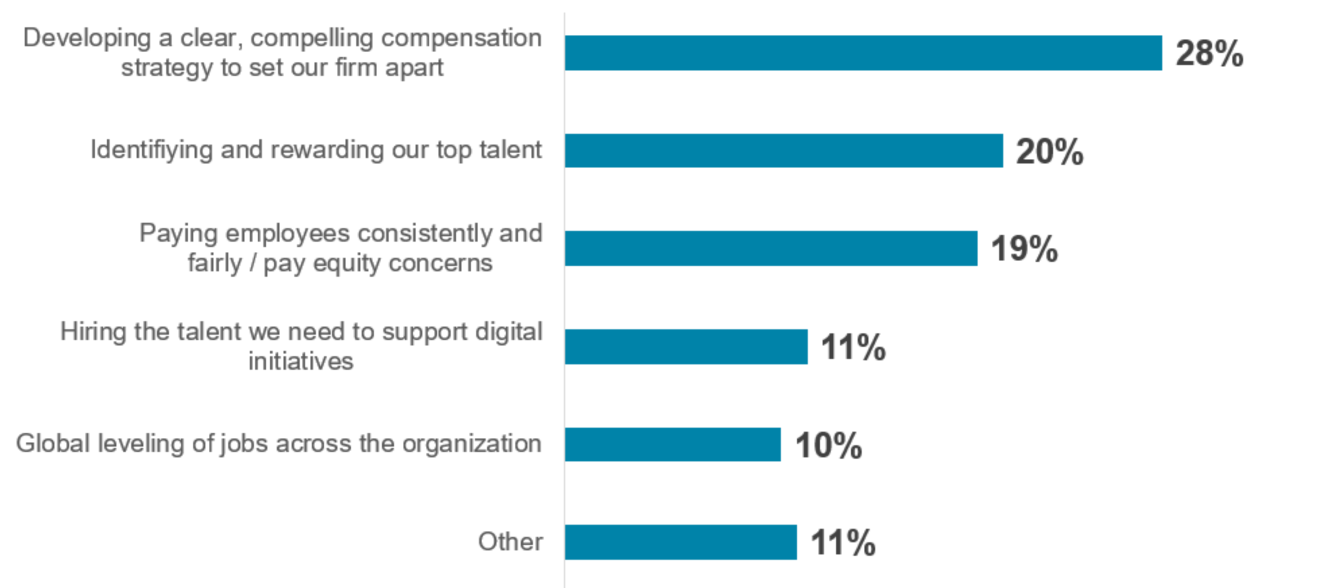
September 2019

Employee Rewards Q&A: What Firms Should Know Going Into Year-End

As your firm prepares for its year-end rewards activities, determining how to stand out from the crowd and engage employees in a clear and compelling way is likely at the top of your list. Reimagining your approach to employee rewards is a great way to get there and knowing the latest market trends is the first step.

McLagan's Employee Rewards Team recently hosted a webinar to highlight key topics that are trending in compensation within the financial services sector and provided actionable steps for firms to take as we head into year-end. The charts below display the response from HR professionals across financial services regarding top of mind trends. This article also tackles some of the most pressing questions we received and offers helpful advice for how to analyze, design, and administer pay programs that are aligned with your business goals.

What is the biggest challenge your firm faces with respect to employee rewards?



