

Total Rewards Strategy: Translating the Vision into Reality

by

Thomas B. Wilson

President, Wilson Group, Concord, MA

The cost of compensation for most organizations runs between 40% and 60% of their revenues. This is probably the most expensive element of the organization. If the firm was considering the purchase of a major piece of equipment, contracting to lease an office, or seeking to acquire a company, there would probably be a significant amount of time and energy spent in researching the cost and benefits of this investment. Does your organization spend a similar level of effort establishing what is fair and appropriate compensation as it spends on other purchases or investments?

Supposed the marketing department proposed a new product that had the same characteristics, features and price as what competitors offer. How would top executives respond to this proposal? I imagine this would not be very favorable. And yet, when it comes to compensation programs, most companies want a plan that is similar to what other companies do. What is wrong with this picture?

The purpose of this paper is to provide a new way to look at compensation. While it is always important to know “how much” you should pay someone, it is actually more important to know “how” you should pay someone. While there are many approaches and best practices in the marketplace, this paper will examine how to align total compensation and reward programs to the strategy and core values of the organization. These principles will not tell you how to develop a plan with a particular set of features, but rather they will show you how to make sure the plans align with what the organization needs today and in the future. And, what is most important is that there are different approaches appropriate to different situations. Although we like the comfort of knowing that our plan has proven itself somewhere

else, implementing someone else's program frequently fails. There are often many unique aspects of one's organization that limit the effectiveness of programs developed by others. Fundamental to determining what your organization needs is a total rewards strategy. By crafting a rewards strategy that reflects the mission and character of your organization, you will know what it takes to gain the greatest value from your compensation expenditures and create the competitive advantages you need to be successful in the marketplace. It is just that simple and that important.

What is a Total Rewards Strategy?

To answer this question, let's examine each word in this phrase. Rewards are those things that people receive from doing something in your workplace that is meaningful and valuable to them. It could be as simple as showing up and getting a salary. The salary is the reward. It could be working on a new product design, seeing it become successful for the company and receiving accolades, bonuses, stock awards or celebrations commensurate with the achievement. This could include working hard to handle a particularly high level of work volume or projects, and getting most things correct and on time. You know what you've accomplished, your boss values these results, your customers appreciate what you have done, and your colleagues are glad you are on the team. You feel rewarded if you've received something that you value for accomplishing these things.

By total, we mean everything that is associated with the rewards. In most cases, the rewards have an extrinsic source – they are given to you for what you have done. They may also be felt internally (or intrinsically), because at some point in your work experience, someone did truly appreciate what you did that was similar to what you just accomplished. You know that this work is good, and you know others value what you did. These external sources could be a salary and an increase in pay, an incentive award, a commission payout, a promotion, a stock award, a trophy, plaque or certificate, or public or private comments of appreciation by someone you respect. You may work for a company that provides

benefits important to you. These benefits may share the costs of services (e.g., healthcare insurance), provide income protection (e.g., life and disability insurance), enable you to accumulate savings (e.g., 401k or deferred compensation), or take advantage of the company's services (e.g., discounts on company products, concierge services). It could be greater authority, a bigger budget, greater job responsibilities, a new job title or increased stature within the organization. There are many types of rewards that come in a wide variety of forms, timing and experiences. So, by total rewards we mean those things that an individual may receive for doing the work that is needed by the organization.

A strategy is a plan, playbook or conceptual framework that compels action. A business strategy serves to focus people into taking critical action that will accomplish a set of goals or objectives. A new product strategy brings to the market something that should add value to the market, and perhaps disrupt old ways of doing things. Hence, a strategy provides guidance to decisions and actions. A strategy helps to focus objectives, guidelines, policies, practices, behaviors and investments. They help the organization achieve what it needs to be successful.

