

NEW TOTAL REWARD TRENDS 2011 AND BEYOND

Pulse Survey Findings

⇒ **PRIVATE SECTOR IS POSITIVE ABOUT
FUTURE GROWTH**

66% OF ORGANIZATIONS ARE EXPECTING MODERATE TO HIGH GROWTH (5% PLUS) WITHIN THE NEXT THREE YEARS.

⇒ **RESTRUCTURING, ACQUISITIONS AND
OUTSOURCING ARE TOP KEY PRIORITIES**

63% OF PRIVATE SECTOR ORGANIZATIONS REPORT RESTRUCTURING AND GROWING THROUGH ACQUISITIONS AS A TOP PRIORITY; RESTRUCTURING AND OUTSOURCING ARE KEY IN THE PUBLIC/NON PROFIT SECTOR.

⇒ **ATTRACTION & RETENTION IS STILL
1 ISSUE**

ALL SECTORS HAVE IDENTIFIED ATTRACTING AND RETAINING KEY TALENT AS TOP ISSUE WITH A FUTURE FOCUS ON RETENTION OF TALENT.

⇒ **EMERGING TRENDS ARE SHIFTING**

WHILE KEY COMPONENTS OF TOTAL REWARDS ARE CONSIDERED A COMPETITIVE NECESSITY, OTHER PROGRAMS ARE GROWING IN STRATEGIC IMPORTANCE GIVEN THE CHANGING BUSINESS ENVIRONMENT.

⇒ **FOCUS ON CLOSELY MANAGING COST**

RATIONALIZING PROGRAMS AND USING TECHNOLOGY IS INCREASINGLY BECOMING CORNERSTONE STRATEGIES TO MANAGING TOTAL REWARDS COSTS.

LEVERAGING TOTAL REWARDS FOR THE FUTURE

After a period of uncertainty, the Canadian marketplace is seeing the “light at the end of the tunnel” and is developing its go forward plans.

Now more than ever, the importance of Total Rewards within the business environment has become a priority for employers worldwide. Employers must understand the conditions under which businesses operate and how Total Rewards can leverage the sustainability of an organization going forward. It is with this in mind that McDowall Associates initiated original research by approaching both public and private sector organizations in spring 2011.

Taking the business climate in context, we were able to analyze the current and expected growth in revenues, what the organizational expectations are towards achieving this growth, as well as business priorities and how this may impact operational budgets.

Drawing on these key findings, differing organizational perspectives impact Total Rewards directions including what kinds of strategies might be undertaken to achieve business and talent direction. The pulse survey clearly revealed that 2011 is a year of transition, one showing significant differences between the private and public sectors’ outlook on growth and the importance of developing appropriate Total Reward strategies to achieve organizational goals.

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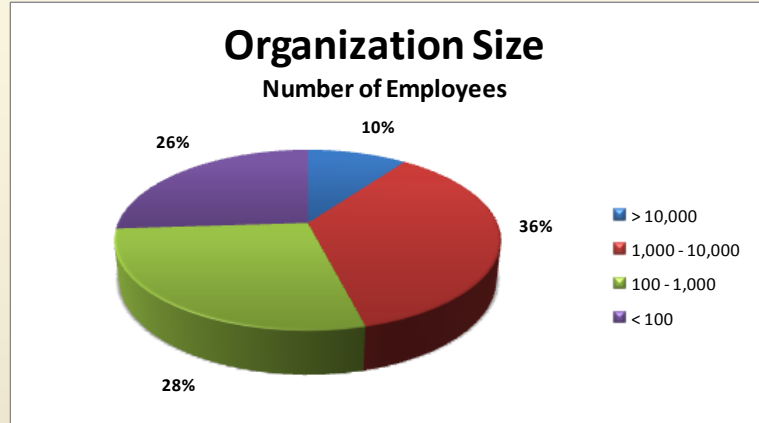
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PARTICIPANT PROFILE

McDowall Associates had a total of 70 Canadian participants in the survey's inaugural year, with a good distribution between large, mid sized, and small firms. The diversity in the type of firms surveyed enabled the creation of a highly representative participant profile into two major sectors: namely, Private Sector and Public/Non Profit Sector.

