

Today, the term “total rewards” is common, but that wasn’t always the case. In fact, as few as ten years ago, many people would not have recognized the terminology. The challenge of attracting and retaining talent amid changing demographics and intense competition has led employers to finally recognize what employees have been saying for awhile—It’s not about pay only. It’s the total offering that attracts, retains and motivates workers today. This discussion focuses on developing a total rewards strategy which, when linked to an overall business strategy, can help your organization achieve its goals.

# Total Rewards in Action: Developing a Total Rewards Strategy

by Stacey L. Kaplan

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## What Are Total Rewards?

The concept of total rewards embraces everything employees value in their employment relationship. This holistic concept is driven by the changing perspective of employees and what they value.

This concept integrates four major categories of rewards:

1. Compensation
2. Benefits
3. Development
4. Work Environment.

**Compensation** encompasses pay, incentives (both short term and long term, including equity) and monetary recognition programs. **Benefits** include health and welfare, retirement and capital accumulation programs, as well as a wide variety of specialty programs such as child-care resources, fitness centers, concierge services and everything in between. **Development** relates to programs that promote learning

and skill development, career enhancement and personal growth. **Work Environment** encompasses both tangible and intangible offerings that promote work/life balance and a positive work experience, such as flexible work arrangements, recognition and innovative job design. The table accompanying this article presents a sample, nonexhaustive list of the composition of the four categories.

Human resources professionals often refer to rewards as being either transactional or relational. Rewards in the compensation and benefits categories are considered transactional rewards in that they're typically financial in nature and involve specific programs. Compensation and benefits offerings must be at least at a baseline level of competitiveness to attract and retain employees. However, competitors easily copy these types of rewards. Thus employers find it difficult to differentiate themselves by their compensation and benefits programs alone.

Rewards in the Development and Work Environment arenas are considered relational rewards and are associated with the emotional aspects of an employment relationship. Employers often customize these types of rewards to employee-specific needs to differentiate themselves from their competitors, thus enhancing attraction and retention. Relational rewards serve as retention motivators, strengthening individual commitment and binding employees to the organization.

### What Is a Total Rewards Strategy?

A *total rewards strategy* is a statement of an organization's human resources philosophy as it relates to rewards. A total rewards strategy integrates the four categories of rewards discussed above—Compensation, Benefits, Development and Work Environment—into a road map for attracting, retaining and motivating the workforce. In essence, it is a subset of an organization's people strategy. When aligned with the business strategy, a total rewards strategy facilitates the accomplishment of the business goals through reinforcing the behaviors needed to drive the organization forward.

A sound total rewards strategy defines the objectives of the rewards programs, the elements of these programs and how

they interrelate to fulfill these objectives. It describes the philosophy behind the programs, providing the foundation for future plan design. In developing new programs or refining existing ones, the proposed design should be tested against the total rewards strategy to ensure it is in sync and to prevent philosophy and/or design incongruities. For example, a total rewards strategy that emphasizes teamwork as one of its core values will be out of alignment with programs that exclusively reward individual achievements. These disparities detract from reinforcing the behaviors needed to execute the business strategy.

Many organizations articulate a compensation philosophy in writing but fall short in incorporating other types of rewards into their strategy. This process is changing as more organizations adopt a holistic approach to rewards. International companies often extend their total rewards strategy to their global business entities to promote consistency and internal equity. Specific country offerings may differ, but the underlying philosophy of providing compensation, benefits and other programs to employees at a given competitive level, for example, may remain constant, subject to legal governance constraints. More organizations are recognizing the power of integrating all rewards programs under a total rewards umbrella.

### Why Develop a Total Rewards Strategy?

A total rewards strategy offers a number of attractive advantages to an organization. Here are just a few reasons why this approach resonates with employers today:

**Congruency.** A total rewards strategy provides an integrated, comprehensive view of all rewards to promote congruency and effectiveness of plan design and delivery, in alignment with the organization's business strategy and people strategy. The intent is that all rewards, both direct and indirect, complement the organizational goals and strategies.

**Road map for HR practitioners.** A written total rewards strategy serves as a reference guide to human resources professionals who are designing new programs or updating existing ones.

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Sharon Vanderwerff and  
Sylvia Ektvedt.  
*Canadian HR Reporter*,  
April 11, 2005, p. 7.  
#0145845

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This road map keeps HR practitioners grounded as they help senior management execute the company's business strategy.

**Competitive edge for recruitment.** A total rewards strategy provides a competitive advantage for attracting talent. An employment package structured to address employee needs bodes well for employers wishing to differentiate themselves in an environment competing for the best people.

**Improved retention.** Employment offerings focused on what employees value, enhance employee commitment and reduce turnover. They reinforce the emotional bond between employer and employees. Additionally, strategic rewards, especially when tied to performance, can revitalize a disengaged workforce. In cases of *warm chair attrition*, where employees have tuned out as if they had already left the company, apathy can transform into energy with the right rewards.

**Moderated labor costs.** Adopting a total rewards strategy may allow an employer to moderate its labor costs by trading off various components of the employment package. For example, an employer may emphasize flexible work arrangements and work/life balance, which tend to cost less, rather than a richer benefit plan.

