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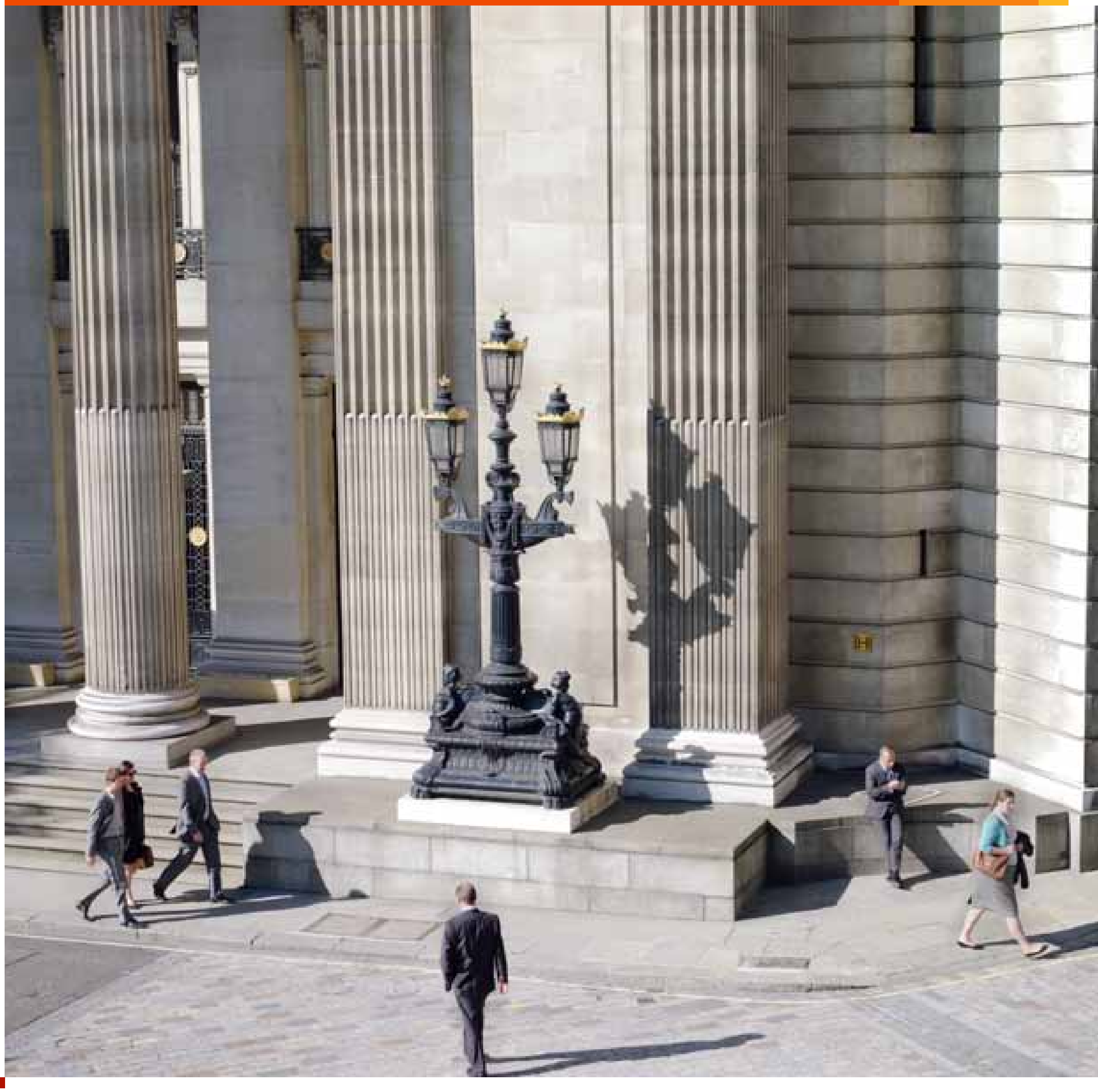
Value through your people

Workforce performance in Canadian banking



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Workforce performance in Canadian banking

PwC's study of workforce composition and performance in the Canadian banking sector included a review of data submitted for calendar years 2006 to 2010. The sample included large and medium-sized Canadian banks who are Saratoga human capital effectiveness measurement clients. An average of eight unique organizations participated in Saratoga during that time period, including Canada's "Big Five" banks (i.e. BMO, CIBC, RBC, Scotiabank, and TD Bank) and a range of mid-size and smaller banks.