The key profile aspects:

- 10% of participants reported greater than 10,000 employees.
- 46% of participants reported 1,000 employees or more.
- 28% of participants are from mid sized organizations reporting 100 to 1,000 employees.
- 26% of participants reported less than 100 employees.

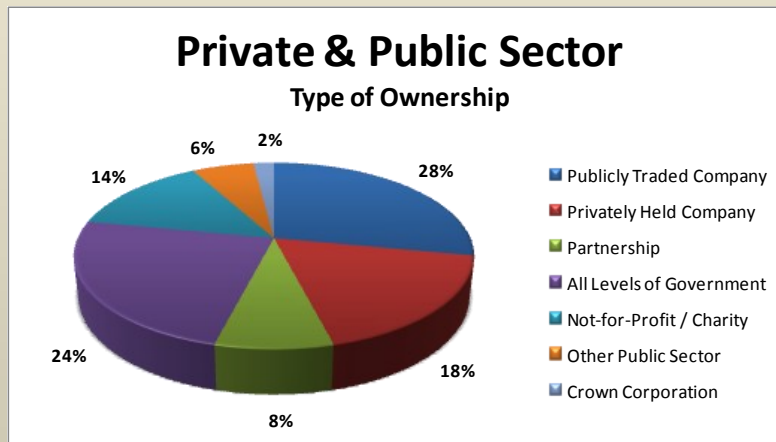


While 70 participants provided sufficient data to identify overall trends and as previously mentioned, we were also able to distinguish between private sector and public/non-profit sector organizations to report major differences in these two sectors.

Separating private sector organizations from the public/not for profit sectors was particularly meaningful given the significantly different challenges faced by these two sectors when it comes to organizational challenges and Total Rewards.

The key profile aspects:

- 54% of participants from the private sector.
- 46% of participants from the public/non-profit sector.



BUSINESS CLIMATE - REVENUE GROWTH

We asked organizations to describe their current (2011) and planned (2012 to 2014) revenue growth. The differences between the business climate this year and over the next three years indicate **2011 is a year of transition for many organizations.**

Among the key findings for 2011:

- So far, most organizations (64%) are experiencing slight, inflationary, or low growth in revenues.
- 48% of organizations are seeing slight or inflationary growth in revenues.
- Only 26% of organizations are encountering high or moderate growth in revenues.

The key findings for the next three years:

- 40% of organizations predict slight or inflationary revenue growth.
- **Another 40% of organizations predicted a moderate (5% to 10%) or high growth (> 10%) during the upcoming years in question.**

While the results shown cover all sectors, it is noteworthy to indicate the strong optimism expressed by the private sector and conversely, the uncertain, constrained growth predicted in the public/non-profit sector.

- The private sector is experiencing better growth (moderate to high growth equal to 44%) than the public/non-profit sector (equal to 4%) in 2011. With the bulk (87%) of public/non-profit showing in the uncertain and inflationary growth range.
- For the period 2012 to 2014, results for the private sector are even more optimistic with 66% expecting moderate to high growth. The public/non-profit sector is predicting a continuation of current trends with 56% showing uncertain or at most, inflationary growth.

In summary, 2011 is a year where many organizations are now focusing their efforts towards varying levels of growth and the business environment will impact the two major market segments differently.

Current and Expected Rate of Organization Growth		
Growth Category	Current	Planned
High Growth (over + 10%)	8%	14%
Moderate Growth (+ 5 to + 10%)	18%	26%
Slight Growth (0 to +5%)	36%	26%
Inflationary Growth	12%	14%
Uncertain Growth	16%	12%
No Growth	6%	6%
Slight Decline (0 to -5%)	4%	2%

BUSINESS CLIMATE—PRIVATE VERSUS PUBLIC/NON PROFIT SECTORS

These two major sectors reported varying levels of optimism as shown below:

- 63% of the private sector is moderately to very optimistic about reaching their current revenue growth objectives for this year.
- 74% of the public/non-profit sector is neutral to slightly optimistic about reaching their current revenue growth objectives for this year.

