

2014 Research Study

**POWERFUL CONNECTIONS:
How Aligning
Organization Design and
Compensation Creates
Business Value**



cutting through complexity



INTRODUCTION

Addressing current and future talent needs is becoming a top priority for many organizations. But for many, it is also a cause of growing concern.

For example, recent global studies by KPMG International found organizations are concerned about a variety of talent-related risks, including:

- A lack of depth of internal candidates for critical roles
- An insufficient pipeline of future leaders
- Difficulties in retaining key people
- A lack of clarity over which roles are “critical” to deliver business value, and
- That the total cost of the workforce may become unsustainable in relation to revenues.

With an eye to these research findings, KPMG and McDowall Associates partnered on a new Canadian study to further explore the subject of talent risks and the potential strategies for mitigating them. The study, ***Powerful Connections: How Aligning Organization Design and Compensation Creates Business Value***, addresses some key questions, including:

- What talent risks are of particular concern among Canadian employers?
- How well are organizations responding to these risks?
- What can we learn from the organizations that are tackling these risks most effectively?

Recent global studies have identified talent risks as key concerns for organizations and suggest the need for more holistic solutions

*Our premise is that organizations can manage these talent risks more effectively by building a **powerful connection** between **Organization Design and Compensation***

The results reflect responses from 83 organizations from the private, public and not-for-profit sectors.

This report presents the major research findings and highlights some key opportunities to facilitate more informed decision-making with respect to talent. In particular, the findings point to the power and benefits of forging a stronger connection between Organization Design and Compensation.

Although only a small percentage of respondents proactively make such connections, their resulting deeper understanding of talent and how it is being deployed and rewarded is delivering a stronger platform for managing talent and mitigating related risks.

RESEARCH HIGHLIGHTS

Survey respondents were asked to review and rate a variety of potential talent risks, and to indicate the extent to which they saw each item as being a risk area for their organization, as well as the extent to which they were managing each risk.

Top Risk Categories Identified

- Recruiting and retaining talent
- Talent development and succession planning
- Compensation and total rewards – including managing rising costs
- Workforce analytics

A significant percentage of respondents indicated they are not managing these risks effectively

The respondents who rated themselves the highest with respect to managing talent risks shared some common characteristics.

Even the most positive respondents indicated they had room for improvement in how they manage talent risks, especially with respect to Workforce Analytics

Key Success Factors For Managing Talent Risks

- ✓ Stronger focus on Workforce Analytics
- ✓ Dedicated Organization Design resources
- ✓ More likely to take an integrated view of Organization Design and Compensation implications when making talent-related decisions

The following section identifies top talent risks and how organizations are managing these risks.

MAJOR STUDY FINDINGS

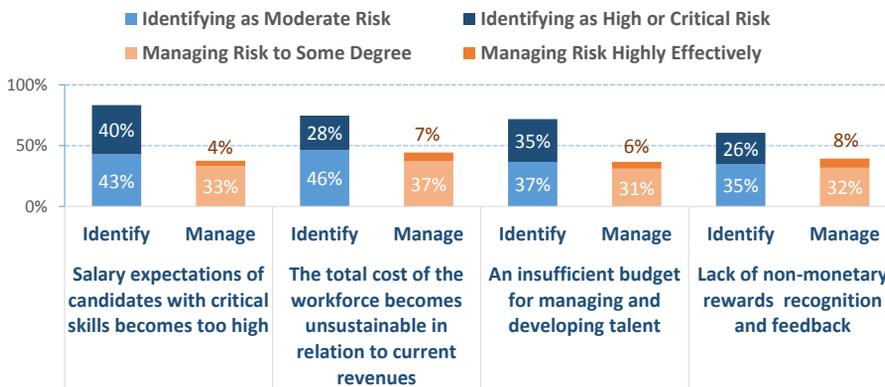
Top Talent Risks: Securing and Engaging Needed Talent

Securing and engaging needed talent were identified as major areas of concern by 75% of survey respondents on average. Some 83% of them are worried that hiring talent externally could become unaffordable over time. But at the same time, 72% aren't sure growing talent internally is feasible due to insufficient budgets for managing and developing talent.