Saratoga's *Human Capital Effectiveness Survey* tracks over 150 workforce metrics – covering a wide range of workforce and internal corporate function metrics including:

- Recruitment effectiveness
- HR function service delivery performance
- Career development
- Executive leadership succession and sustainability
- Voluntary turnover and associated costs
- Projected retirement trends.

This report covers a select set of key metrics for Canadian banking clients.

To learn more about PwC Saratoga's benchmarking and analytics programs, please visit our website at **www.pwc.com/ca/saratoga.**

Executive summary

Evolution in banking

In a time of accelerating change and questions of public confidence in the international financial system, Canadian banks have done far more than what's necessary to survive.

According to the Bank of Canada's December 2011 Financial System Review, a number of issues have had a significant impact on financial institutions in advanced countries, including the European sovereign debt crisis, a weaker outlook for global growth and a shift away from risk taking in international financial markets. Here in Canada, the impact has been limited so far.

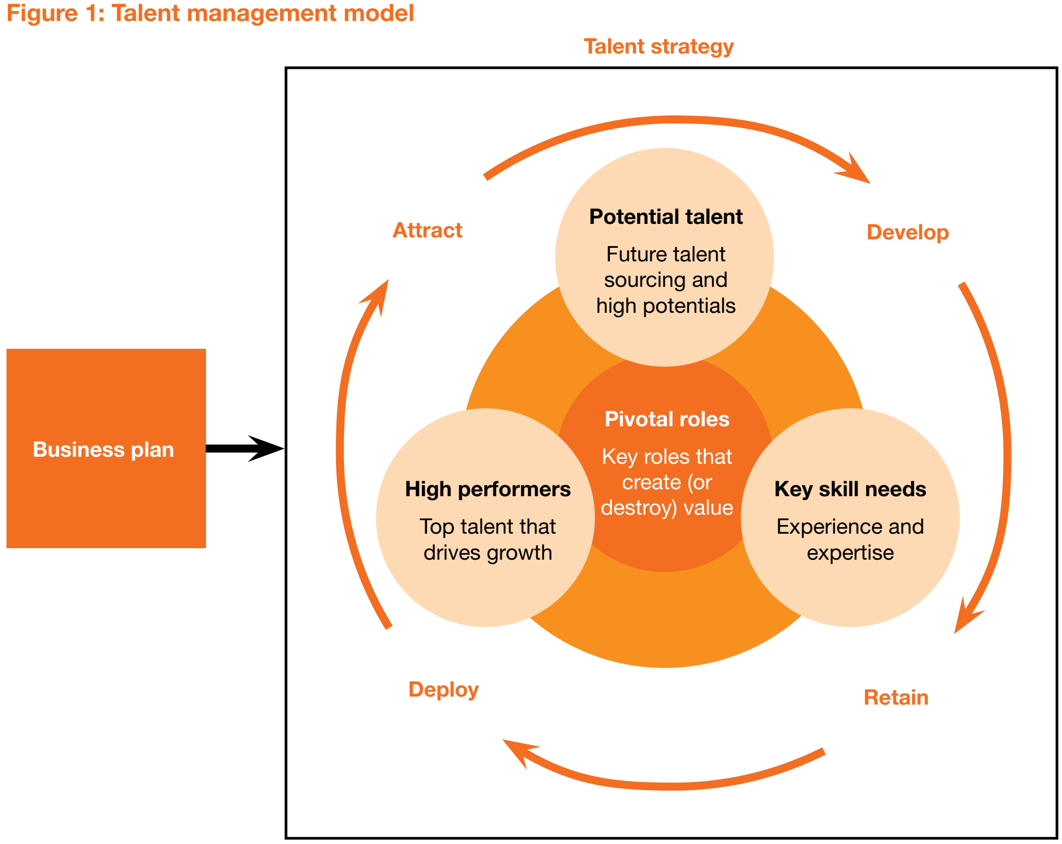
As many global banks struggle to regain or maintain their positioning, Canada's banks have been able to leverage their well managed, well regulated and well capitalized standing to actively pursue growth strategies. This does not mean that Canadian banks are out of the woods yet. If the international financial environment continues to deteriorate, the impact for Canadian banks could become more pronounced.[1]

In growing their businesses Canadian banks need to be conscientious and considered in their activities. To deliver value they must fully understand and leverage their most important asset: their people.

