



# Counterproductive Remuneration Practices & Impact on Companies

**ALAN Breakfast Meeting**

**May 2019**

**People Services**



# Outline

- 01 Introduction
- 02 Counterproductive Remuneration Practices
- 03 Impact on Businesses
- 04 Q&A

Appendix - KPMG People & Change Capabilities



# Introduction



# Introduction - Remuneration & Total Rewards

- Remuneration is one of the key elements of Total Rewards (“what’s-in-it-for-me” for the employee)
- Although not one of the top reasons why employees leave organisations, it can have a huge impact on business results and effectiveness of other HR programmes.
- The kind of impact remuneration exerts on business results (positive or negative) is a function of the organization’s belief and approach to employees’ pay.
- Poor remuneration strategy and management can cause:
  - Lack of trust in Management
  - Loss of confidence in the system
  - Demotivation & low performance
  - ETC

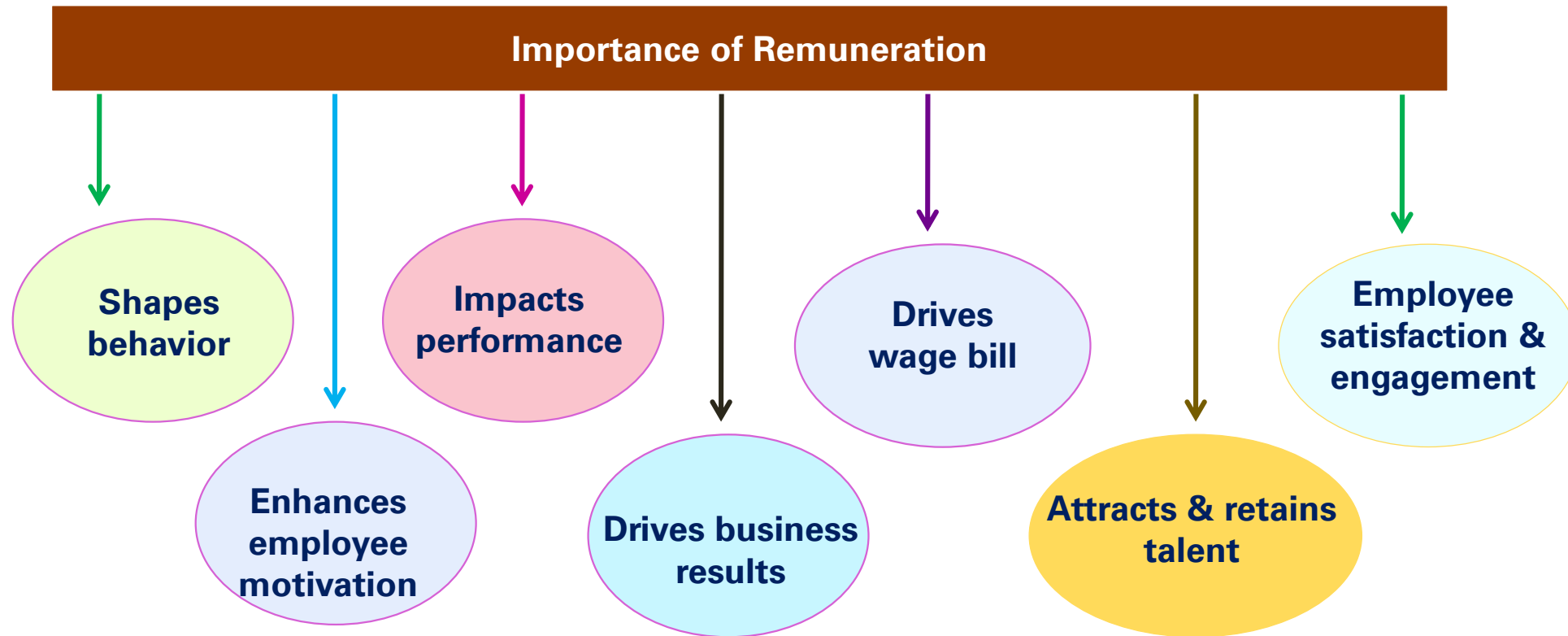
## Top reasons why people left their old job:



Source: LinkedIn Survey on Why & How People Change Jobs

# Introduction - Remuneration & Total Rewards

- Remuneration is closely linked with Performance, Career, Culture, Talent Management, Recruitment, etc. So when Remuneration goes wrong, a lot can go wrong in other aspects of HR as well.
- For Remuneration to be effective, it must work in sync with other HR programmes and business objectives – alignment.