**Enhanced company performance.** If an organization embraces a performance culture, a total rewards strategy can reinforce the desired behaviors that contribute to organizational success. A

total rewards strategy that addresses employee needs enhances productivity, since satisfied employees tend to be more productive. Additionally, there is a direct correlation between employee satisfaction and customer satisfaction, which should enhance company performance.

### Key Components of a Total Rewards Strategy

When formulating a total rewards strategy, decisions must be made regarding the overall objectives of the rewards programs, competitiveness, types and mix of rewards, impact of performance, and communication. These decisions are influenced by many factors, both internal and external. From an internal perspective, an organization's mission, vision, values and culture drive reward design. Also its financial health and life cycle position affect the dollars available to develop and maintain programs. For example, a start-up technology company with limited cash flow may emphasize variable pay, longer term rewards and a progressive learning environment over base salary. A mature financial institution may favor a richer benefits package plus a less leveraged variable pay program.

Company demographics play a significant role in driving the type of rewards offered. A young workforce's needs differ dramatically from those of a more mature workforce. Today's generation of employees highly value relational rewards like career development, learning new

skills and time off. Similarly, gender influences the rewards package. A predominantly female population may value benefits and flexibility differently than a male-dominated workforce. Thus, it is important to understand the composition of the workforce before finalizing the rewards philosophy.

External factors such as the economy, supply and demand for resources, and stakeholder demands influence the components of a total rewards strategy. For example, a shortage of workers with specialized skills such as nurses influences the rewards package needed for attraction and retention purposes. Health care providers today create total rewards offerings that provide more flexible work schedules and career ladders for advancement opportunities in addition to very competitive pay and benefits. Shareholders and investors demand certain performance expectations; customers demand knowledgeable workers and attentive service. These types of stakeholder demands must be considered when developing a total rewards strategy compatible with an organization's culture.

### Getting Started

Answering the following questions will guide you in developing a total rewards strategy for your organization.

#### Objectives

What are the overall objectives of the rewards programs? Are attraction and

**Four Categories of Total Rewards and Sample Components**

Compensation	Benefits	Development	Work Environment
Base Salary	Health Care	Career Planning	Flexible Workweek
Annual Incentives	Life Insurance	Succession Planning	Telecommuting
Long-Term Cash Incentives	Disability	Professional Memberships	Job Design Modifications
Equity (Options, Restricted Stock)	Retirement/401(k)	Training Programs	Comfortable Workstations
Spot Awards	Child-Care Resources	Annual Conferences	Recognition Programs
Project Incentives	Fitness Center	Mentoring Program	Community Volunteer Programs
Employee Referral Program	On-Site Conveniences	Lunch and Learns	Business Casual Dress Policy

Table

retention the main drivers, or are there other factors such as employee development or performance recognition?

### Competitiveness

- Who are your competitors?
- Is your competition within your own industry or across industries? Does your competition vary among specific job categories or divisions of the company?
- What role will geographic differences play, if any?
- What is your desired competitive position? Do you want to lead the market, lag or fall somewhere in between?
- Does your philosophy differ among the four reward categories?
- How will you balance internal equity with external competitiveness?

### Types and Mix of Rewards

- What types of rewards motivate the various segments of your organization, considering the demographic composition?
- What should be the mix of rewards: fixed vs. variable pay, transactional vs. relational rewards?
- What “anchor” program or programs will differentiate your company from its competition?
- Will you encourage the attainment of specialized skills or competencies? How will you recognize and reward employees who demonstrate the desired skills, attitudes and behaviors?

### Role of Performance

- What role will performance play in an employee's ability to be rewarded?
- How will corporate performance affect monetary payouts?
- What impact will division or individual performance have on rewards?

### Communication

- What information about the rewards programs will be communicated to employees?
- What will be the frequency and mode of communication?
- How will employee feedback be obtained?

The following list presents excerpts from a sample total rewards strategy that addresses some of the philosophic issues discussed above.

### Excerpts From a Sample Total Rewards Strategy

- The labor market is the primary driver of our competitive position. We strive to pay base salaries at the 50% percentile (median) and total cash compensation at the 75% percentile. We define our market for middle management jobs as other financial institutions in the Midwest.
- We value a performance culture and reward employees based on both individual and team performance. When our company exceeds its goals, employees will also benefit from our collective success.
- For jobs that require specialized skills, we will pay premium rates to attract the best candidates. We will use innovative and competitive recruiting techniques and tools, such as hiring bonuses and employee referral awards, to encourage candidates to join our company.
- We believe in employees taking responsibility for their own health and welfare and will design our benefit programs to incorporate opportunities for cost sharing and individual accountability.
- We value teamwork and respect and our programs will reflect these values.

### Learning From Others—Total Rewards at Work

A quick glance at *Fortune's* Best Companies to Work For in America list confirms the total rewards concept is alive and well among major public and private corporations. Many of the nation's top companies publicize their work/life balance and convenience benefits as anchor programs that have enhanced their rewards offerings. Others brag of no-layoff policies, peer input on compensation decisions and companywide celebrations for goal achievements.