In addition, 61% expressed concern about their ability to deliver non-monetary rewards, recognition and feedback as means of motivating and engaging talent. Yet across all these risk areas, on average, approximately 40% of respondents reported they are managing these risks with less than 10% managing these in a highly effective manner.

Top Cost-Related Talent Risks and Level of Risk Management

PERCENTAGE OF PARTICIPANTS WHO ARE



On Average

75%
identify as High, Critical or Moderate Risk

40%
are managing risk

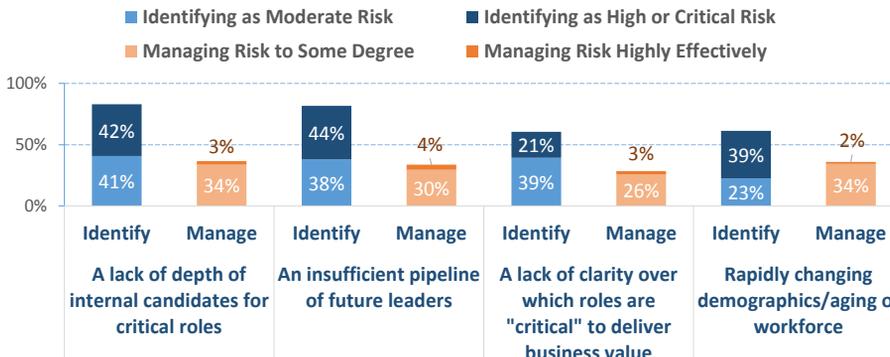
Top Talent Risks: Talent Development and Internal Talent Gaps

In addition to being concerned about talent-related costs, 72% of survey respondents also highlighted concerns regarding their ability to grow and deploy talent internally. Most have concerns about their lack of bench strength internally for critical roles (83%) or to fill future leadership positions (82%). At the same time, 62% are worried about the implications of an aging workforce – which is making emerging talent challenges all the more complex.

Although respondents have concerns about their existing talent base, on average, approximately 34% of respondents indicated they're managing these risks with less than 5% managing these in a highly effective manner. In fact, 60% reported they have a lack of clarity over which roles are mission critical to the business.

Top Talent Development Risks and Level of Risk Management

PERCENTAGE OF PARTICIPANTS WHO ARE



On Average

72%
identify as High, Critical or Moderate Risk

34%
are managing risk

MAJOR STUDY FINDINGS

Top Talent Risks: Leveraging Workforce Data

A major finding of the research is that most organizations gave themselves low marks for how they leverage workforce data, especially when it comes to using data to support decision-making and planning with respect to talent.

In fact, less than half of respondents reported being very or extremely effective at even foundational tasks such as accessing and extracting compensation-related data (49%) and reporting and interpreting compensation-related data (43%).

Overall, less than a third of respondents gave themselves top marks for how they leverage data related to Organization Design and Talent Management.

Perspectives on Workforce Analytics Effectiveness

% of Respondents that are VERY or EXTREMELY EFFECTIVE at	In these functional areas		
	Compensation	Organization Design	Talent Management
Accessing and extracting data	49%	24%	23%
Reporting and interpreting data	43%	27%	23%
Using insights to enhance the employee experience	29%	24%	30%
Using insights to improve operation efficiencies	25%	24%	19%
Using insights to support talent flow	31%	23%	21%
Influencing strategic planning	28%	24%	27%
Solving business problems	28%	25%	25%