# Counterproductive Remuneration Practices

# Counterproductive Remuneration Practices



## Lack of a Proper Grading/ Pay Structure:

- Inconsistencies in job placement
- Pay equity issues
- Pay progression issues
- Cost escalation issues
- Distraction & burden on HR



## Unavailability of Job Descriptions (JDs) and Organograms:

- Ambiguity in roles and responsibilities.
- Impact on performance management & incentive / bonus pay

# Counterproductive Remuneration Practices



## Lack of Well-Structure Incentive Schemes:

- No threshold & maximum performance levels
- Selecting the wrong performance measures
- Misalignment with business results
- Entitlement mentality
- Poor differentiation for performance levels
- No clawback provision



## Misalignment of Benefits Structures:

- Cost escalation issues
- Administrative burden
- Misalignment with employee demographics
- Sustainability issues



# Counterproductive Remuneration Practices



## Pay Transparency:

- A 2015 PayScale study revealed that 82% of 71,000 employees interviewed are okay with low pay as long as the rationale is explained.
- This further highlights the importance of highlighting the “why” of pay.



## Uncompetitive Rewards:

- Inability to attract, motivate & retain top talent
- Inability to achieve business results
- Inability to deliver on corporate strategies / goals

# Impact on Businesses

# Impact on Businesses – Performance-Based Pay & Returns to the Business



Bottom Line

- ❑ A research conducted by American Economic Review, on a retail bakery plan shows how bonuses impact bottom line as follows:
  - ✓ Sales increased by approximately 3%;
  - ✓ Many teams increased their sales beyond the level at which the bonus was capped;
  - ✓ On average, employee compensation increased by 2.2% (and up to 12% for some employees);
  - ✓ For every \$1 spent on bonuses, sales revenue increased by \$3.80;
  - ✓ For every \$1 spent on bonuses, operational profit increased by \$2.10
- ❑ Based on similar research, companies who have a long term incentive scheme in place have a higher return on equity (ROE) compared to companies who do not have these schemes in place.

# Impact on Businesses – Shaping Employee Behaviour & Sustainability

5,300 Wells Fargo employees fired over 2 million phony accounts

Markets

## Hertz Seeks \$70 Million in Clawbacks Tied to Accounting Scandal

By Jef Feeley and Anders Melin  
April 1, 2019, 10:56 AM EDT

## Lehman Brothers Files For Bankruptcy, Scrambles to Sell Key Business

 REUTERS



## Nigeria fines Cadbury unit for false accounting

 CNBC



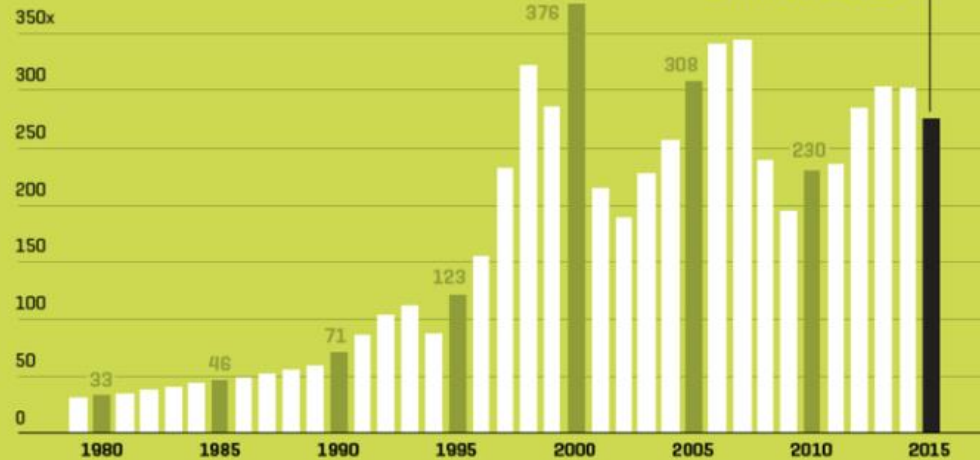
## Misconduct at Kraft Heinz puts spotlight on employee pressure to meet bonus targets

