

A Total Rewards Overview

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For many years, rewards programs were viewed primarily as a necessary evil to attract and retain competent employees. Although the people costs of running a business average nearly 40 per cent of revenues, rewards programs were not always aligned to reap the greatest return on this considerable investment. Attitudes towards rewards programs, and awareness of their strategic value, are now changing. Increasingly, organizations are realizing that a properly designed and executed total rewards strategy can be a powerful driver of business success. Conversely, if left unattended and misaligned, rewards program elements can clash with each other and potentially undermine the success of an organization's business strategy.

Employers have the opportunity to leverage the value of their total rewards program to provide solutions to key business challenges such as the aging workforce, competitive changes in the marketplace and the need to maximize the value of business mergers and acquisitions. Employers are also realizing that they can't merely mimic the rewards practices of other organizations. A rewards strategy must be deliberately created to support an organization's unique human capital strategy.

Consider, for example, the case of a leading Canadian manufacturer. This company operates under contract to an original equipment manufacturer, so it faces the challenge of attracting a flexible workforce. It needs highly skilled workers, but is also confronted with irregular client demand for production. Without the guarantee

of a fixed employment term, how was this employer to create a value proposition for these contingent employees?

The employer turned to total rewards and designed a customized solution. Employees were offered flexible hours, shifts that started after their children left for school and benefits for part-time workers. This manufacturer used its rewards program to differentiate itself from competitors.

This chapter examines the changing definition and role of total rewards. It articulates the need for integrated total rewards programs that are affordable, sustainable and connected to business goals. And it explains how organizations can think more holistically in creating programs that best fit their unique human capital and business strategies. Ultimately, the total rewards package must influence employee behaviour and attitudes in response to shifting business needs.

TOTAL REWARDS REDEFINED

In the past, rewards generally referred to pay. Today, the definition of rewards encompasses the overall value proposition that the employer offers to the employee. It's a total package that includes compensation (comprising of base pay, short-term incentives and long-term incentives), benefits (including health, retirement and work/life benefits, which account for an increasing portion of the rewards package) and careers (including training and development, lateral moves, stretch assignments and career incentives).

This broader definition of rewards corresponds closely with

employees' actual experiences. When considering employment with one company versus another, or when considering a new opportunity with their current employer, employees tend to think in terms of "What's the overall value of the deal during my tenure with the organization?" rather than just "How much do I earn now?" or "What are the retirement benefits?"

Bringing all of these different rewards together in a strategic and holistic manner is a much greater challenge than setting a competitive pay level. However, an effective total rewards package is well worth the effort, because it:

- **Connects with the business strategy to create a high-performance culture.** An organization becomes what it rewards. A rewards program can either drive or diminish organizational performance, depending on how well it supports the business strategy and how closely it tracks that strategy when it changes.
- **Generates maximum return on the rewards program investment.** Large people-related investments such as compensation, benefits and training can be measured just like any other significant capital investment.

- **Creates affordable and sustainable costs.** Certain rewards program costs such as health-care benefits are rising at unsustainable rates. An effective total rewards strategy helps organizations evaluate and better manage the overall costs of the total rewards package and make smarter choices about where to direct rewards investments. This is critical at a time when companies must balance the influence of rising costs and shrinking profit margins, while attracting new, younger workers into the business to replace retiring senior professionals.
- **Supports the employment brand.** The total rewards package is a key tool for influencing employee behaviours and attitudes, especially when a shift in business strategy requires certain behaviours to change.

BEST-FIT REWARDS PRACTICES

For the total rewards investment to deliver value, it must build and foster the capabilities, behaviours and results that drive market success. In other words, total rewards strategies must be aligned not only with the organization's business strategy, but also with its human capital strategy — who is employed, how work is processed,

TOTAL REWARDS		
Compensation	Benefits	Careers
Base pay	Health and group benefits	Training and development
Overtime pay	Retirement	Lateral career movement
Short-term incentives	Paid time off	Stretch assignments
Cash profit sharing	Work/life programs	Career incentives
Long-term incentives	Death benefits	Employment stability
Recognition	Perquisites	Nature of work Reputation of employer

how information and knowledge flow, how decisions are made and how people are managed.

Rewards complement and support all of these dimensions of the human capital strategy. The critical step is discerning the organization's specific human capital requirements. Which competencies, capabilities and behaviours should be rewarded or discouraged? We stress *specific* because every organization hopes to produce a distinct competitive advantage. Rather than taking a best practices approach, companies must figure out what works specifically for them — a best-fit approach.

Copying another organization's rewards practices can lead to disaster, even for companies in the same industry. Consider two hotel firms, one a budget provider that promises low prices and the other a premium provider that emphasizes service. The rewards practices of the first should enhance productivity and drive down costs, while the rewards practices of the second should aim to create a high-quality experience for customers. It would be harmful for either firm to adopt the rewards practices of the other.