<30%

Leverage Workforce Analytics effectively

<50%

Manage Compensation effectively

Challenges with Compensation Management

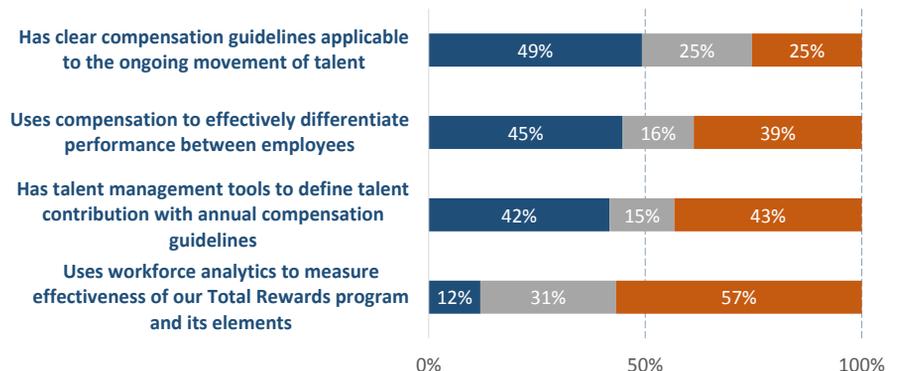
In addition to grappling with talent risks, respondents also reported facing challenges with how they manage Compensation. Less than half of the respondents indicated they're effectively managing Compensation in key areas including having clear Compensation guidelines (49%), linking pay and performance (45%) and measuring talent contributions (42%) for the purpose of supporting Compensation decisions.

In addition, respondents indicated they are falling short particularly in the area of Workforce Analytics related to measuring the effectiveness of their total rewards program.

Perspectives on Compensation Effectiveness

PERCENTAGE OF PARTICIPANTS WHO

■ Agree/Strongly Agree ■ Neutral ■ Disagree/Strongly Disagree



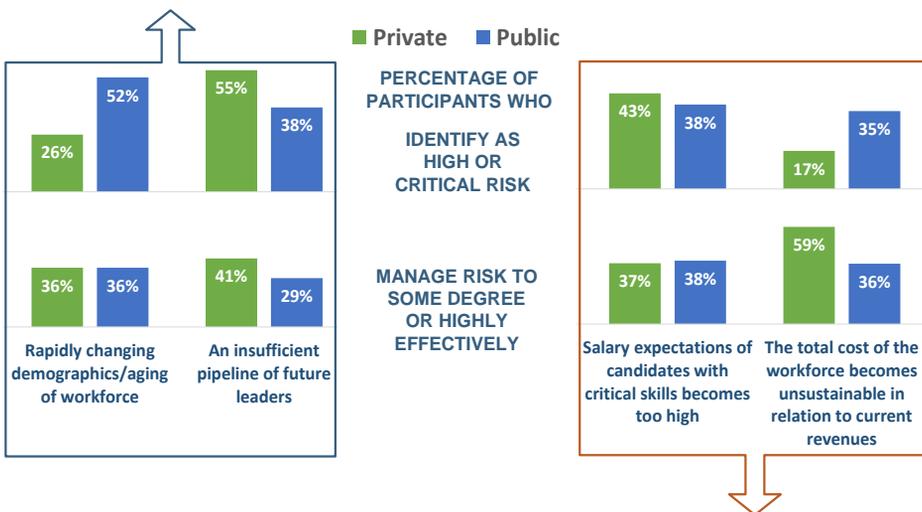
PRIVATE SECTOR VERSUS PUBLIC SECTOR PERSPECTIVES

When responses from the private sector respondents were compared to those from the public sector, the results show some key differences in how the two groups rate particular talent risks.

Top Talent Development Risks

For example, the public sector participants was more likely to rate rapidly changing demographics/aging workforce as a high or critical risk (52%), compared to the private sector group (26%) although 36% of both groups felt their organizations were mitigating the risks at least to some degree.

In contrast, 55% of the private sector organizations identified an insufficient pipeline of future leaders as a high or critical risk, compared to 38% of the public sector employees, with 41% of the private sector and 29% of the public sector group reporting that such risks were being managed at least to some degree.



Top Cost-Related Talent Risks

Although participants were concerned about the future costs of talent, the worries played out differently by sector.