- Kraft Heinz said in a filing Monday it will restate its financial statements for 2016 and 2017 by \$181 million, after employee misconduct sparked a review into its procurement.
- As result of the investigation, roughly a dozen employees were reprimanded, people familiar with the matter said.
- The company says that the investigation has been "substantially resolved," and that no senior executives were

# Impact on Businesses - Pay Inequity

**EQUAL WORK  
DESERVES  
EQUAL PAY!**

## CEO-to-Worker Compensation Ratio



SOURCE: ECONOMIC POLICY INSTITUTE, BASED ON A STUDY OF THE TOP 350 U.S. FIRMS RANKED BY SALES

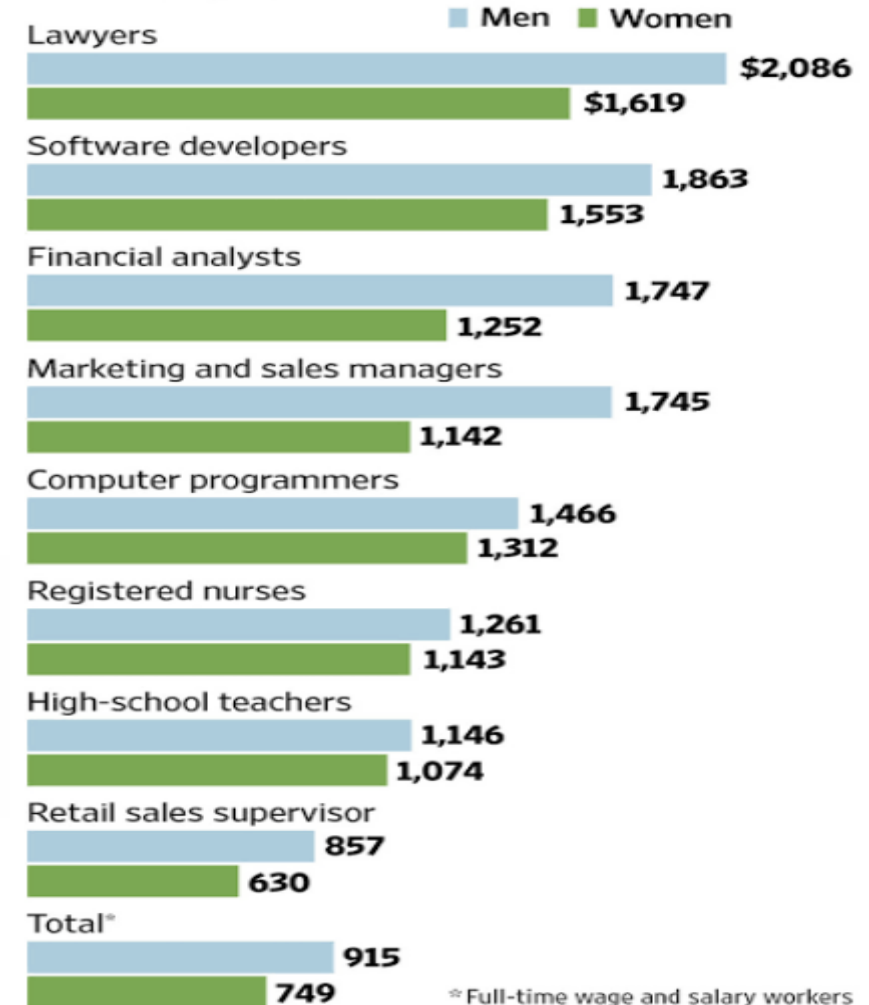
FORTUNE MAGAZINE

workers who receive the same absolute wage, but vary in the wages of their co-workers. We find that workers reduce output by 52% when their co-workers are paid more than themselves. They are also 13.5 percentage points less likely to come to work (on a base of 94% attendance) — giving up substantial earnings to avoid a workplace where they are