From the C-suite to the front line, people have a significant impact on the sustainability and success of banking organizations. Understanding people and workforce performance is the key to building effective talent management strategies for attracting new talent, addressing skill needs, understanding pivotal roles and developing the banking leaders of the future.

World class human resources management can be achieved by aligning your talent management strategy with your business plan. Figure 1 provides an overview of PwC's talent management model.

Figure 1: Talent management model



1. *Financial System Review.* Bank of Canada. 2011

Key findings: Four key themes

In order to enhance their understanding of workforce performance, a number of Canadian banks have started tracking key performance metrics using Saratoga, PwC's world class workforce benchmarking and analytics service.

The 2012 study of workforce performance in the Canadian banking industry has revealed, for the first time, a number of key trends that Canadian banks should consider when developing their talent management strategies.

Employee value proposition and engagement: Rise of the multigenerational workforce

Between 2006 and 2010, the ratio of Baby Boomers (born 1943–1960) to Generation Y employees (born 1982–2000) at Canadian banks shrank from 6:1 to less than 2:1. Soon, Generation Y will outnumber Baby Boomers in the workplace. During their effort to manage Baby Boomer retirements as well as the influx of Generation Y employees, banks must not neglect the values and desires of their largest, yet often overlooked demographic of employees – Generation X (born 1961–1981).

Retention and loyalty: Reduced turnover in the wake of ongoing economic uncertainty

The economic crisis in 2008–2009 had a noticeable impact on voluntary turnover – particularly for Generation Y, whose 25% voluntary turnover in 2006 tumbled to 16% by 2010. While this generation is renowned for its mobility and comfort with change, this decrease may be indicative of them "sticking with the status quo" rather than taking the risk of moving on to new endeavours.

When looking at resignation rates through the lens of tenure, the turnover rate for employees with 0 – 1 year of tenure was stubbornly high for 2006–2010, ranging from 21% to 26%. While higher turnover raters are to be expected during the first year of employment, the high cost of resignations requires that banks take a closer look. For Saratoga banking participants, the average cost of voluntary turnover per employee ranged from $45,000 to $50,000 between 2008 and 2010.

Retention and loyalty: The slowing of career progression

A significant decline in the overall promotion rate from 2006 (15%) to 2010 (10%) has been felt most keenly by Baby Boomers (from 5% in 2008 to 3% in 2010), as well as Generation X (from over 11% in 2008 to under 10% in 2010). While the decline in Baby Boomer promotion rates is to be expected given that many in this group have reached the top of their career ladders and are preparing for retirement, the decline in Generation X rates was unexpected, as they are generally in their peak career building years.

Strategic deployment: Women in banking – climbing, not always at the top

From 2006 to 2010, women as a percentage of the workforce experienced little variation, holding steady at approximately 67%. At the same time, the percentage of executives who were women also showed little movement, averaging around 25%. While women have made great strides attaining mid and some senior-level leadership roles since the introduction of the Canadian Equity Act in 1986, the lack of progress between 2006 and 2010 for the very top executive roles is still concerning.

About the Baby Boomers, Generation X and Generation Y

While the concept of distinct "generations" has been popularized by a variety of authors and social commentators, William Strauss and Neil Howe's 1991 book, Generations, portrayed how people in a particular age group tend to share a distinct set of attitudes and behaviours due to their coming of age during a particular period in history.

Strauss and Howe identified three criteria shared by a distinct generation: age location (encountering key historical events and social trends during the same phase of life), common beliefs and behaviours (due to being shaped by the same era), and a resulting sense of perceived generational membership (due to a growing awareness of their shared experiences and traits).

For organizations, there is great value, and some risk, in viewing the workforce through this generational perspective. While identified generations can undoubtedly be clustered according to their perceptions, beliefs and values, giving organizations the ability to differentiate between demographic groups and tailor the work environment accordingly, care must be taken to not overly generalize, or to place too much emphasis on the desires of a single group.