Therefore, a total rewards strategy is simply a meaningful statement that defines the purpose, requirements and desired features for how the organization rewards its people for doing the things it needs to do to fulfill its mission and achieves its objectives. Fundamentally, this means the rewards strategy should:

- Reinforce the core mission, values (or culture) and critical success factors of the organization.
- Define what are (or will be) the key elements needed to create a strong competitive advantage in the marketplace for talent.
- Provide important clarity and guidance to decision makers so they can assess the effectiveness of current programs and practices, determine what is needed to improve their effectiveness, and answer “why” a particular program is designed or functions in a particular manner.

The words that create and communicate this strategy are only important if they influence decisions and actions. This strategy becomes effective when it is successfully translated into actions through policies, programs, systems and practices. The result is simple – an efficient allocation of resources and capabilities to influence desired behaviors (and performance) of people that the organization needs to succeed.

What does a Rewards Strategy include?

When a firm develops its business strategy, there are usually several components. The strategy is viewed first within a context of the market, environment, regulatory factors and other elements that will impact the business. Hence, the total Rewards strategy needs an organizational context that defines essential elements of the plan. There are three elements to a rewards strategy statement:

- 1. The context** for the total rewards philosophy, especially if the organization is facing particular challenges or is in the process of implementing fundamental changes, describes what is important to the organization. By nature we mean the firm's mission, key success factors and strategies, and core values. The description of the context provides a very important framework for understanding why the philosophy and programs are focused in a particular manner.

Here is an example from Google:

“Our employees, who have named themselves Googlers, are everything. Google is organized around the ability to attract and leverage the talent of exceptional technologists and business people. ... In line with that philosophy, we have designed our compensation programs to support three main goals:

- Attract and retain the world's best talent
- Support Google's culture of innovation and performance

- Align employees and stockholders' interests.

“We pay Googlers competitively compared to other opportunities they might have in the market. We also offer competitive benefits that help Googlers and their families be healthy and happy, and provide unique perks that make life and work more convenient, design compelling jobs opportunities aligned with our mission, and create a fun and energizing work environment. We have a deeply rooted believe in paying for performance....”¹

2. The next task is to develop a unifying **statement of philosophy**. This statement should connect the core mission, strategy and values of the organization to the rewards programs and practices that influence what people do. While it might be helpful to see the statements of other organizations, these are best created by the organization itself. This is perhaps the most challenging element of a total rewards philosophy statement. The difficulty is not in expressing what needs to be done, but how to express something that would be meaningful to the organization’s people and serve as the unifying theme for the other elements of the strategy statement. It should define the overall objective desired from all the total rewards programs, with the realization that each program will focus on what it does best. Here is an example from Whole Foods Market:

“Our compensation and benefit programs reflect our philosophy of egalitarianism. While the programs and individual pay levels will always reflect differences in job responsibilities, geographies and marketplace considerations, the overall structure of compensation and benefit programs should be broadly similar across the organization.

“The primary objective of our compensation programs, including our executive compensation program, is to attract and retain over the long term, qualified and energetic team members who

¹ 2004 Google’s Founder IPO Letter.

are enthusiastic about our mission and culture, providing them with sufficient income and other benefits to keep them focused on the Company as their employer. A further objective of our compensation programs is to reward each of our team members for their contribution to the Company. Finally, we endeavor to ensure that our compensation programs are perceived as fundamentally fair to all stakeholders.”²

3. The third element of a rewards strategy statement is the definition of the **purpose for each primary reward program**. These programs include base salaries (both the levels and pay increases), variable pay plans (these include bonus plans, sales incentives, project or team incentives, management bonus plans, Gainsharing or GoalSharing plans, company-wide profit sharing plans, etc.), employee benefits programs (e.g., health insurance, life insurance, retirement programs, etc.), and recognition and development processes. The purpose statement can be developed by answering these three questions:

- Why does each program exist?
- Why is it meaningful to your employees?
- How does it give the organization a competitive advantage?

These questions should assist in forming the purpose statements for each major category of reward programs. Intuit, Inc., provides a very good illustration of these purpose statements for several of their reward programs. Here are examples of the purpose statements for some of their reward programs:

“BE REWARDED”

Our Total Rewards program is more than just a paycheck. It includes compensation and recognition programs designed to reward your performance, tools to help you plan your

² Whole Foods Market, Inc. 2013 Proxy, Compensation Discussion and Analysis Section

financial future, and benefits and services for your whole family. Our pay and recognition plans offer cash and other nice rewards.