Source: MIT Research

## The Pay Gap

U.S. government data for 2016 show disparities in median weekly earnings in many occupations. Some examples:



\* Full-time wage and salary workers

Source: Bureau of Labor Statistics

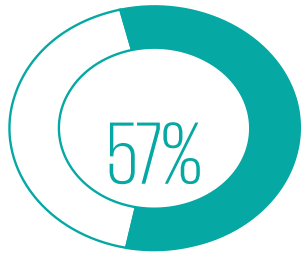
THE WALL STREET JOURNAL.



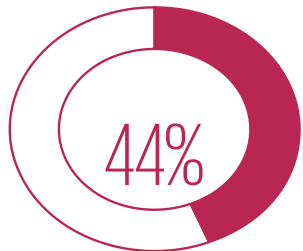
# Impact on Businesses - Wage Bill & Sustainability

- Wage Bill is often a huge item on companies' financial statement. Hence, great care and planning needs to go into decisions that affect it

## Recruitment Freeze

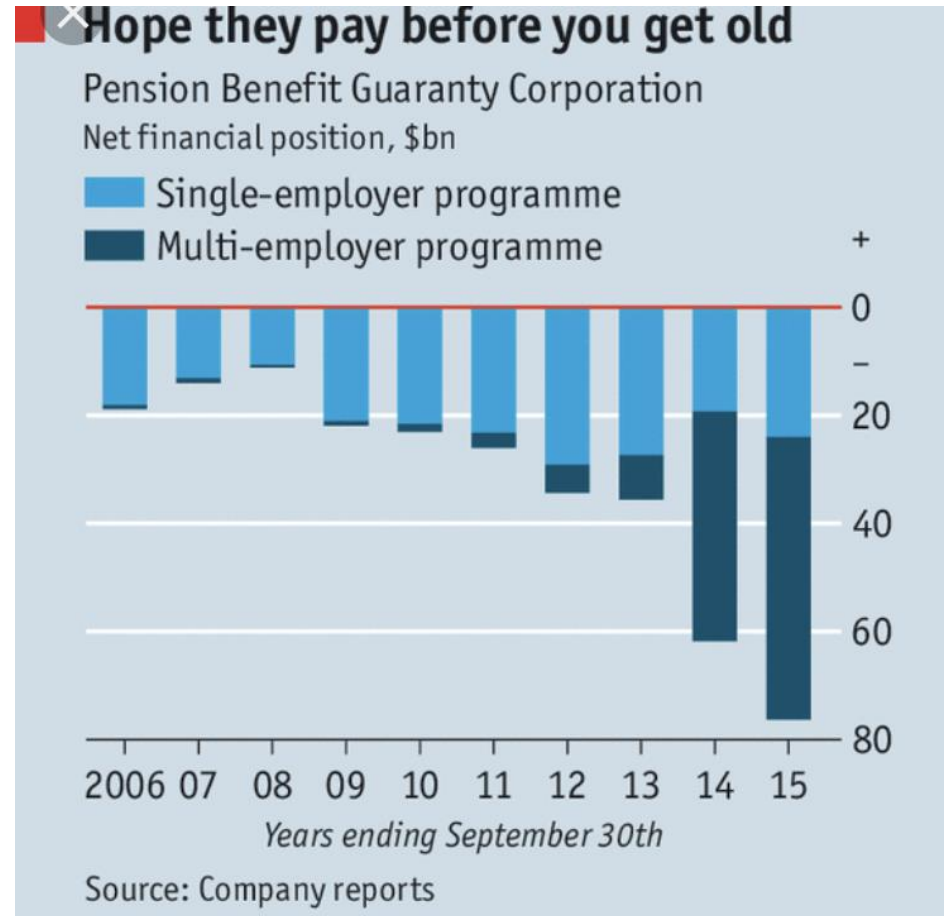


## Downsized / Rightsized



How companies responded to 2016 economic recession

Source: KPMG



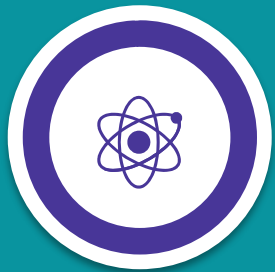
**MIPCO**

Severe Underfunding of U.S. State Pension Plans (2018)

# Questions, Feedback and Comments



Our People and Change practice transforms the performance of organizations across the world by changing the way people are led, managed, rewarded and developed. We do this by focusing on two key areas of the change agenda – delivering the people agenda on large scale, complex, transformational change programs and transforming the HR function. We have six (6) key service areas



## Behavioral Change Management

A proactive structured approach to make complex change happen



## HR Optimization

A strategic transformation of HR functions through process, technology and operating model innovation



## Talent Management

A comprehensive approach to attract, develop and retain talent and capability to deliver a competitive advantage



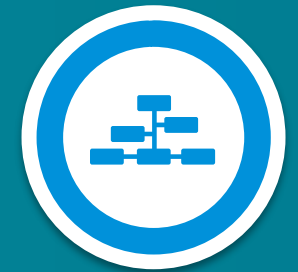
## Pay Market Intelligence

A detailed and confidential process of obtaining information on competitive and leading-edge practices in remuneration



## Remuneration Advisory

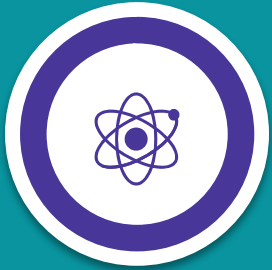
A focus on supporting organisations with strategic alignment of total rewards to HR and Business objectives