For example, the private sector participants was more likely to be concerned that the salary expectations of candidates with critical skills will become too high, with 43% identifying this as a high or critical risk, compared to 38% of the public sector participants. But 35% of public sector participants were concerned about the total cost of the workforce becoming unsustainable in comparison to only 17% of the private sector sample.

Highlights

While there were differences in how the private sector and public sector defined critical talent risks and rated their organizational responses, neither sector expressed highly positive ratings for their risk mitigation efforts. This suggests organizations are contending with gaps in their talent strategies, regardless of their sector.

In particular, the public sector participants rated itself higher with respect to addressing pay equity compliance risks (70% versus 41% for the private sector participants). However, the result reported that this risk was being managed by less than one third of participants in both sector.

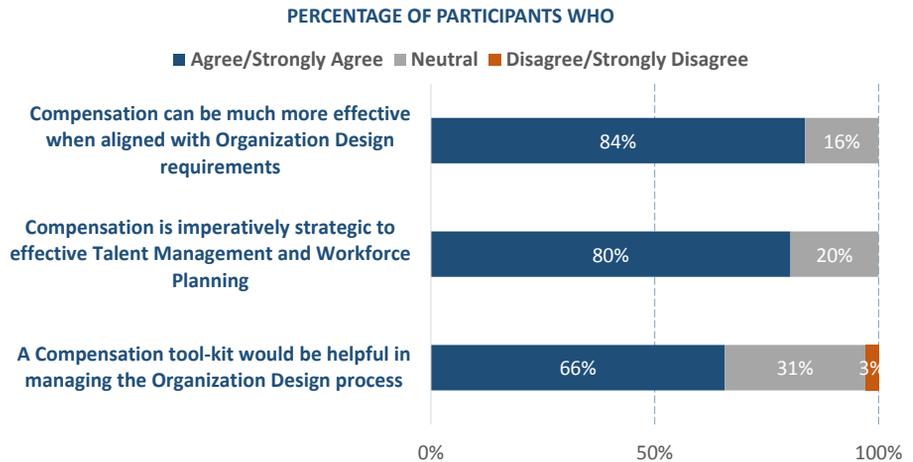


EMERGING OPPORTUNITIES FOR BETTER MANAGING TALENT RISKS

Although most survey respondents saw room for improvement when it came to Workforce Analytics, most also identified the potential benefits that could emerge from a stronger alignment between Compensation and Organization Design resources and processes.

Fully 84% of respondents agreed or strongly agreed that Compensation can be much more effective when aligned with Organization Design requirements. The majority (80%) also acknowledged that Compensation is strategically important to effective Talent Management and Workforce Planning.

Opportunities To Better Align Organization Design and Compensation



*Organizations have a window of opportunity to gain **competitive advantage** by implementing strategies and approaches to better managing these risks*

Key Success Factors for Managing Talent Risks

The survey results indicate that organizations with the more effective risk management practices distinguished themselves in two key ways:

1. They're more likely to leverage Workforce Analytics to support Compensation, Organization Design and Talent Management processes and decision-making
2. They're more likely to have a clear focus on integrated Organization Design and Compensation solutions.

The organizations with the highest scores in these two also had significantly better scores for managing talent risks across a wide range of risk items.

KEY SUCCESS FACTORS

Key Success Factor 1: Leveraging Workforce Analytics

The organizations with the highest scores in leveraging Workforce Analytics also had higher scores for effective risk mitigation in a range of key areas, when compared to organizations that rated themselves low with respect to Workforce Analytics.