This trend was further observed for the next 3 years:

- 74% of the private sector is moderately to very optimistic about reaching their expected goals. This is an increase from 63% in the current year.
- The public/non-profit sector continues with the same neutral expectation of 74% as in the current year. This expectation of neither positive nor negative growth is showing the sector's continued focus on managing fiscal responsibilities.

BUSINESS PRIORITIES

Given the strong growth focus of the private sector, organizations are putting more emphasis on restructuring and acquisition. The focus within the public sector/non profit sector is on restructuring and outsourcing which appears to be in line with minimal growth and cost management issues.

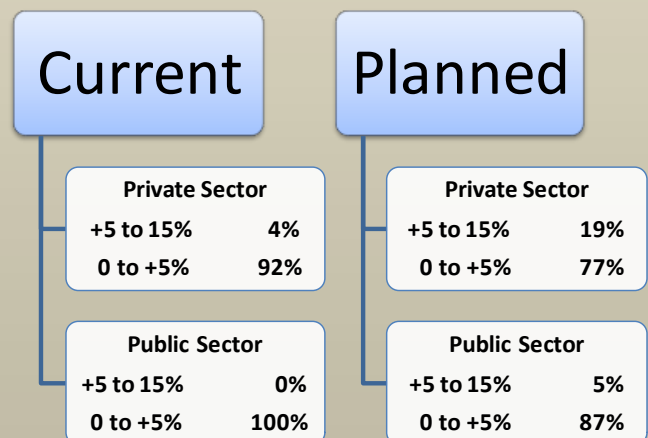
- Currently, 63% of the private sector organizations prioritize restructuring and acquisition and this drops to 55% in the future.
- 52% of the public/not for profit sector prioritize restructuring and outsourcing and this drops to 47% in the next 3 years.
- Less than 10% of organizations are focusing on downsizing as a priority in both sectors which further corroborates the notion of a growth focus and/or managing some growth while deriving efficiencies and cost savings.

Private Sector Current Revenue Growth Objectives		
Very Optimistic		19%
Moderately Optimistic		44%
Slightly Optimistic		19%
Neutral		11%
Slightly Pessimistic		7%

Public/Non-Profit Sector Current Revenue Growth Objectives		
Very Optimistic		9%
Moderately Optimistic		9%
Slightly Optimistic		26%
Neutral		48%
Slightly Pessimistic		9%

IMPACT ON ORGANIZATIONAL BUDGETS

Renewed focus on growth in the private sector is also expected to impact the growth of budgets. While the public sector/not for profit sector generally continues to maintain current levels of expenditures:



TOTAL REWARDS—STRATEGY PREVALENCE

Over the past decade, private sector organizations have developed their Total Compensation* Strategy and these are quite prevalent at 85% while 65% of organizations in the public/non-profit sector have yet to determine a strategy.

The prevalence of a Total Rewards** Strategy deteriorates in both sectors. In the private sector, 63% have this strategy in place while 83% of the public/non-profit sector has yet to develop a strategy.

* Total Compensation is defined as all monetary and non monetary components of pay such as benefit, pension, perquisites and like payments.

** Total Rewards is defined as all the major components of employment deal including all monetary/non monetary elements, performance and recognition programs, work/life programs and career development. & opportunities.

CURRENT TOP 5 REWARD ISSUES

Organizations reported on what Total Reward issues have the most significant impact on their future success.

Within the private sector, attracting key talent was the primary issue, while the public/non-profit sector identified retaining key talent as the most important issue to address.