“BE RECOGNIZED”

Base salary

We offer competitive salaries to attract, retain and motivate you. We also believe in rewarding you for excellent performance. Our merit-based system ties salary increases and promotion opportunities to the results you deliver that help Intuit grow.

Incentive pay

You deserve rewards for exceptional performance, so we offer bonus and incentive programs at all levels of the organization. They include sales commissions, support and customer service incentives and other programs.

Spotlight recognition

Everyone appreciates being appreciated. To thank you for a job well done, our peer recognition tool allows us to recognize each other with cash and other awards. And if you stick around a while, we'll celebrate your milestone employment anniversaries with service awards.

“BE SECURE”

Planning for tomorrow is important. That's why we offer several tools and programs to help you plan your financial future.

401(k) Investments in Your Future

Intuit's 401(k) Plan allows eligible employees to save for their future by contributing on a pre-tax or post-tax (Roth) basis and receive a company match on a portion of the savings. Employees may choose from a broad range of investment funds, including funds designed for anticipated retirement date and self-directed options for their savings.

“BE WELL”

Your family's health, wellness and security are a top priority. We offer excellent healthcare benefits plans, insurance and more.

Medical, Vision and Dental Care

There are several plans available so you can choose the option that's right for you. Choose from three medical plans, a PPO, a consumer directed health plan and a managed network plan.

Life Event Program

Our life event program provides a free resource and referral service to assist in life's everyday issues and even the bigger issues that come up. This includes things like parenting, child care, elder care, adoption assistance, educational assistance and work issues.

“BE BALANCED”

You've got a busy life outside of work, too. To help you balance it all, we offer several great programs, including time off, fitness incentives and tons of on-site services.

Vacation and time off

Everyone needs a little time away. We offer paid vacations, personal holidays and sick leave.

Temporary, contract, flex-time and seasonal employees are not eligible for time off with pay.

Parental leave

Having a child changes everything. New mothers and fathers can take up to two weeks of paid parental leave to welcome a newborn or newly adopted child.³

A total rewards strategy is therefore a statement that sets the standard, sets the stage for specific policies and programs, and defines the expectations and actions desired from them. It provides guidance for the assessment and improvements. Most importantly it outlines why and how a company or organization spends most of its money on people.

³ Intuit website <http://careers.intuit.com/professional/compensation-benefits>.

How To Develop the Right Strategy for the Organization

As described above, the total rewards strategy is built on the mission, strategy and core values of the organization. These statements reflect the philosophy and concerns of the firm's senior leadership. But, that is not sufficient information to guide the development of an effective rewards strategy statement.

Two other factors are important:

1. What is the stage of development facing the organization?
2. What is important to the people who work for the organization?

The stage of development recognizes that the challenges and pressures facing an organization differ along a continuum of growth and maturity. Consider these different stages and the implications on how they would shape their total rewards strategy:

- 1. Start-up and emerging companies** – These are companies that are just forming, sparked by a new idea, and new service or a new product. If they are successful, they are the disrupters in the marketplace. They are driven to determine the proof of concept and to build demand in the marketplace for their product or service.

The implications on reward programs are clear. The company probably doesn't have much money but they are driven by passion, a belief, and a hope that someday they will be rich, famous or both. Therefore, the type of compensation plans they have are usually a minimal salary and if so structured, an equity stake in the long-term or ultimate growth and success of the business. They get as much from the experience as they receive monetarily, at least in the beginning.