Effective July, 2019 - Total number of respondents = 415

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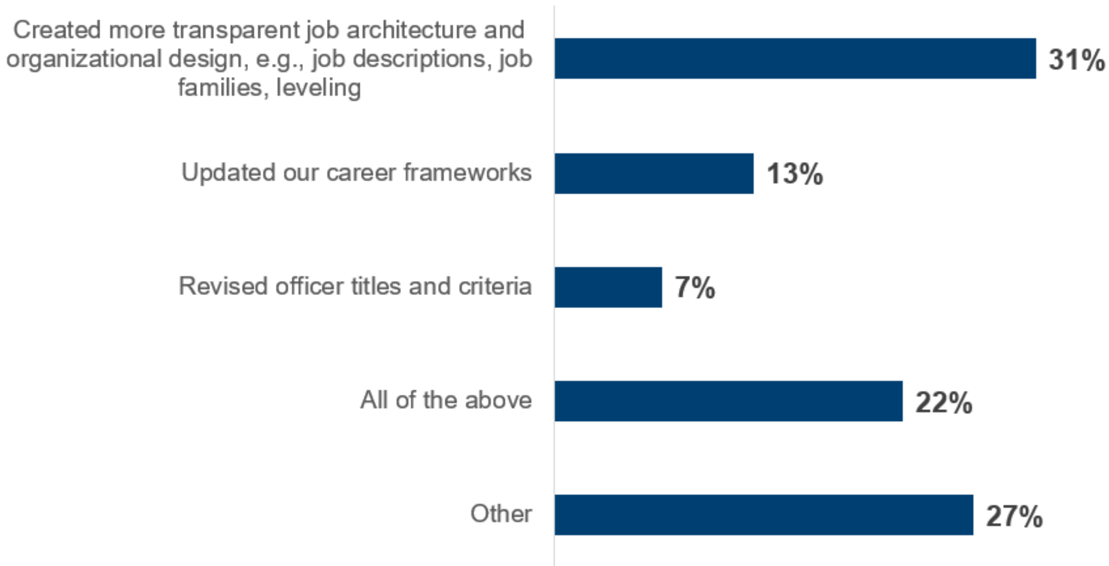
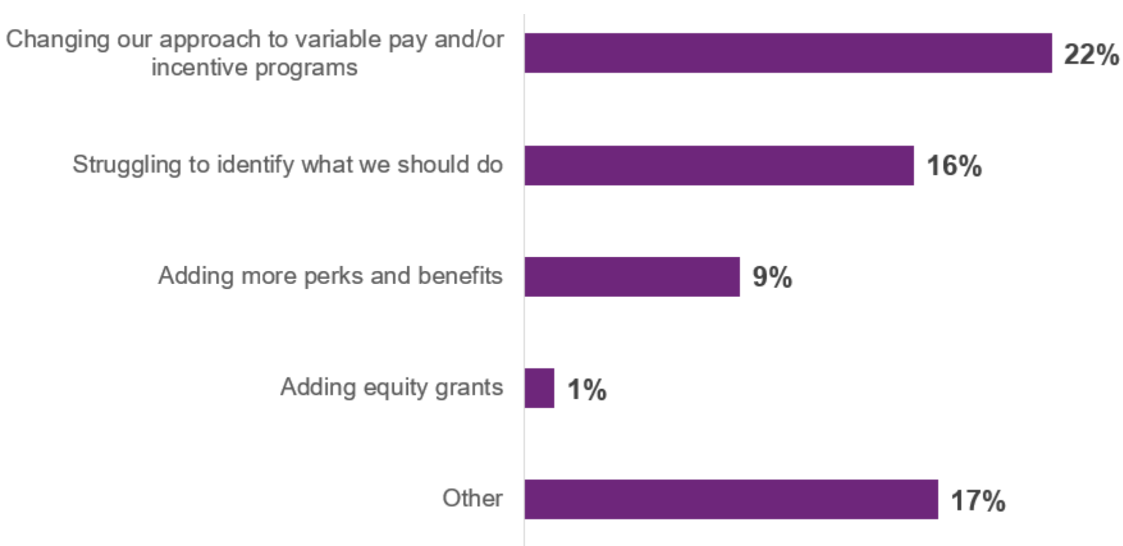
In what ways has your firm evolved its organizational philosophy to better adapt to employee needs?



Effective July, 2019 - Total number of respondents = 375

What changes are you making to optimize total rewards at your firm?



Effective July, 2019 - Total number of respondents = 407

How should financial services approach job architecture differently from other industries?

In this emerging era of digitization, how employees do their jobs, what skills they need, and how they interact with customers and other employees is changing rapidly. One of the key differentiators that employers can implement to positively impact the work experience is a well-defined structure that clearly articulates opportunities for career growth. To do this, job catalogues and critical skills need to be defined, along with transparent paths for career advancement—which brings us to job architecture.

It's important to remember that one size does not fit all when it comes to job architecture. We have seen first-hand the evolution of career paths from the traditional corporate ladder to more recent concepts around agile deployment. Can traditional financial services firms create a more flexible and open career path? We recommend that firms review their approach to career progression in a critical manner and challenge themselves to understand what works for *all* areas of their organization.

The financial services sector can't be exactly like tech companies in every aspect. Many jobs in this industry require licensing or very specific technical learning, which is often found through experience-based advancement. Also, due to regulatory requirements, traditional financial services firms need to understand the implications of a new job architecture from a governance perspective. While your firm should embrace change as much as possible, it's also important to acknowledge the realities of the industry. A successful job architecture will drive growth, create transparency and equality, and adapt to the workforce of the future.

How do salary structures support and facilitate conversations around pay transparency and pay equity?

Let's first level set what we are talking about when we use the terms transparency and pay equity. Pay equity refers to the various regulatory requirements that ensure men and women, or minorities and non-minorities, are paid similarly for similar work. Pay transparency refers to how much information employers share about their salary structures and variable pay programs.

Pay transparency is a construct that is gaining popularity for several reasons:

- As employers become more concerned about pay equity, they are realizing that keeping compensation a secret can lead to more inequities, foster a lack of trust, and overall misperceptions about pay
- Greater pay transparency has a direct impact on employee engagement, as employees want to know how they can progress and how they will be rewarded
- Transparent communication about pay provides a solid foundation for building an open, honest, inclusive, and productive culture and work environment.

As a first step toward greater pay transparency, many employers are updating their salary structures, and then using this as a starting point for addressing pay equity.

The vast majority of employees in financial services are paid, at least in some part, according to a salary structure. When designed appropriately, this tool should align to your firm's market view or the relative cost of the job. So, in a perfect world, a logical salary structure adapts to your rewards philosophy, which should serve as the anchor point for all compensation programs and decisions. This cues up the conversation around pay opportunities for a particular job, helping to facilitate performance and reward expectations for what he or she is paid and what grade they fall into within the organization.