Prevalence of a Total Rewards Strategy		
Organization Response	Sector	
	Private	Public
Yes	63%	17%
No	37%	83%

Prevalence of a Total Compensation Strategy		
Organization Response	Sector	
	Private	Public
Yes	85%	35%
No	15%	65%

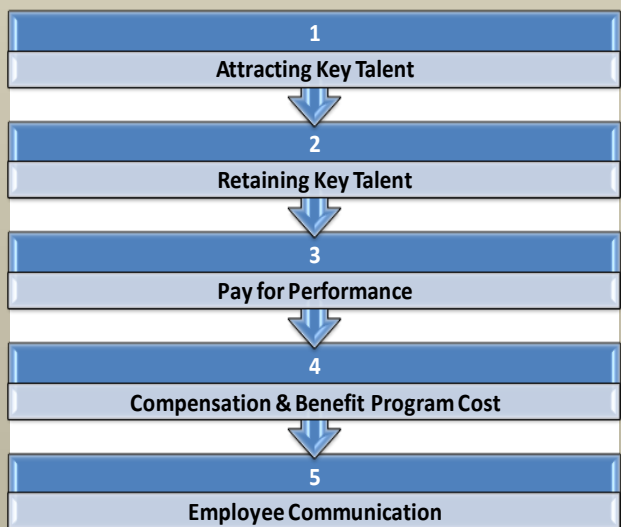
PRIVATE SECTOR

Given the respective business climate currently experienced by these sectors, it is not surprising that attraction and retention of key talent are critical to achieve continued growth. Ensuring continued alignment between pay and performance, managing program costs and effectively communicating programs and practices round out the top 5 key challenges.

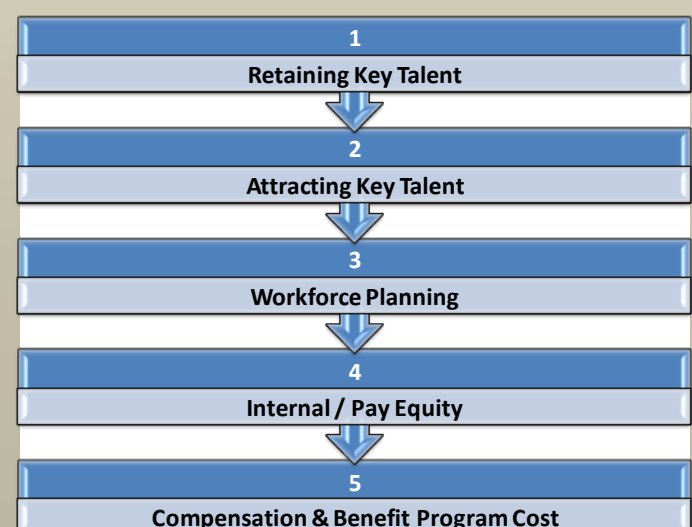
PUBLIC/NON PROFIT SECTOR

Also the focus on retention of key talent in the public/non profit sector is appropriate given the limited growth expected in this sector. Organizations in this sector will also need to manage forthcoming workforce planning issues relating to increasing retirements. The charts below shows the top priorities within each sector.

Current Reward Issues: Private Sector



Current Reward Issues: Public/Non-Profit Sector



TOTAL REWARDS—TOP 5 TOTAL REWARD ISSUES IN THE NEXT 3 YEARS

With increasing pressures from talent shortage issues over the next few years, it is not surprising that retention of key talent becomes the number one issue in all sectors. A close second, attraction of key talent is still important to achieve business goals.

Interestingly, specific issues relating to the private versus public/non profit sector emerge in light of their business direction. In the private sector, an emerging focus on the use of Technology in Total Rewards Delivery, Pay for Performance and cost management of Compensation and Benefit programs will become key priorities.

In the public/non profit sector, “doing more with less” will be a strong focus given the neutral growth expected. Focus will be on Workforce Planning, cost management of Compensation and Benefit programs, and ensuring Market Competitiveness.

HOW WILL ORGANIZATIONS DEAL WITH ATTRACTION AND RETENTION ISSUES?

