Alternatives to Pay that Reward Employees and Increase Engagement

By Jeremy Smith and Ken Oehler
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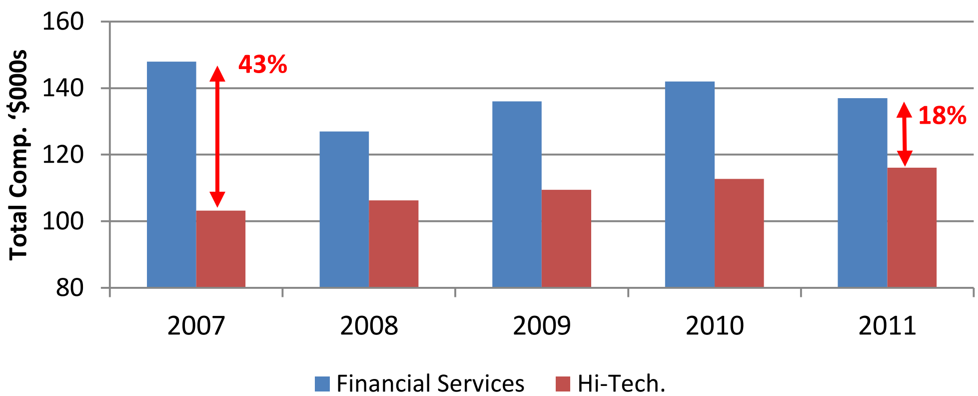
As premiums for working in financial services shrink and demands on staff grow, morale and motivation are becoming a daily challenge for line managers and HR alike. Many banks are currently considering new approaches that effectively reward and engage without pay.

McLagan, now under the larger Aon Hewitt umbrella, has gained insight from our Global Engagement Practice that we will share. First, let's discuss the "*Incredible Shrinking Premium*".



The graph above is indicative of a wider trend. Once, a career in financial services would guarantee a pay package significantly above non-financial services even for infrastructure functions such as IT or Finance. Now, that premium has come down and many new graduates view a career in high tech or general industry a more attractive starting point.

Senior staff, such as MDs and Directors, continue to see higher premiums; but for many of these employees, the premium is in the form of a bonus that is not guaranteed, will be deferred and may even be subject to clawback.

Due to economic conditions, capital constraints and regulatory/shareholder pressures, it is unlikely that banks will be able to (or even want to), reinstate pay premiums to levels where they were five years ago.

So how can banks retain and win back talent without paying a premium?

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Total Rewards Optimization

Total rewards, broadly defined as compensation, benefits, learning and development opportunities, and the workplace environment, represents one of the largest on-going organizational expenditures. Well-designed total rewards packages are effective at attracting and retaining talent as well as motivating the behaviors that lead to revenue growth, efficiency and profitability. And yet, the intended outcome of this key spend are not well articulated, understood, measured or even realized.

According to Aon Hewitt's 2012 Trends in Global Employee Engagement, 4 out of every 10 employees are disengaged. To re-engage employees, keep them at the organization and motivate them to work productively, organizations will need to make significant changes that entice employees to join and stay. This issue is especially relevant as banks reduce support costs by using low-cost locations, create shared service groups (which industrialize some processes), and re-evaluate the premiums paid in financial services over general industry for similar positions.

The aforementioned study represents over 9 million employees from 3,000+ employers from across the globe. Of these, 560,000 employees were from 644 companies in financial services. Pay did not make it into the top five engagement drivers for the full market but was rated third within financial services (and likely higher for top earners in capital markets firms). However, for most employees, the story is consistent: they want to work for firms that provide them both career opportunity and recognition, and whose corporate reputation and effective communication are growing. These are all opportunities to engage without pay.

			2011 FINANCIAL SERVICES INDUSTRY DRIVERS				
	Global 2010	Global 2011	Global	APAC	Europe	Latin America	North America
Career Opportunities	1	1	1	1	1	1	1
Recognition	2	2	2	2	3	2	5
Organization Reputation	3	3					3
Communication		4		4		4	
Managing Performance		5					2
Pay			3		4	3	
Innovation					5		
Brand Alignment	5			3			4
People/HR Practices	4		4		2		
Career Aspiration				5			
Work Processes			5				
Learning & Development						5	

Shaded cells show the top three scores for each region/global.

SOURCE: 2012 Trends in Global Employee Engagement

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These findings highlight an often overlooked factor of employee commitment and indicate that the engagement equation is about:

- My career
- My recognition
- My desire to work for the best
- My connection to the company
- My performance, my pay, and my work

