Rethinking Total Rewards

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Introduction

Here is a perfect storm brewing in workplaces. The economy is recovering, business is picking up, and employers are hiring. At the same time, baby boomers are preparing to leave the workforce which will lead to leadership, skills, and knowledge gaps that could threaten an organization’s future. For the first time since the Great Recession, employers will be working harder than ever to retain and attract the best workers. These retention and recruiting activities have been traditionally housed with HR business partners and in the compensation domain of HR, but it is time to rethink these activities as part of a broader total rewards strategy.

This white paper:

- reviews the total rewards trends that leading HR organizations are tracking;
- examines why some organizations use a strategic total rewards approach and why those with integrated total rewards strategies have a competitive advantage in their marketplaces;
- provides compelling reasons why employers should consider adopting a differentiated total rewards system to promote career development and growth among high potential employees and to attract and retain women and other workforce segments;
- offers steps HR and talent management professionals can take to launch or re-launch a total rewards strategy in their organizations, and;
- highlights employers whose rethinking of their total rewards strategies has paid off.

Total Rewards and Alignment

Total rewards are the comprehensive monetary and non-monetary return employers provide employees in exchange for their time, talents, efforts, and results (Christofferson and King, 2006). These returns include health care services such as medical, prescription, dental and vision coverage, wellness offerings such as assessment and screenings, retirement benefits such as pensions, 401(k)s, and retiree medical and life insurance, work-life programs such as paid and unpaid time off, dependent care, short-term
and long-term disability, and flexible work schedules (Kwon and Hein, 2013). They also include base salary, bonus, stock options, variable pay, executive salary, and perks like company cars.

The WorldatWork Alliance for Work-Life Progress includes career opportunities as part of a total rewards strategy, a practice an increasing number of employers are adopting. Career opportunities include learning in the form of tuition assistance, corporate universities, attending seminars and conferences, self-development, challenge assignments, and even sabbaticals. Coaching and mentoring also fall into this category, along with advanced opportunities like overseas assignments, career ladders and pathways, and providing employees on and off ramps throughout their careers.

Good total rewards packages attract, retain, and motivate employees to do their best work, and they should be modified on a regular basis to keep employees engaged and to meet employees’ changing personal and professional needs during their career cycles.

Unfortunately, total rewards strategies are slow to change in most organizations. A survey by HR analyst firm Accelir found that only 15 percent of the organizations they surveyed in 2013 said they had revised their total rewards programs over the last two years (White, 2013). Business strategies in high-performing organizations change as frequently as every 12 to 15 months. This means that in most organizations, total rewards are not aligned with the organization’s business strategy and are most likely not having the desired effect of motivating employees and increasing productivity.

This misalignment between an organization’s total rewards strategy and its business strategy is evident in the frequent use of HR’s dirty little secret, the retention bonus. Retention bonuses are a good litmus test of whether an organization’s total rewards strategy is keeping up with its business strategy. If an organization finds itself frequently writing retention bonus checks to retain high performers, then it is a good indicator that its total rewards strategy is not in sync with its business strategy. If it was, there would be little to no need to write retention bonus checks.

**Total Rewards Trends**

Because of the need to align total rewards with business strategy, the types of total rewards employers offer ebb and flow over time. Tracking total rewards trends so that employers can anticipate and modify them is of keen interest to a number of organizations.
The Society for Human Resource Management’s (SHRM) Special Expertise Panels, for example, identified the following total rewards trends for the next few years:

- Employers will offer more intangible rewards in their total reward packages, including career development and growth and work autonomy.
- There will be a renewed focus on wellness and disease management.
- Employers will increasingly link direct pay to organizational and individual performance using variable pay programs.
- More organizations will begin to offer family-leave programs with paid time-off and flexible work schedules (Miller, 2014).

A study by AON, a global human resources outsourcing firm, found that trending total rewards include more customized rewards programs and individual choice, an increased use of differentiated rewards based on performance, and a trend toward more open communication about an organization’s total rewards strategy and program (Kwon and Hein, 2013). Mercer, a global consulting firm, found similar trends to SHRM’s predictions, noting that employers will invest more in career development and training in the coming years. And like SHRM, Mercer predicts that incentive payouts for top performers will be higher across all employee levels (Mercer staff, 2014).