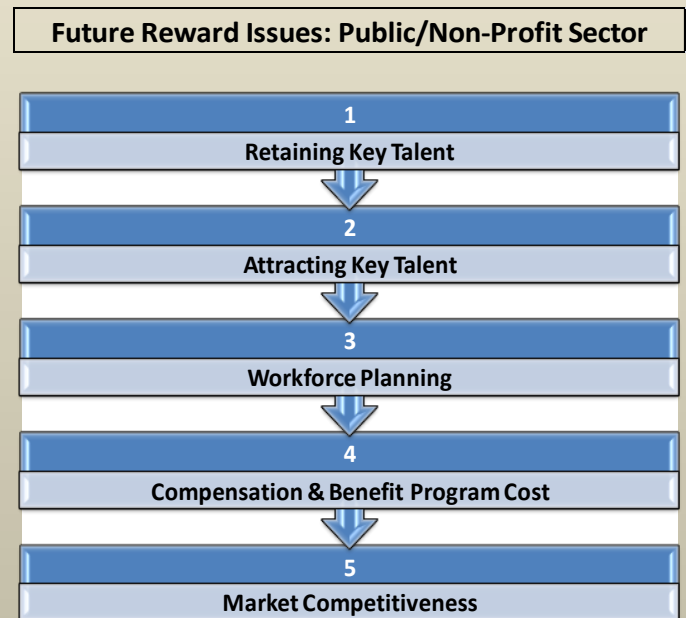
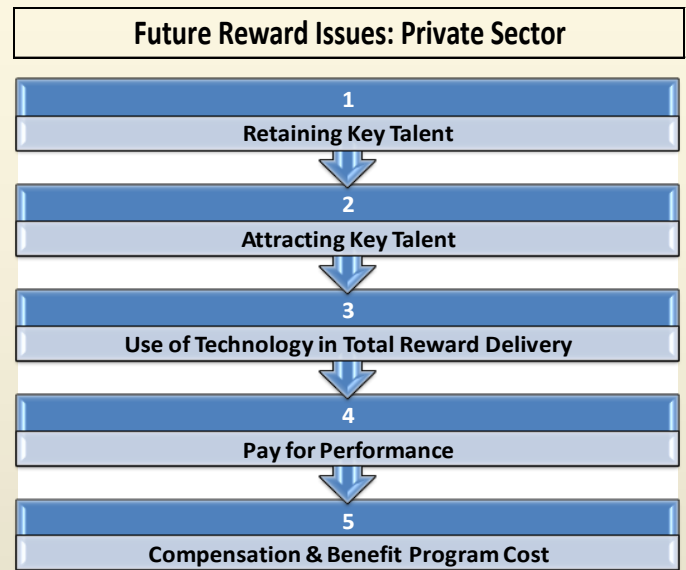
Participating organizations reported a variety of potential solutions to address their attraction and retention issues, here is a sampling

SAMPLING OF RETENTION SOLUTIONS

- Regular market reviews
- Review of Internal Equity
- Retention bonuses for key talent
- Introduction of incentive plans
- Recognition Awards
- Team building activities
- Career Development

SAMPLING OF ATTRACTION SOLUTIONS

- Becoming an Employer of Choice and offering an Employee Value Proposition
- Improving internal and external brand through awards and multi-media (treat employees as “ambassadors”) and improve communication and involvement in the business
- Creating a more attractive total rewards/compensation program by being competitive
- Introduce Total Rewards Statements and increased communication on Rewards.



TOTAL REWARDS—CURRENT AND DESIRED STATE

Many organizations are striving to ensure that their Total Reward programs were best aligned to meet the need for organizations to attract, motivate, develop, and retain talent.

Our pulse survey also wanted to identify those reward elements that were perceived by employers as being competitively necessary or strategically important in addition to being a key component of the employment offering.

By order of prevalence, we have shown those Total Reward elements that are adopted by organizations for competitive reasons (which we labeled as the “Baseline Approach” in other words, those programs that an organization will need to adopt just to be considered “competitive” to attract and retain key talent).