Figure 2: Different generations at work

	Baby Boomers (1943 – 1960)	Generation X (1961 – 1981)	Generation Y (1982 – 2000)
Values	Focus on quality Efficient	Want to get the job done Independent	Forward focused Tenacious Goal oriented
Perception of work	An adventure	A challenge	A means to an end
Communication style	In person	In person preferred Direct	Email Social network Multimedia Less face time
Rewards and recognition	Money Promotion to the next level	Less concerned about promotion Prefer freedom / flexibility	Instant feedback Recognition where it is due
Work / life balance	Work first	Balanced priorities	Balanced priorities

Discussion of key findings

Employee value proposition and engagement: Rise of the multigenerational workforce

Between 2006 and 2010, the ratio of Baby Boomers to Generation Y employees at Canadian banks shrunk from 6:1 to less than 2:1. At this rate, Generation Y will outnumber the boomer generation in Canadian banks within the next three to five years. At the same time, Generation X is by far the largest generational employee group for Canadian banks, comprising a "quiet majority" of between 55% and 60% of the total workforce (see Figure 3).

The challenge is that with each generation comes a different set of beliefs, values and expectations for the work environment. In short, what works for one group may not work for another. As Figure 2 shows, the differences between the generations are significant. Canadian banks should not underestimate the challenges associated with maintaining a multigenerational workforce.

Here in Canada, generational issues are a key area of concern for CEOs. PwC's 14th Annual Global CEO Survey reported that 75% of Canadian CEOs expected significant challenges recruiting and integrating younger employees. At the same time, 60% were changing their people strategies to increasingly recruit and retain older workers.

Although those in the Baby Boomer generation are declining as a percentage of the workforce, the oldest of them, those aged 55 and older, are actually increasing in numbers (see Figure 4). In 2006, employees aged 55 and older represented 1 in 11 employees; by 2010, they accounted for 1 in 8. Not surprisingly, retirement rates have increased only slightly – from 1.2% in 2006 to 1.8% in 2010, with average retirement tenure (i.e. tenure at the organization upon retirement) increasing by 17% to 26.5 years in 2010 (see Figure 4).

The impact of the economic crisis, felt primarily by a hit to individual investment portfolios and a lack of confidence in the economy, seems to be leading many Baby Boomers to delay their retirement plans. Compounding this, the federal government recently announced that, as of December 2012, federally regulated employers will no longer have the right to require that their employees retire at a certain age.[2] The forecasted dramatic increases in retirement rates may still occur, but they appear to have been offset for now.

As the Baby Boomers do retire, however, Canadian banks will feel the loss of organizational knowledge keenly. Banks need to not only assess their risk of overall organizational knowledge loss but also specific departments, functions or pockets in their operations where a significant percentage of employees may be eligible to retire within a one or two year period.[3] Identifying ways to foster mentoring and skills and knowledge transfers between generations will be critical.

Defining what Generation Y means to the banking industry is also becoming a significant issue – specifically, understanding what impact this generation's desire for collaboration and social networking will have on risk management, decision-making processes and multi-layered organizational structures.

At the same time, banks may have an even more pressing concern. Generation X, the core of the banking industry workforce for the foreseeable future, is being squeezed at both ends – a fact that could have a detrimental impact on the industry. Not only are the boomers delaying retirement and being encouraged to work longer as a result of cultural and legislative changes, Generation Y is characterized as being particularly confident and connected.

2. *Keeping Canada's Economy and Jobs Growing Act*. Government of Canada. 2011.
3. Organizational Knowledge Loss: This metric combines retirement rates and retirement tenure to provide a perspective on the amount of organizational knowledge and expertise leaving through retirement.

In a recent PwC survey of millennials – another name for Generation Y – 52% indicated that career progression, not competitive salaries, was the main attraction in an employer.[4]

With older workers staying on longer – many in senior positions – and younger employees with a hunger for advancement coming up from below, the potential for disaffection in the Generation X ranks is significant. Generation X will play an increasingly pivotal role in the years ahead, providing stability and absorbing organizational knowledge as Baby Boomers retire after many years of service.

Making certain Generation X employees feel valued by providing them with opportunities to both gain experience from the Baby Boomers and share it with Generation Y, will be a differentiating people strategy for leading organizations. Those most successful will understand the dynamics and contributions of each facet of their workforce – and be able to leverage generational differences without causing additional stratification.