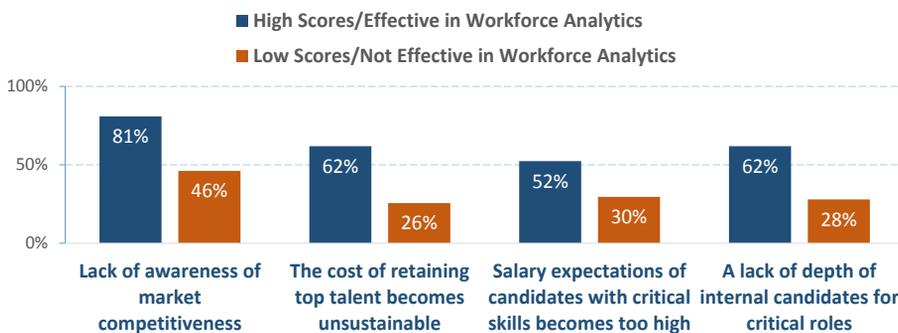
For example, 81% of the organizations in the high-scoring sample indicated they were managing risks related to understanding market competitiveness to some degree or a high degree, compared to only 46% in the low-scoring sample.

The high-scoring group was also significantly more positive about its risk management efforts pertaining to the costs associated with both retaining top talent (62% versus 26% for the low-scoring sample) and recruiting talent with critical skills (52% versus 30% for the low-scoring sample).

The high-scoring group was also much more positive about their efforts to ensure their organizations had good bench strength for internal roles (62%) versus their low-scoring counterparts (28%).

Workforce Analytics and Connection to Talent Risk Management

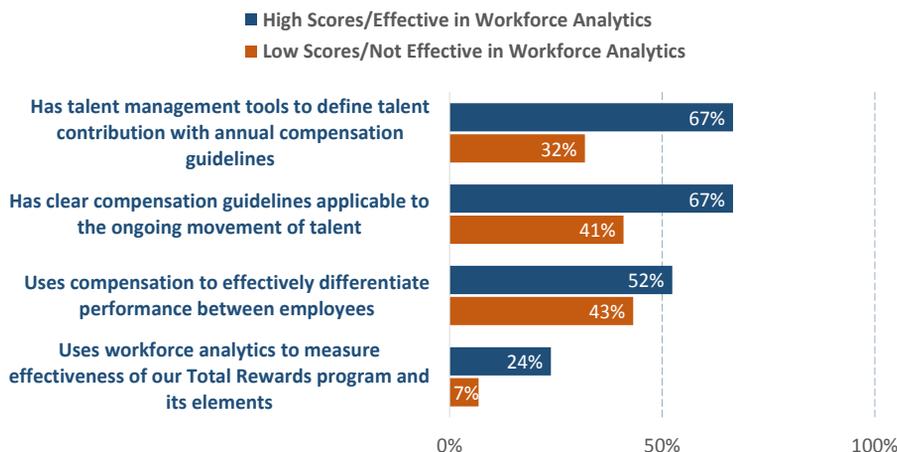
PERCENTAGE OF PARTICIPANTS WHO ARE MANAGING RISKS



Not surprisingly, the organizations that scored higher with respect to Workforce Analytics also scored higher with respect to compensation management.

Workforce Analytics and Connection to Compensation Management

PERCENTAGE OF PARTICIPANTS WHO AGREE/STRONGLY AGREE



“Organizations that scored higher with respect to Workforce Analytics also scored higher with respect to compensation management”

KEY SUCCESS FACTORS

Key Success Factor 2: Stronger Focus on Organization Design and Links to Compensation

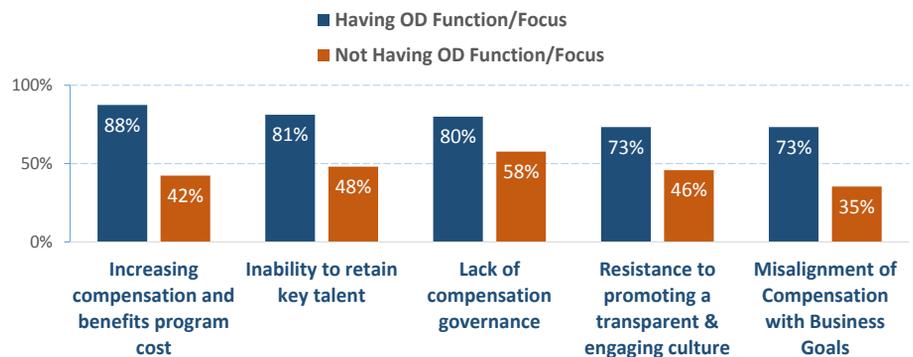
The second way that organizations with the higher talent risk management scores distinguished themselves was by having a stronger focus on Organization Design.