By order of prevalence, we have also shown those Total Reward elements that are emerging as strategically important given the current business climate, demographic issues as well as governance and organizational values.

With significant workforce issues facing organizations, top emerging programs relate specifically to shoring up talent capabilities in the organization whether through mentorship programs or leadership training and embracing diversity. Organizations are also starting to see the value of being solid corporate citizens through community activities and developing Corporate Social Responsibility strategies and policies. Such strategies are strengthening ties with customer and employees alike.

Baseline Approach (Competitively Necessary)

- Base Salary
- Healthcare Plans
- Life / Accident Insurance
- Short / Long-Term Disability
- EAP
- Career Development Opportunity
- Tuition Reimbursement
- Interesting Work / Variety of Work
- Target-Based Annual Incentives
- Flex-Time / Compressed Work Week

Emerging Trends (Growing in Strategic Importance)

- Mentoring Programs
- Leadership Training
- Local Community Engagement
- Corporate Social Responsibility
- Commitment to Diversity
- Telework
- Target-Based Annual Incentives
- Recognition / Spot Awards
- Wellness Programs / Fitness
- Organization Equity Plans

TOTAL REWARDS—COST MANAGEMENT OF COMPENSATION & BENEFIT PROGRAMS

78% of private sector respondents and 88% of public/non-profit sector respondents mentioned that cost is a major current and future issue for their organization. Some of the planned initiatives to deal with cost in 2011 and over the next three years are in the chart entitled “Top 3 Cost Management Initiatives”.

OUTSOURCING AS A SOLUTION

Outsourcing arises as an option in 2011 and into the future. Delving deeper into how organizations plan to outsource their activities, we asked respondents what initiatives they will undertake: and the following were reported as the top 3:

Top 3 Cost Management Initiatives		
Current		
Rationalize the number of programs/elements offered		52%
Deploy more technology to reduce administration costs		42%
Consider outsourcing for some activities		33%
In the Next 3 Years		
Deploy more technology to reduce administration costs		68%
Consider outsourcing for some activities		29%
Examine the frequency and scope of market reviews		29%

Top 3 Outsourcing Initiatives		
Current		
Pension Plan Administration		39%
Pay Equity Establishment / Maintenance		31%
Benefit Contract Admin / STD Admin		19%
In the Next 3 Years		
Pension Plan Administration		38%
Pay Equity Establishment / Maintenance		34%
Benefit Contract Admin / STD Admin		18%

IN SUMMARY

2011 is a year of transition with growing optimism for the next three years, particularly in the private sector.

The private sector is expecting, significantly higher growth in the future (5% plus). The public/non profit sector is feeling the uncertainty associated with funding issues tempering its future expectations and trying to “do more with less”.

While many private sector firms have developed Total Compensation strategies in their firms, more needs to be done in terms of Total Rewards strategy to ensure both organizational and talent issues are addressed and aligned. The public/non profit sector has yet to tackle this important step and given that attraction and retention of key talent continues to be critical in all sectors, we would expect further developments to be undertaken to address this gap.

The current number one Total Rewards issue is still “attraction” in the private sector. We believe this will quickly turn to a “retention” focus in years to come for both sectors given the aging of the boomer demographic segment and further talent shortages.

People want to work for a winning organization. An organization that has strong leadership and a well articulated vision to not only inspire their talent base but also build policies and practices that sustain their organization going forward will have a head start. Human resource experts that support these leaders need to “get it” and know that solutions are not “one size fits all”. They must understand what both the organization and employees need and make the necessary decisions to support these needs. This is the art of Total Rewards and leveraging these programs is essential to meet the challenges of the future.

Managing the Total Rewards cost envelope continues to be a high priority with outsourcing becoming a viable option for many firms. In a world of imbalanced supply and demand of labor, certain reward elements will be considered a “threshold” to attract and retain the right talent while others will be adopted to further organizational goals.

Organizations that identify and adopt these key reward elements will start to think strategically about their requirements including what will be valued within their own environment.



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