on internalizing the brand/value proposition, focusing on customers</td>
</tr>
<tr>
<td>- Clearer articulation of mission, vision and growth strategy</td>
<td>- Define career models, clarify paths and calibrate rewards</td>
<td>- Equip to engage in more productive career development discussions</td>
<td>- Adopt segmented strategy to address key talent pools (e.g., technical, sales, future leaders)</td>
<td>- More compelling communication of vision and strategy</td>
</tr>
<tr>
<td>- More rigorous succession planning process</td>
<td>- Revisit learning/development purpose, process and resources</td>
<td>- Focus on engaging team management — better involvement, communication and collaboration</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Questions?

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  - Kevin.aselstine@towersperrin.com
Quick Poll-Audience

How many of you currently use a total rewards type framework to manage your compensation, benefits, workplace and learning programs?
Total Rewards at a Glance

Total Rewards is...

the implementation of an integrated approach to managing “what” we offer employees and “how” we manage the relationship, to build mutually beneficial relationships with our employees to drive employee engagement, performance and retention.
Linkage Between Total Rewards & Corporate Performance

Total Rewards Recognizes...
the interdependencies between people, programs and business results

**Conceptual Framework**

<table>
<thead>
<tr>
<th>Employee Programs</th>
<th>Employee Behavior</th>
<th>Customer Behavior</th>
<th>Financial Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay</td>
<td>Engagement, Retention, Productivity, Customer Service</td>
<td>Customer Satisfaction, Customer attraction, Repeat purchase, relationship</td>
<td>Labor cost, Operating costs, Operating margin, Controllable margin, Revenue Growth, ROIC, Stock performance</td>
</tr>
<tr>
<td>Benefits</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Learning &amp; Development</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Work Environment</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**The Linkage:**
- Demonstrates how employee behaviors affect customer behaviors & Company financial performance
- Identifies the specific employee programs and policies that drive desired employee behaviors, customer behaviors, and financial performance
- Allows employers to assess reward effectiveness and make better investment decisions
Total Rewards Research

In 2004, RBC conducted extensive Total Rewards research, utilizing surveys and conjoint analysis to:

- Understand employee preferences
- Identify opportunities to segment our rewards model
- Realign our investment in rewards
Key Findings from our Research…

- Leaders, managers and employees were aligned on the need for change in rewards programs to better support business strategies and meet employee needs.

- Employee demographics were not a key driver of employee preferences.

- Cross-platform and cross-border similarities in employee preferences were striking.

- Employee preferences were not always driven by money – enhancing manager effectiveness had the highest impact on employee motivation, however, it did not require the biggest investment.

- Ability to buy 1 week of vacation rated surprisingly high.
An Example of Key Findings…

- Measuring employee perception of preferences and relative value enables trade-off decisions – to impact engagement without adding significant workforce costs

### Impact on Employee Engagement: RBC Canada

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>5% base pay raise</td>
<td>5.0%</td>
</tr>
<tr>
<td>50% more short-term incentive opportunity</td>
<td>3.3%</td>
</tr>
<tr>
<td>10% less employee health care contributions</td>
<td>2.5%</td>
</tr>
<tr>
<td>Discount on stock purchase up to $250/mo</td>
<td>4.7%</td>
</tr>
<tr>
<td>Ability to buy/sell 1 week of vacation</td>
<td>5.6%</td>
</tr>
<tr>
<td>Manager effectiveness certification</td>
<td>5.6%</td>
</tr>
<tr>
<td>Increase savings plan match by 3 percentage points</td>
<td>5.3%</td>
</tr>
<tr>
<td>Recognition budget at manager discretion</td>
<td>3.4%</td>
</tr>
</tbody>
</table>

Source: Towers Perrin Client Work
Areas of Opportunity… Employee Engagement

Key areas of opportunity to optimize employee engagement:

- Enhance manager effectiveness
- More effectively differentiate rewards for high performers / top talent
- Meet varying employee needs by:
  - tailoring rewards to employee segments by job category and / or position level
  - providing more program flexibility
Areas of Opportunity… Employee Awareness

We had an opportunity to further enhance employee awareness and understanding by using a more robust change management communication architecture:

- Targeted employee communication messages and channels
- More transparency of reward structures and programs
- Investment in enabling managers to become more effective communicators
- Recognizing that People Managers play an important role in managing the employee relationship with RBC
What RBC Has Done Based on Key Findings…

**Compensation**

- Increased differentiation of total compensation based on:
  - Proficiency – **Base salary**
  - Performance – **Annual bonus**
  - Potential – **Mid-Term and long term incentives**

- Balanced the individual performance component based on the degree of impact and control employees have on key business performance indicators

- Ensured incentives provided a competitive and compelling offer to top talent

- Created greater differentiation between high performers vs. average performers
What RBC Has Done Based on Key Findings…

**Benefits**

- Developed a total rewards ‘statement’ that was distributed via RBC’s intranet to all employees

- Harmonized retirement and benefit programs across both Canada and the U.S.

- Enhanced our Flex Benefits program to meet individual healthcare needs
What RBC Has Done Based on Key Findings…

*Work Environment*
- Introduced improved tools and support for people managers
- Introduced the purchase vacation option to provide employees with the opportunity to buy one week of vacation to meet work / life needs
- Increased focus on providing value add programs to employees by offering discounts on:
  - Financial services products
  - Home and auto insurance
  - Life insurance
  - Travel insurance
Quick Poll-Audience

How interested are you in providing additional benefits to your employees at no cost to the Company

- very interested
- somewhat interested
- not sure
- not interested

Are you in agreement that value add products, in addition to employee benefits may result in higher employee satisfaction and retention?

- Agree
- somewhat agree
- not sure
- disagree
What RBC Has Done Based on Key Findings…

**Learning and Career Development**

- Developed effective people manager training programs that help managers become better champions for employee development through coaching and career advice

- Developed a career model that allows for advancement within current roles

- Improved overall communication to help employees become better aware of learning and development opportunities
If I can leave you with just three key points ...

1. Entering an era of “Mutual Self Interest”
   - May need to realign rewards to support that mutually beneficial relationship, but there’s no silver bullet solution

2. Greatest driver of engagement is ‘senior management demonstrating a real interest in employee well being’

3. You don’t need to have a 70,000 person company to find ways to optimize rewards and engagement within your workplace
   - Consider participating in the Top 50 Employers survey
   - It provides a optimization analysis (for a fee).
Questions?

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