Although only **20%** of survey respondents had a distinct function or focus on Organization Design,

These organizations managed risks more effective on **85%** of all risk items

Presence of Organization Design Function and Connection to Talent Risk Management

PERCENTAGE OF PARTICIPANTS WHO ARE MANAGING RISKS



In addition, 76% of respondents with an Organization Design function indicated there is active collaboration between Organization Design and Compensation resources. In their survey comments, these organizations noted that such collaboration greatly enhanced such activities as:

- Compensation Design
- Ensuring Internal Equity
- Job Evaluation
- Competitive Market Analysis
- Corporate Governance
- Organization Structure Design

TAKING ACTION

The survey findings suggest that a strategic focus on workforce details – through both Workforce Analytics and attention to Organization Design considerations and how they relate to Compensation – can yield a number of benefits, including the more effective management of talent risks.

That’s because a comprehensive understanding of structure, people and reward programs – and how the three come together – creates a strong foundation for building talent and reward strategies.

Decision-making around talent is best supported when there’s clarity and alignment encompassing:

- The business strategy and how that translates into talent needs and performance expectations
- The organizational structure, including the levels in the structure and which jobs map to each level, and
- The Compensation or total rewards offering, including how program eligibility and pay levels align with organizational levels.

Organizations seeking to better align their talent and reward strategies may find that a key – and often overlooked – step is to forge a stronger connection between Organization Design and Compensation.

“Aligning Organization Design and Compensation can be an important key

...

<p>Potential warning signs that an organization may be facing Organization Design challenges or misalignments between Organization Design and Compensation include:</p>	<ul style="list-style-type: none"> ▪ The documented structures, levels and reporting relationships don’t reflect how work is being done today ▪ There are inconsistencies and challenges with how span of control is set, with some jobs having too many – or too few – direct reports relative to peers ▪ Promoting or redeploying employees is challenging because of a lack of opportunity or flexibility in the structure ▪ Employees complain that they’re not being paid competitively or that they don’t have enough career opportunities ▪ Hiring talent is challenging because the organization can’t match what job candidates are seeking in terms of job scope, compensation and title ▪ More and more employees and/or new hires are paid outside the parameters of the existing structure or on an exception basis.
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If an organization’s existing organizational structure and levels have fallen out of step with the current operating realities of the enterprise, the fundamental blueprint used to define talent requirements and strategies will be flawed and unable to optimally support sound decision making and risk management.

On the flip side, if compensation programs are either misaligned with Organization Design or connected to outdated structures, such programs will likely not deliver optimal value, making it harder for the organization to effectively manage compensation costs and other talent-related risks.

Aligning Organization Design and Compensation can be an important key for helping organization make the most of its investments in talent. Perhaps even more significantly, it can translate into a competitive advantage in an era characterized by more intense competition for critical skills.

... for helping organization make the most of its investments in talent”

SURVEY DATA SUMMARY

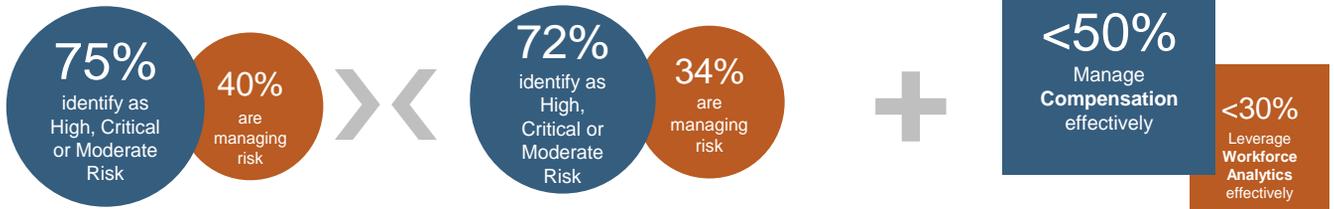
Overall survey data revealed that salary expectations, talent management budget and non-monetary recognition are major risk areas to attract and retain talents. In addition to being concerned about talent-related costs (75%), organizations are also unsure about growing talents internally (72%) with necessary succession planning in the world of rapidly changing demographics