Questions banks should be asking

- What does each generation contribute to our organization? Is it different across our lines of service and corporate functions? What about internationally?
- How are we helping different generations understand each other and work together? Are we investing in collaboration tools and skills transfer programs?
- What is our organization's strategy for managing the "squeeze" and engaging Generation X employees?

Figure 3: Workforce composition by generation

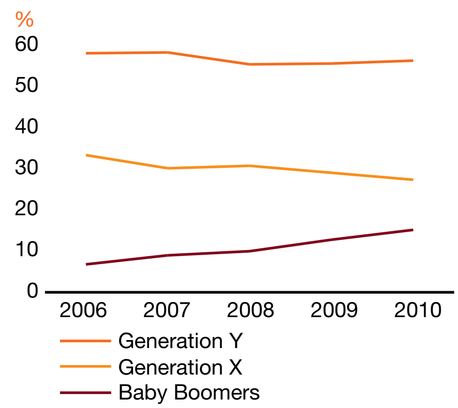


Figure 4: Ages 55+ as a percent of Baby Boomers (%)

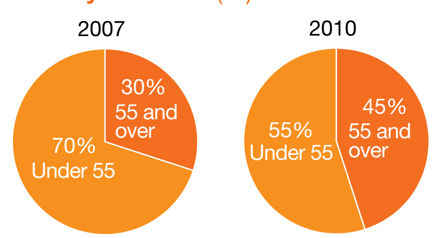


Figure 5: Retirement rates and organizational knowledge loss

4. *Millennials at Work: Reshaping the workplace*. PwC. 2011.

Retention and loyalty: Reduced turnover in the wake of ongoing economic uncertainty

Turnover rates can have a significant impact on the stability of an organization, serving as clues for where significant employee engagement issues may be festering. With only one exception, 90 day turnover (typically resignations) rates increased significantly during the study period – from 6% in 2006 to 11% in 2010 (see Figure 6). This is a concerning and costly trend.

Reviewing resignation and voluntary turnover rates, the impact of the 2008–2009 economic crisis is quite clear; the significantly lower rates in 2009 indicate a preference for the safe and familiar, rather than taking risks with the unknown. The exception to this rule was the 0 to 1 year tenure resignation rate, which stayed stubbornly high (see Figure 6).

Looking at voluntary turnover by generation, the most interesting results occurred with Generation Y. Between 2006 and 2010, voluntary turnover among the youngest generation showed a significant decline – from over 25% to approximately 16%: a decrease of more than one third (see Figure 7). While part of this decline may be attributed to some employees settling into roles more suitable to their skills and values, it may also be attributable to efforts organizations have been making to listen to Generation Y, and to shape a work environment more accepting and reflective of their attitudes, preferences and expectations.

Banks are advised to be cautious, though, in declaring victory on this front – according to the global *Millennials at Work – Reshaping the Workforce* study conducted by PwC in 2011, 72% of millennials had to compromise to find work. Such compromises included taking a lower salary than expected, receiving fewer benefits and working away from their ideal location. The real measure of success in retaining Generation Y talent will be the degree to which voluntary turnover rates rise as economic stability improves.

Questions banks should be asking

- Is our turnover rate for employees with 0 to 1 year of tenure reasonable? If not, what can we do to ensure that we are bringing in the right people and integrating them within our organization effectively?
- When looking at our lines of business, how do our resignation rates compare for Generation Y employees? Is there a reason why some rates are higher than others?

Figure 6: 90 day turnover and first year resignation rate

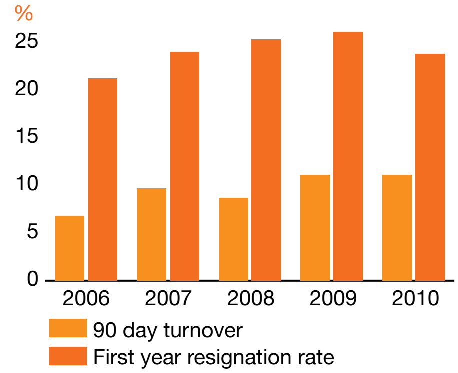
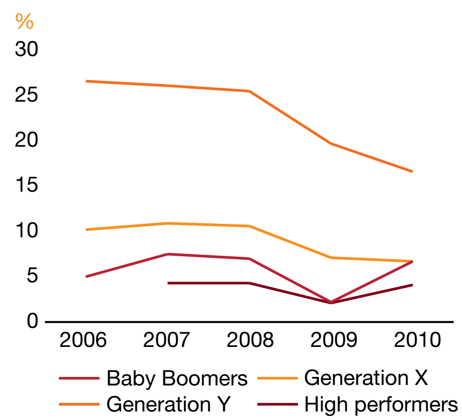