In his predictions for the HR profession for 2015, Josh Bersin of Bersin by Deloitte also found that because the development of leaders and employee retention are the top two priorities identified by HR leaders as front-burner issues, employers will focus on more than just compensation in the upcoming years. Flexible work and wellness programs (such as unlimited vacation time and mindfulness programs) will be increasingly introduced in workplaces to improve the lives of stressed employees. As SHRM and Mercer found, skill development is a priority among HR leaders, and so employee development will also be a focus area to drive organizational performance and to improve employee engagement (Bersin, 2015).
High Performing Companies Integrate and Differentiate Total Rewards

High performing companies understand that a comprehensive total rewards strategy differentiates them from their peers, attracts talent, improves employee productivity, and gives them a higher return on investment. In fact, according to a 2012 total rewards study by AON Hewitt, high performing companies are more likely to say that total rewards is an area of focus in their organizations (Kwon and Hein, 2013). Consulting firm Towers Watson observes that companies which adopt an integrated total rewards strategy are five times more likely to say their employees are engaged and two times more likely to report that their financial performance is significantly better than their peers (2014).

High performing companies actively manage their total rewards approach. These companies:

- Align total rewards to business objectives. In particular, they align programs that differentiate themselves from their peers to their business objectives. These differentiating factors include organizational culture, manager effectiveness training, and learning and development.
- Take care to communicate to employees the connection between total rewards and the business. High performing companies use targeted and multi-channel communication methods to meet the needs of their workforces.
- Develop a total rewards strategy that includes clear goals, objective measures, and competitive positioning.
- Use measures other than cost to define success. High performing companies still assess their total rewards strategies’ cost and return on investment, but they also include other measures such as employee engagement and satisfaction when evaluating total rewards (Kwan and Hein, 2013).

In other words, high performing companies seek to integrate their total rewards strategy into every aspect of their businesses. At the same time, these organizations differentiate rewards to create an external competitive advantage and target critical internal populations like high-potential employees, top performers, and women to develop, engage, and retain. High performing companies also actively and regularly communicate their total rewards strategy to employees. Organizations should have an annual conversation with employees about all of the total rewards it offers employees, and not just about the annual raise that’s
given during an annual performance management review. In addition, HR and talent management professionals must prepare managers through training and development to have the confidence to have a compensation conversation with their employees.

High performing companies also know the importance of regularly revising their total rewards programs to offer differentiated rewards that will attract and retain their targeted populations as well as reflect their business strategies. HR and talent management professionals should be able to map the organization’s total rewards strategy to its talent strategy and to the business strategy. An organization’s talent strategy is driven by its business strategy. Its total rewards strategy should be driven by both.

The thought of regularly revising an organization’s total rewards strategy with a focus on integration and diversification can be daunting. HR and talent management professionals may express concern that custom rewards programs are unpopular among managers because of the added time they need to invest in understanding, designing, negotiating, and monitoring them. Or that “rank and file” employees may be upset and lose productivity when they realize that employees groups like executives and high-potential employees commonly targeted for customized packages receive benefits they do not.

The benefits of offering a diverse total rewards package integrated with organizational goals and strategies far outweigh the concerns. This is particularly true if HR and talent management professionals adopt the best practices high-performing companies use when designing and communicating a total rewards strategy. And frankly, with today’s increasingly global and diverse workplaces, the trend is already happening. Employers face gender, ethnic, and generational challenges in the workplace, and well-designed, customized rewards packages will help attract and retain the best of the best. If employers do not offer total rewards packages that appeal to each population’s needs, employees may well look elsewhere.
Using Total Rewards to Target Key Workforce Segments

High-Potential and High-Performing Employees

The average pay raise in 2015 was estimated to be 3 percent in 2015, according to Mercer’s 2014/15 U.S. Compensation Planning Survey — a modest but steadily increasing creep up in wages from previous years. For top performers—about 8 percent of an organization’s employees—the average increase was 4.8 percent. This means that the compensation differentiation between high performers and the average employees is only 1.8 percent of base-pay increases, a practice that if continued is sure to revive the need to give retention bonuses. The Mercer survey, however, also predicted that employers would continue to focus more on variable pay, plus training and career development for high performers, showing employers’ interest in retaining this valuable employee segment (Miller, 2014).

Company Spotlight: PricewaterhouseCoopers

In 2004, PricewaterhouseCoopers leaders realized they had a problem retaining accounting professionals, and so they commissioned a study to find out why. They suspected that the study would determine that the issue was about compensation and that retention among this group would increase as pay was increased. Although the study did confirm that compensation—and how it was structured over an employee’s career—was a factor in an accounting employee’s decision to stay, the study showed that it was not the only—or even leading—factor.