Yet across these two major risk areas, only 40% or less of the survey participants are managing these risks with less than 8% doing it in a highly effective manner.

We also looked at how organizations perform at various activities, and less than 30% and 50% reported being effective at leveraging Workforce Analytics and Compensation Management, respectively.

TALENT COSTS

GROWING TALENT



As a result, we believe that organizations can create competitive advantage by implementing strategies to better manage talent risks and creating integrated solutions to resolve talent issues.

The good news is aligning Organization Design and Compensation is identified as one of the integrated solutions by 77% of participants on average.

Organizations with better talent risk management practices were examined, and the results show that these organizations share two common characteristics: leveraging Workforce Analytics to support Compensation, Organization Design, Talent Management processes and having clear focus on integrated Organization Design and Compensation solutions.

Although the population of organizations with effective risk management practices is relatively small among the survey participants, surprisingly, this group managed risks more effectively on most of the talent risk areas.

77% saw potential benefits of aligning **Organization Design** and **Compensation**

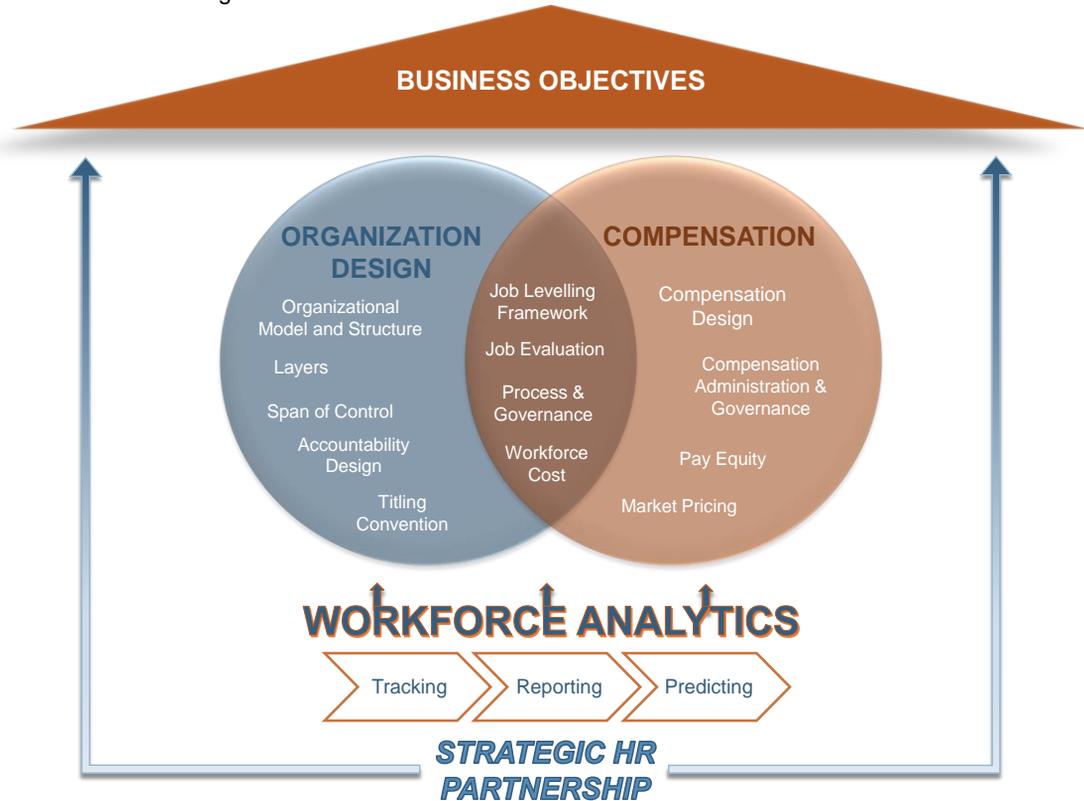
KEY SUCCESS FACTORS PROVEN



INTEGRATED SOLUTIONS MODEL & QUICK SELF-ASSESSMENT

These are a few key areas that we would like to suggest towards creating powerful connections between Organization Design and Compensation with Workforce Analytics as a key underpinning element.