Figure 7: Voluntary turnover by generation; high performer separation rate



Retention and loyalty: The slowing of career progression

Over the past five years, there has been a noticeable decline in promotion rates for Saratoga's Canadian banking survey participants – from approximately 15% in 2006 to 10% in 2010 (see Figure 8). To put this in perspective, while the average employee had a 1 in 7 chance of being promoted in 2006; the probability fell to 1 in 10 by 2010. There may be a number of reasons for this drop in promotion rates over a relatively short period, such as the economic downturn and resulting uncertainty in the global economic environment.

Since 2008, Saratoga has also captured data on promotion rates by generation. Over the course of the three reporting years, the promotion rate for Generation Y has held stable at close to 20%. Not surprisingly, the percentage of Baby Boomers who were promoted has decreased over the same time period, from approximately 5% in 2006 to 3% in 2010. This relatively lower rate, as well as its decline, reflects the fact that most employees of this generation are already in the most senior role they will be in prior to retirement. The decline in Generation X promotion rates, however, which fell from just over 11% in 2008 to just under 10% in 2010, was not expected.

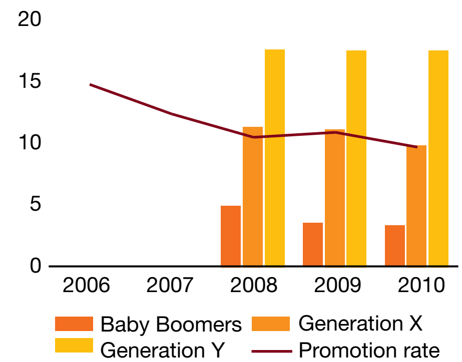
Why would promotion rates for Generation X, in the peak years of their careers, decline? One possibility points to older workers delaying retirement, which may be delaying the next generation of leaders. It could also be that some Generation X employees are being passed over for younger, more aggressive Generation Y workers.

Other contributing factors may revolve around changes to operating models due to partnering and outsourcing functions (such as technology and customer servicing) leading to a requirement for more relationship skills than traditional management skills. Career paths could also be changing to reflect more stringent promotion criteria. For example, banks may be redefining career advancement in a manner different than the formal promotion process by placing a greater emphasis on secondments and lateral moves across lines of business – such as Wealth Management and Retail Banking.

Questions banks should be asking

- How does our organization define and measure career progression? How does this align with the generational composition of our organization versus a functional or line of business view?
- How can our organization identify additional ways to reward or provide stretch opportunities to employees outside of the formal promotions process?
- How is career progression being considered when making changes to our operating model, such as outsourcing and mergers and acquisitions?

Figure 8: Promotion rates — overall and by generation



Strategic deployment: Women in banking – climbing, not always at the top

Here in Canada, Saratoga has tracked two key metrics related to women in the workforce during the 2006 to 2010 period: Female Percent – the percentage of employees who are women, and Female Executive Percent – the percentage of executives who are women (executives being defined as the CEO and the next two reporting levels).

There has been a remarkable level of stability for both metrics over this period. Women as a percentage of the workforce has held steady at approximately 67%, or two out of three employees (see Figure 9). At the same time, the percentage of executives who are women has remained relatively unchanged at approximately 25%, or one out of every four executives, despite a range of initiatives to help women attain executive positions, and significant government and media focus on gender equality in the workplace (see Figure 9).