The study found that pay satisfaction and perceived pay equity were key drivers of retention, but that current compensation had no effect on retention compared to other compensation-related factors. Job satisfaction, work-life balance, professional skills and development-related factors, skill utilization, and development support were all rated as equally important in the decision to stay as pay equity and satisfaction, and higher than anticipated compensation growth.

The study’s results led PricewaterhouseCoopers to rethink its approach to total rewards and make changes that lowered turnover and improved the company’s bottom line. Some of the changes included improving relationships among leaders and staff, coaching, employee development, and improved work-life balance.

Employers are right to focus on career development through training and development, particularly for high-potential and high-performing employees. Tire manufacturing giant Michelin, for example, understands the importance of career development and mentoring in retaining employees. The company assigns a career manager to every employee in the company. Early in an employee’s career at Michelin, that career manager is also his or her human resource manager. When employees enter the management ranks, however, they are assigned a dedicated career manager who is not their HR manager. This career manager is focused entirely on that management-level employee to ensure that his or her career aspirations and the company’s needs are aligned. Career managers work as a team with their employees and their bosses throughout their careers at Michelin.

Career growth is the third most frequent reason employees cite for joining an employer and the second most frequent reason for leaving. Even though employers know this, few, it seems, are actually addressing the issue. Only 37 percent of employers say their employees know how to influence their careers and just one in four organizations feels their managers provide career management support to their employees (Towers Watson, 2014).

To attract and retain high-potential and high-performing employees, career management should be a key part of an organization’s total rewards strategy, not just a function of an HR department’s training and development function. HR and talent management professionals may consider the following action steps offered by Towers Watson to improve their career management strategy:

- Review the organization’s existing job architecture to define or refine career paths so high-potential employees can see clear vertical and lateral opportunities.
- Create a career architecture and maps that reflect HR and business strategies.
- Ensure that competency models are aligned with job architecture to help high-potential employees understand how work is to be done.
- Provide managers training and tools to help them identify and communicate career opportunities tailored to high-potential employees’ skills and experience (Towers Watson staff, 2014).
These are important steps, but it is equally important to take steps to link this exercise back to the organization’s total rewards strategy. For example, once the architecture is in place, an effective—and increasingly offered—career development tool for high-potential employees is coaching. Career coaching involves hiring an expert who can help a high-potential employee prepare for future leadership positions in an organization—and it can be costly. HR and talent management professionals should take steps to ensure that the cost of that coaching is reflected in the recipient’s total rewards snapshot. Conversely, high-potential employees should understand that coaching is a total rewards program that they could request as part of their differentiated total rewards package. Another important—perhaps the most important—reward employers can offer high-potential employees is the opportunity to engage in high-quality work experiences. Great assignments that challenge, interest, and ultimately retain high performers should be the core of any total rewards strategy. Employers who offer high-quality experiences to their high-potential employees simultaneously build performance capability in their organizations. And strong agile organizations with good performance capability have the ability to hit their numbers and targets.

**Women and Other Workforce Segments**

There are other workforce segments HR and talent management professionals may want to understand better when designing differentiated total rewards packages. WorldatWork found, like the Vodafone Group, that a typical “one-size-fits-all” package with employees receiving a uniform total rewards plan will not resonate with employees and instead places employers at risk of losing valued employees and of not attracting talented new ones. The

**Company Spotlight: Vodafone Group**

The Vodafone Group, an international telecommunications company headquartered in London, recently announced a new global policy. The company will now pay new mothers their full-time pay for 30-hour work weeks for up to six months after they return to work. The new program applies to all women at the company’s 30 locations across the world.

When the company made the announcement, it explained that the intent was to recruit and retain more women and to increase the number of women in leadership positions from 21 percent to 35 percent of Vodafone’s 100,000 employees. Vodafone representatives noted that it was trying to improve the retention of women because it realized that 65 percent of the women at Vodafone who returned to work after having a baby quit within the first year back at the office. The new policy, it is hoped, will provide these employees the flexibility they need to address their dual roles as valued employees and mothers.

good news is that different workforce populations desire pretty much the same array of programs, but just in a different order.

WorldatWork surveyed employees to learn what different workforce segments valued most in a total rewards package that included compensation, benefits, work-life balance, development, and recognition. The study found that women with children under the age of nine desired work-life balance the most, followed by compensation, benefits, development, and recognition. For this group, work-life balance in the form of true flexibility and reduced work schedules is an absolute must when it comes to retention and attraction. Unfortunately, most of the women said they were not receiving true flexibility, putting them at risk to leave (Levenson, Fenion and Benson, 2010).