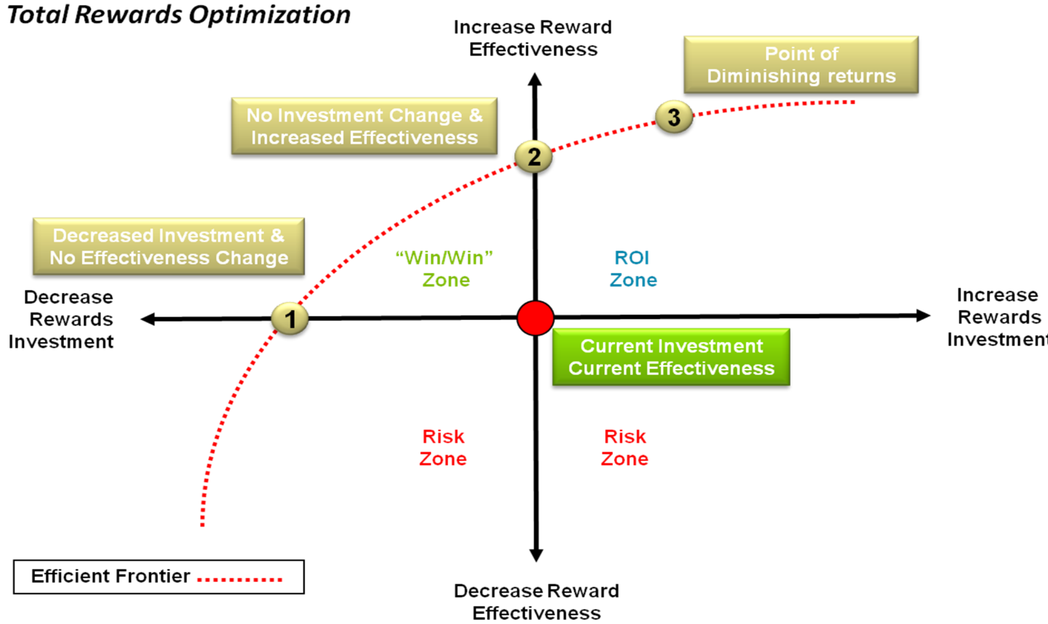
Thus, organizations need to reallocate investments in people programs to maximize engagement and effectiveness. Specifically:

- Identify the optimal total rewards mix that maintains or improves engagement/retention for different cost and business objectives;
- Target business critical talent pools and workforce demographics and meet their reward preferences;
- Anticipate employees' reactions to new programs or future program changes.

Given the on-going squeeze on cost in financial services, banks need to make a concerted effort to focus on maximizing the return-on-investment using the total rewards approach. Employing the following principles in reward program design, delivery and communication planning can get you to the right mix.

- Evaluate the benefit to your organization for its spend on the entire total rewards program, and offer only those elements that yield results;
- Find the "win/win" zone (see below). Use data to create the right mix of programs, to decrease spend AND increase attraction, retention and engagement.

Total Rewards Optimization



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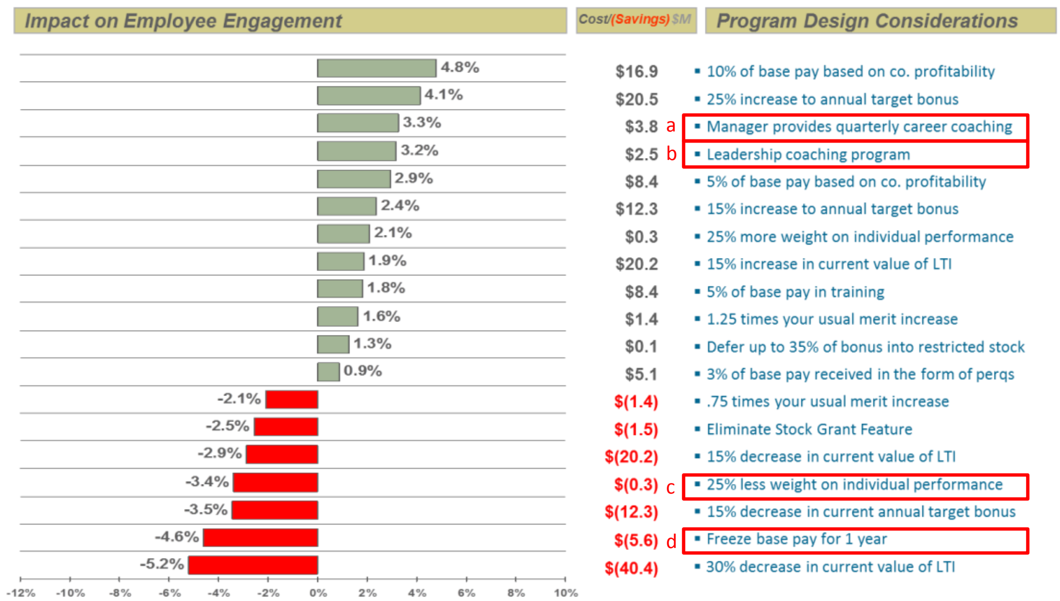
Evaluating Alternatives and Making Decisions

In order to motivate employees, many organizations have conducted employee engagement studies to measure the impact of potential changes to their total rewards programs. The output of these studies can then be compared against the net cost/savings of these changes.



From the example above, it is clear that:

- Coaching programs, e.g., a)"Manager provides quarterly career coaching" and b) "Leadership coaching program", provide a high engagement return for the cost;
- Some pay components, e.g., c) "25% less weight on individual performance" (in calculating incentive pay) and d) "freeze base pay for a year", have a severe negative impact on engagement without a huge cost saving.

It is also important to know the point of diminishing returns and not to spend more than is necessary to achieve the desired outcome. Focus should be on effectiveness, efficiency, and exposure, not just cost, competitiveness and compliance.

Finally, decisions need to be based on how programs fit within each organization's strategic direction in terms of overall reward and engagement.

McLagan is the financial services industry's leading reward consulting, productivity and performance benchmarking firm. Aon Hewitt is one of the leading compensation consulting firms, helping clients ensure their pay strategy is designed and executed to meet business needs, while focusing employees on what they need to do to help the company meet its goals.

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