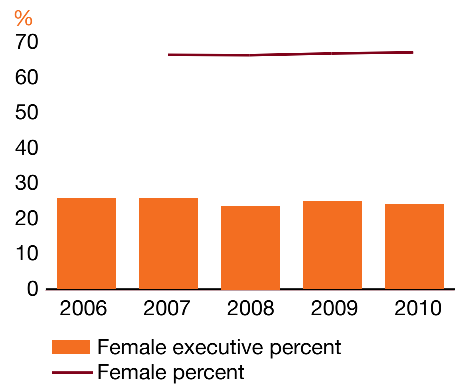
While the stability of, and gap between, these two metrics suggests a less than rosy view of women's progress in the banking industry, it is important to note that for mid-and some senior level roles, significant progress has been made by Canadian banks since 1986. During that year, Canada's Employment Equity Act required federally regulated employers to collect and publish data on women in senior management roles (defined as Vice President level roles and up).

According to the Canadian Banking Association (CBA), the percentage of senior management roles held by women has increased remarkably over the past 23 years – from 2% in 1987 to 32% in 2010.[5] While the Employment Equity Act's definition of senior management roles was broader than Saratoga's, the gains cited by the CBA offer hope that someday soon women will hold a higher percentage of executive roles at the very top of Canada's banks.

Questions banks should be asking

- Is the percentage of women in executive positions at our organization where we want it to be and in the right areas? For example, with growth in risk and compliance functions – are women being identified into top talent programs encompassing these areas?
- With increasing global operations, how are women being represented in different countries? Are we providing enough support or investment for social networks and communities to be developed?

Figure 9: Women as a percent of executives and overall headcount



5. Banks as Employers: Canadian Banking Association.

Proactive talent management strategies for Canadian banks

Canadian banks face a number of industry challenges which are impacting their organizations and people. This, coupled with the revealing findings from the 2012 study of workforce performance in Canadian banking, highlight the fact that banks need to continue evolving their people strategies to stay competitive. With Canadian banks in a more stable position that their global counterparts, now is the time to make change. Potential strategies that banks can consider moving forward include:

1. Pivotal roles: Take a closer look at key roles that create value

Develop career paths to attract top talent into those lines of business or functions that are growing in profile and seen as increasingly "pivotal" in the dynamic economic climate. This is key to building expertise in areas such as enterprise risk, compliance, customer management and managing offshore relationships.

Future leaders will require a greater breadth of skills and experience, and a collaborative, cross-functional orientation to work. Providing these types of opportunities early may help lessen the emphasis on "promotions," while providing valuable experience to tomorrow's leaders.

2. Retention: Broaden your efforts – every generation has a role to play in future success

Develop an environment that works for all employees and recognizes the value of all generations. With Baby Boomers extending their time in the workforce, and other generations looking for different ways of working and being rewarded, alternative retention strategies may prove more effective. For example, using social and collaborative technologies and encouraging teams to share best practices may resonate with Generations X and Y, while providing Baby Boomers with opportunities to impart their valuable experience and skills can engage them while linking them with their successors.

Additionally, continue efforts to understand the unique needs of each generation and develop specific plans to provide each group with the development challenges, recognition and rewards that motivate them.

3. Retention and engagement: Adapt to the blurring of business and personal lives

Design talent strategies that include diversity activities around employee relatedness, connectedness, interactions – and where these lines cross. Tailored programs and evolving social communities that solve work/life flexibility issues, such as alternative work schedules and child and elder care resources and referrals, make strong business sense and can be a testament to an organization's social awareness.

4. Business value: Use a 'trend' lens to act on workforce performance metrics

Several metrics stood out in this study, including the percentage of female executives and the 0 to 1 year employee turnover rate. There is a need to continually assess the degree to which banks are recruiting the right talent, and how orientation and onboarding programs can be improved across lines of business while ensuring they meet the engagement needs of employees. While a higher level turnover is expected over the first year of employment, the drain on budgets, employee resources and engagement should not be discounted.

In addition, consider taking steps to support career paths for women at the most senior executive ranks, reviewing and renewing organizational strategies for women in leadership. Similarly, consider incorporating emerging functional areas and pivotal roles within these strategies.

Using a generational lens on the data may provide clues to the design of innovative talent strategies for the future.

How PwC can help

At PwC we collaborate with our clients by bringing together deep business insights and research to give them an advantage in today's changing world. Through our experienced Financial Services and People and Change teams, we can help turn your operational and people strategies into action.

Our teams use Saratoga™, the world's leading source of workforce measurement metrics and analytics, to help financial services organizations to develop a clear, analytical understanding of their workforce, building competitive advantage through leveraging an evidence-based approach to workforce management and decision-making.

Contact us today to see how we can help.

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