Experienced women over the age of 30 who are the household's breadwinners looked for benefits first, and work-life balance second, followed by compensation, recognition, and development. These women usually had no children, were highly educated, and wanted access to high-quality health care. They also desired paid time-off and good retirement benefits. When designing differentiated total rewards for this group, the focus should be on health and retirement benefits first and foremost (Levenson, Fenion and Benson, 2010).

Employees under the age of 40 who are not supervisors, according to the WorldatWork survey, rate compensation as the top benefit they are looking for, followed by work-life balance, benefits, development, and finally, recognition (Levenson, Fenion and Benson, 2010).

Development does not appear at the top of the total rewards list of any of these groups, but the study did not distinguish between rank-and-file and high-potential employees. Other studies have shown, though, that development and career management is a high priority for high-potential employees. HR and talent management leaders who want to attract and keep the best and the brightest in their industries should keep that in mind.

Other results of the WorldatWork study include:

- Older employees value benefits more than younger employees. Younger employees value work-life balance and development opportunities more than older employees.
- Experienced employees want benefits. Less experienced employees want work-life balance and development.
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- Work-life balance is significantly more important for men and women with young children.
- Benefits are significantly more important for all breadwinners (Levenson, Fenion and Benson, 2010).

HR and talent management leaders who want to leverage total rewards to attract, motivate, and retain employees and to increase employee engagement and satisfaction should take care to allow employees to mix-and-match these total rewards components to maximize their productivity and improve business results.

**How to Launch a Total Rewards Strategy**

Human resource and talent management professionals whose organizations lack a total rewards strategy or whose strategy needs to be tweaked so that it is integrated with business goals and differentiated to meet employees’ needs may want to consider the following steps offered by AON:

1. **Define the organization’s differentiator.** High-performing companies are shifting more of their total rewards to the areas of career development and opportunities, learning and development, and coaching because these benefits are harder for other companies to replicate and because it provides them with top-level talent.

2. **Learn what motivates your organization’s employees.** As the WorldatWork study shows, different workforce segments desire a different mix of rewards. The best way to know what the employees in your organization are looking for is to ask them.

3. **Develop a total rewards brand.** High-performing companies develop a total rewards brand that lets employees know what is expected of them and what they will get in return. High-performing companies develop and clearly communicate this employee value proposition.

4. **Personalize the experience.** HR and talent management professionals should make sure that each employee understands their own personalized total rewards package by receiving personalized statements and other communication. These statements not only quantify the package, they also let employees know what they need to do to be successful.
5. **Use multiple channels of communication.** High performing companies know that when developing a total rewards strategy, a key to its success is ensuring that it is widely communicated to all employees. This helps communicate the brand internally and externally and can also go a long way in helping employees understand why the organization has customized total rewards to meet different groups’ needs (Kwon and Hein, 2013).

**Conclusion**

When the workplace was dominated by single (mostly male) breadwinners, a standard, one-size-fits-all approach to total rewards may have been sufficient. That is no longer the case. Organizations are increasingly global, more diverse, and in dire need of finding and keeping the best talent. As the workplace changes, leaders must also change their views of total rewards. To gain a competitive advantage, it is more imperative than ever to ensure that total rewards are aligned with and integrated into an organization’s short- and long-term business strategy, are frequently communicated to all employees, and are differentiated enough to appeal to the needs of key workforce segments.
About UNC Executive Development

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We call this approach The Power of Experience. We combine traditional with experiential and unique learning to ensure that all individuals gain relevant new skills that they can easily implement within their own organizations. Through action learning and business simulation activities, we challenge participants to think, reflect and make decisions differently.

Our Approach: The Partnership

Our team customizes each leadership program through a highly collaborative process that involves our clients, program directors, faculty and program managers. We are dedicated to following-up with our clients and individual participants to ensure that their learning experiences have been meaningful and impactful. This integrated approach consistently drives strong outcomes.

Our Approach: The Results

Our executive education programs are designed with results in mind, and we are focused on successfully meeting our clients' business and academic expectations. Below are a few examples of the results our client partners have achieved:

- Leadership refocused with new strategy and cohesive vision
- Strategic plans created for the global marketplace
- Supply chains streamlined
- Products redefined
- New markets targeted
- Cost-saving measures developed
- Silos leveled
- Teams aligned

Participants leave empowered to bring in new ideas, present different ways to grow business and tackle challenges. The result is stronger individuals leading stronger teams and organizations.

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Sources