Rochester, New York-based Wegmans Food Centers, a private supermarket chain of 67 stores, earned *Fortune's* coveted number one spot in 2005. Their unusual motto “Employees first, Customers second” showcases their commitment to their people, which has paid off in their achieving sales revenue of over \$3 billion in 2004. Wegmans focuses on part-time teenagers as a recruitment and retention strategy,

wooing them with flexible schedules, vacation benefits, extensive training and job incentives. In an industry notoriously known for turnover exceeding 100%, Wegmans succeeds in retaining these young workers throughout their college years.

Public sector organizations are recognizing the need to embrace the total rewards concept, which has been more prevalent in the private sector. Public employers will likely increase their focus on total rewards as large segments of their workforce retire over the next five years and recruitment efforts escalate. In higher education, many colleges and universities have adopted attractive benefits programs such as generous time off and tuition assistance programs for family members. It is important that these institutions better educate employees about the value of their benefits. According to Ron Watson, assistant vice president of human resources at Oakland University in Rochester Hills, Michigan, “Although we have yet to formalize a total rewards strategy, we acknowledge that our employees value their overall benefits. However, we need to be more communicative about our policies that enhance work/life balance and the work environment.”

Employers in the health care industry have been embracing the total rewards concept, as evidenced by organizations like University of Texas Medical Branch (UTMB), an academic health center. UTMB defines a three-tier offering: *Total Cash Compensation*, *Total Remuneration* and *Intangible Rewards*.

*Total Cash Compensation* includes base salary, overtime, shift differentials and other variable pay. *Total Remuneration* encompasses traditional health, welfare and retirement benefits plus on-site fitness, day care and training. *Intangible Rewards* includes a “collegial work environment” and “the personal satisfaction of a meaningful job that serves the greater good.” UTMB attempts to summarize the total value of these components in a Total Rewards Statement mailed to employees at their homes.

Plaza Medical Center in Fort Worth, Texas, a member of HCA's for-profit health care system, emphasizes leadership development and team building for nurses. Vice President Christine Fredric states that nurses' input influenced the administra-

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tion's decision to create an internal "university" to focus on nurse development. According to Fredric, "Nurses want their peers to share a strong work ethic and approach to lifelong learning. At Plaza, we are building a curriculum that enables our nurses to challenge themselves and continuously develop their skills, all of which enhances retention at the hospital." Both part-time and full-time nurses with at least two years' service are eligible to enroll in these developmental classes.

## Six Action Steps to Develop a Total Rewards Strategy

There are often lessons to be learned from studying the successes and mishaps of other organizations that have attempted to incorporate total rewards into their employment offering. Now that you are on the road to crafting a sound total rewards strategy, follow these six steps to optimize the journey:

1. **Understand your organization's business strategy.** Always start with the business strategy, considering the mission, vision and values of the company and the cultural implications. The overall business strategy should provide the foundation for any rewards strategy. Business events, such as mergers, acquisitions, downsizing or global expansion, will result in many people issues and will influence the selection of appropriate rewards.
2. **Align your people strategy to the business strategy.** This involves segmenting the workforce to identify the competencies needed to accomplish company goals—the skills, attitudes and behaviors required to execute the business strategy—and determining any gaps. Additionally, analyze your organization's demographics such as age, gender, education, marital status and tenure, which must be considered in structuring rewards programs.
3. **Develop a total rewards road map.** Formulate the total rewards strategy from a big picture perspective, determining your areas of focus. Develop a rewards portfolio that complements your people strategy and aligns with the business strategy. For example, identify the rewards needed to hire the right people with

the requisite skills, motivate existing staff and retain excellent performers.

4. **Determine financial implications and obtain top management buy-in.** Once the rewards portfolio has been identified, it is important to calculate the financial impact of the programs to make sure that a sound investment will be made. Top management buy-in is crucial in moving forward with the strategy.
5. **Implement the total rewards strategy.** Implementation involves a series of activities to ensure that the strategy succeeds in accomplishing its objectives. Effective communication is critical. HR professionals often stress the benefits of "overcommunicating" new programs to managers and employees to make sure the messages "stick." This approach resonates well in a scenario where the concept of total rewards is new or evolving, and change management efforts are underway to incorporate it into company culture. Along with communication efforts, develop the administrative guidelines and provide training on the details of the programs.
6. **Monitor and evaluate success.** A total rewards strategy needs monitoring to ensure it continues to meet your organization's business objectives and is aligned with its mission, vision and values. Plan designs may need fine-tuning to find the correct balance between cost and program value. Employee feedback may identify issues that need to be addressed. The evaluation process is ongoing to maximize effectiveness.



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## Conclusion

As the economy strengthens and the war for talent accelerates, organizations must craft a winning people strategy inclusive of total rewards. Organizations that broadly define total rewards to include compensation, benefits, development and the work environment, and align these rewards with their business strategy, will be uniquely positioned to win in the marketplace. **B&C**

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