## Organization Development

An approach to develop and re-develop organization to achieve specific objectives

# Appendix - People & Change | Our Capabilities



## Behavioral Change Management

- Business case and vision for change
- Change strategy
- Change leadership
- Stakeholder management
- Organizational integration
- People transition and workforce effectiveness
- Benefit realization and sustainable performance
- Communication and engagement



## HR Optimization

- Define HR vision, mission and strategy
- Design HR service delivery model
- HR audit, due diligence
- Design HR policy and processes
- Conduct HR maturity assessment
- HR technology assessment
- Design HR shared services
- HR capability building
- HR Outsourcing



## Talent Management

- Define Talent strategy
- Talent sourcing and recruitment
- Design Performance management system
- Competency modelling, talent assessments, HIPO identification
- Leadership development, career paths and succession planning
- Design L&D solutions
- Conduct Employee engagement and culture assessment
- Employee value proposition



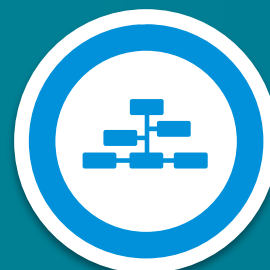
## Pay Market Intelligence

- Conduct Compensation benchmarking across employee levels
- Board Remuneration benchmarking
- Annual Industry-wide Remuneration Surveys / Survey clubs
- HR/Reward Practices Survey
- Bespoke Benefit surveys



## Remuneration Advisory

- Define Total rewards strategy
- Design Compensation Philosophy
- Define Remuneration Framework
- Executive & Board Remuneration Support
- Design of short and long term incentive plans
- Workforce Analytics and dashboards
- Reward Training programs



## Organization Development

- Define Organizational vision and mission
- Strategic organization design
- Script job descriptions
- Strategic workforce planning
- Critical workforce segmentation
- Mergers and Acquisitions