Financial services firms are all over the board in terms of transparency of structures. For some firms, salary structures are "black boxes" and not seen outside of HR, while in other cases, salary structures are visible across the organization. How much transparency a firm should have in terms of pay is still a sliding scale among employers. Transparency practices range from increased manager training around pay determination to sharing leveling structures and guidelines, sharing salary grade midpoints and ranges, and providing market data reference points for roles across the organization. Additionally, some companies, especially those in the UK under the Mandatory Gender Pay Gap Reporting guideline, publish female vs. male pay gaps and a few even provide individual pay levels for all jobs.

Being free to talk openly about compensation is empowering and can build trust between the employer and employees. But, it's important to ensure your managers and HR team are prepared to support these conversations. Pay transparency could lead to decreased perception of an employee's value to the organization, resulting in lower productivity and overall engagement. A firm must defend against these risks.

What are the key trends to be aware of regarding target-based/ formulaic vs. discretionary incentive programs? Are financial services firms moving in this direction?

In a recent poll of the largest U.S. consumer banks, we explicitly saw a larger than usual number of firms adding some level of discretion into their compensation plans. This trend raises the questions of how to balance transparency with increased flexibility.

Regulators, employees, and even investors in financial services organizations desire the ability to understand, in a quantifiable way, how pay decisions are made. Many financial services firms use performance targets and scorecard plans to provide this transparency. However, regulators and business managers also want to be able to adjust awards for certain factors related to business performance or personal conduct. Providing managers with some discretion in award allocations is becoming increasingly prevalent. What remains unclear is how the industry will react to the complexities of these "managed discretion" plans. We will continue to provide updates on this trend in future white papers.

For certain financial services roles, there has been discussions around removing incentives. Is this a trend, and if so, what are the pros and cons?

In a recent public announcement, ANZ Bank in Australia revealed that it was removing individual base performance bonuses for most employees. In addition, several U.S. consumer banks have removed incentives for Tellers and Contact Center roles.

However, incentive plans for sales force roles have historically been an important part of total compensation, helping to drive the right sales and service behaviors, as well as call out high performance. In certain cases, these incentive plans are being applied improperly, leading to mis-selling and other undesirable behaviors. To avoid this, some banks started scaling back certain incentive plans to ensure that they are customer centric and drive the right risk and compliance behaviors. They also eliminated the administrative burden of these smaller dollar, high headcount programs.

Firms are also focused on bonus pool expense, especially in the consumer / retail sector and back office areas. By eliminating certain variable pay programs, the firm is making a trade-off regarding desired performance drivers and employees feeling motivated by incentive pay. As we potentially enter the next phase of the global economy, these links may be tested.

What types of special recognition awards are firms offering and how are employees responding?

With the continued debate on pay for performance and ensuring top performers are rewarded appropriately, special recognition awards are becoming more popular for acknowledging exceptional performance. While the types of awards vary by business area, they usually are simple and don't cost too much. As the saying goes, "less is more"—and this is definitely the case for special recognition. To put it into perspective, let's say a firm wants to give out a team-based award to employees who dedicated a surplus of time and energy to a specific project. This award may come in the form of a team event, non-monetary prize, dinner with the CEO, access to special training, etc. It's important to note that the key to special recognition is making the individual feel truly valued for the work he or she contributed to the business. We have seen that providing access to development opportunities, or even a handwritten note from a manager, can have a big impact.

How should firms manage rewards for niche or hot skills, while not losing sight of the enterprise total compensation philosophy?

Special treatment for jobs requiring niche and hot skills can be incorporated into an organization's compensation philosophy as long as the firm closely reviews and periodically updates the plan to ensure that the right jobs are identified. Once identified, pay for these roles will vary based on market rates and the firm's overall compensation program design. If firms use a traditional salary structure along with an internal job evaluation methodology for placement into grades, levels, or ranges, they should maintain administrative integrity, while also adapting a separate salary structure for niche roles based on market data. With a market-based structure, firms can target a higher market position or add a premium to the targeted range. Another method that does not directly impact the salary structure involves an increase in other incentive programs (short-term or equity awards) based on job family market value. Finally, firms can designate a larger or different merit budget for certain roles with niche or hot skills to move them through the salary range at a faster pace.

To summarize…

Going into year-end, there are multiple forces working for and against business and HR strategies. We believe that there are five questions related to your organization's rewards strategy:

- What kind of work do your people do?
- What level of responsibility do your people have?
- How do you measure performance?
- How do you set goals?

- How do you transparently reward performance?

Your firm needs to adjust to keep up with the market, including other industries. Rewarding your employees effectively is a complicated process that takes unified strategic thought and execution to achieve an optimal mix of compensation, benefits, and career pathing for your unique organizational and employee needs.

Have additional questions? We are always here to help. To learn more about employee rewards and how prepare your financial services firm for year-end, please contact our team. You can also visit our employee rewards landing page for on-demand access to our webinar recordings.

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About McLagan

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