In collaboration, HR has the opportunity to re-think the way it works and positions itself as a strategic partner which creates real value for each organization.



Creating Powerful Connections to Optimize Business Value - Key Questions to contemplate

Business Objectives

- Is your organization experiencing challenge in meeting strategies and objectives?
- Are you anticipating changes in your organization or industry that will require new skills, experience or ways of working?

Workforce Analytics

- Do you struggle to access and share talent risk data and insights across teams (e.g., employee cost by level, time in role, attrition, performance measurement, etc.)?
- Do you use separate analytics for Organization Design and Compensation evaluation and design?

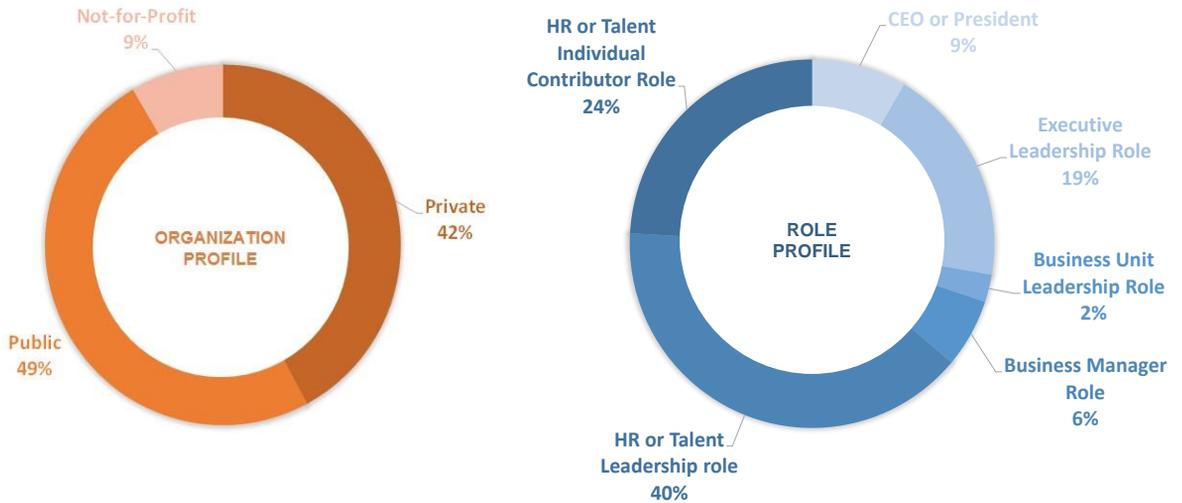
Organization Design

- Are people and work organized in a way that burdens the achievement of business goals (e.g., too many/few levels, low/high spans of control, overlapped accountabilities, reporting gaps, etc.)?
- Does feedback from employees or managers identify role design, career progression, decision-making, or cross-team collaboration as key areas of opportunity?

Compensation/Total Rewards

- Are there common issues with how employees are positioned in their salary range?
- Does the compensation structure support effective talent development and flow?
- Are pay decisions inconsistent with frequent “one off” decisions or exceptions?
- Are costs escalating too rapidly relative to revenues?

Overview of Survey Participants



Our 2014 survey sample includes 83 respondents from organizations across Canada with expertise in Compensation, Organization Design, Talent Management, and business leadership.

For more information about this research, please contact:

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