UNDERSTANDING THE EMPLOYEE'S VIEW

Effective rewards strategies take into account what employees value and what they don't. It is important to get all the facts.

One approach measures the importance and level of satisfaction that employees attach to each component of the rewards program, then compares this information to the program's cost, market positioning and business relevance. You may discover a costly program that is not important to employees or a less expensive program that is very important.

A second approach measures the connection of each rewards component to employee engagement. Research increasingly shows that organizations that have managed to engage their employees tend to have better business results.

Employee surveys and focus groups have been used for decades, reporting what employees say about their rewards programs. Understanding the rewards preferences, and the value of rewards as perceived by the workforce, can help employers adjust program compo-

nents to attract and retain the necessary skill sets. Before making program changes, however, it is critical to compare employees' opinions and the actual facts of their behaviour. Sometimes employees say one thing while behavioural modelling proves they actually do another.

Employee opinions, checked against the facts and the employer's perspective, will create a meaningful agenda for education. Indeed, education may be critical to correcting misconceptions even when programs are not changed.

Employers need to clearly articulate their business goals, what they want employees to do to reach those goals, the resources available to help and what employees have to gain. Employers also need to ensure that employees understand key program information.

THE COST PERSPECTIVE

It is easy to overspend on rewards. At times, organizations may overpay because they are looking at individual rewards components in isolation and not calculating the aggregate costs. Other firms overpay poor performers at the expense of rewarding the best. When combined with escalating benefit costs, these practices can mean the difference between business success and failure.

The wealth of employee data available today and powerful workforce analytics make it possible to identify what drives people into, through and out of a workforce over time. So an organization can answer critical questions that will help maximize direct labour investments. For example:

- What attributes, experience and behaviours does the organization actually reward?
- What job progressions and assignments clearly lead to successful employee performance? What are the business consequences of these employee performance gains?
- Which parts of the rewards package do employees truly value, as shown by their actions rather than their words?
- Which employee segments contribute the most to business value, and how?

The challenge is to create and maintain a framework for effective spending; one that sets rewards costs that are sustainable over time.



To put an effective program in place, managers must understand the total cost of rewards and of each program component, the dynamics of rewards cost growth relative to basic business parameters and the competitive marketplace and the return on rewards programs as measured by their production of business results.

CREATING A TOTAL REWARDS STRATEGY

Once an organization appreciates the value of an effective rewards strategy, it may still struggle with the actual task of creating and implementing one. Here is a process for developing a successful strategy.

- **Define the business context and issues.** What are the external and internal factors that affect your business and human capital decisions? Consider economic, geographic, regulatory, political and labour issues as well as business goals, performance metrics and needed workforce capabilities, behaviours and attitudes.
- **Set the total rewards strategy.** Develop guiding principles that represent the desired state for the total rewards program. They include a degree of emphasis for each program element, competitive positioning, cost-effectiveness, flexibility/uniformity, risk sharing and the link to performance.
- **Set the rewards change agenda.** Where are you today versus where you need to be to meet future business goals and performance objectives? This holistic assessment leads to an agenda of change, with priorities based on the impact, cost, risk and feasibility of specific rewards program alternatives.
- **Review the implementation plan.** The implementation plan includes the time frame and budget estimates for the core tasks, including the development of individual plan design details, major communication activities and administration considerations.
- **Design individual plans.** Aligning these detailed plan designs with the overall rewards program strategy is new for many organizations. It is an opportunity to link plan designs with other aspects of the rewards package and broader workforce objectives.
- **Implement.** Effective implementation requires the integration of communication and administration activities to deliver on the rewards strategy.

- **Measure and manage.** Monitoring the progress of specific program design changes and related business outcomes is critical to ensuring that the organization accomplishes what it set out to do.

The outcome of this process will be a cohesive and comprehensive rewards strategy that is value-oriented, cost-effective and aligned with the organization's business goals.

AN EFFECTIVE REWARDS STRATEGY

The development of an effective rewards strategy requires good information and analysis to make sound decisions and measure their impact. Unfortunately many companies still develop their rewards package based on instinct, anecdote, opinion, so-called best practices and external benchmarking rather than on hard, quantitative analysis of their own organization's experience and best-fit practices for their business strategy. An effective rewards strategy requires companies to move from a me-too total rewards program, based on benchmarking and best practices, to one based on solid analysis and sound strategy.

Ultimately, the effectiveness of a total rewards program depends on its fit with the employer's unique strategy and situation. The organization that can most quickly transform today's typical assortment of compensation, benefits and careers into a balanced strategy will create a total rewards package that delivers measurable business value.

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