- 2. Investing and growing companies** – Organizations in this category have proven themselves, and may have acquired capital to expand and grow. They start hiring people because the original founders can no longer do all the work that is needed to serve the customers. The pressure is

intense, and in many ways, they are making things up as they go. They need to figure out ways to proactively respond to the increasingly complex customer demands. In these organizations, they are hiring people that fit their culture and their immediate needs. They need people with some experience who can meet the demands of the company. Because people joining the firm are no longer founders, the company needs to pay salaries that are sufficient to attract and retain their people. Employee benefit plans become installed, if only at a basic level. Bonus plans may exist if the company has sufficient profitability to afford these expenditures. If not, there is more reliance on equity with a more reliable promise for a future fortune. The firm is likely to have professional investors who reinforce this alignment of growth and future rewards.

- 3. Formalize and professionalize companies** – Organizations at this stage have demonstrated their value to the market, they have hired a lot of people using the “let’s make a deal” practice, and at times they are out of control. They need specialized help. At this stage, professional practices and consistent processes are needed to build the foundation for future growth. Issues are starting to arise about the internal fairness of the “deal.” There is a growing need to align all the promises and expectations with a sensible and effective set of practices. If the company is successful, structures start to emerge in a number of areas, and people are hired who are specialized and highly experienced in doing the work needed to help the company grow. Some companies regard this as hiring “adult supervision.” There are concerns about the dramatic change in the firm’s culture and often a sense of loss from the earlier “wild west” adventure that may be romanticized by the long service employees. The transition to this stage is essential if the firm continues to grow.

The implications on compensation programs are profound. At this stage, the company starts to adopt different programs that are linked to the performance requirements, desired culture and practices, and the needs or profile of the employees. Organizations start to define career paths

because people want to know if there is sufficient opportunity to remain with the firm. There are bonus plans that are both corporate and individual based. Equity plans, which may have been awarded to everyone, are now being limited to those who truly make a difference on the long-term value of the corporation. Benefit programs are instituted that meet the needs of a diverse workforce and based on what is most important to people. If the organization continues to be successful, it will grow, develop, and provide guidelines that inform and enable good decisions to be made regarding resources and expenditures.

- 4. Diversifying and consolidating companies** – If the company continues to grow and prosper, it starts to be larger than can be managed in the original fashion. The company at this stage is more likely to be geographically diverse with offices and operations in multiple regions of the country or world. Companies start to establish free standing divisions or subsidiaries that can be more responsive to the local markets. Product lines merge into sectors of a business, and companies acquire others, consolidate operations to gain economies of scale, and seek ways to balance both the need to delegate functions to lower levels and assure integration and collaboration across functional areas. It is moving in multiple directions.

Here the reward systems often change and adapt to a changing business environment. Some programs remain centralized or retain a common foundation for hopefully good reasons – economies of scale, cost savings, cultural requirements, legal regulations and to retain a connection with the parent company. But, many programs are decentralized to better align how people are compensated for who they are and what they do. Diversity in programs and practices is encouraged. However, at times, a central theme or guiding principles are necessary to retain the sense that the employees are all part of the same organization. Bonus plans now have more emphasis on business unit results than corporate results; companies use different pay plans that

fit with different markets globally, employee benefits are as diverse as the organization is with different countries and legal or cultural requirements. One size does not fit all and that is okay.

- 5. Revitalizing and renewing companies** – There comes a time, and perhaps there were several times during the life span of the organization, that it needs to renew itself, reshape itself, and reconfigure itself into something that is better prepared to address the needs of a dynamic marketplace. Companies divest businesses that no longer fit the core mission of the enterprise or the performance requirements of the share- or stakeholders. Some firms will contract to focus on what they do very well, their core competencies; other firms will expand globally through acquisitions and investments that reshape who they are in the marketplace.

At this stage, it is difficult to describe the direction of the total rewards programs. It depends on the journey (and strategy) the company is pursuing. The firm will, if it is smart and successful, utilize some of the experiences with programs that worked for them in the past, as well as develop new ones needed for the new organizational model. It should use this knowledge and these principles to reshape the employment relationship.

Given this continuum of growth and development of an organization, one can easily see how a total rewards strategy will be very different across these stages. The implications are important. The differences reflect a combination of financial sources, diversity of staffing and expertise requirements. Depending on the stage of development and more importantly, the transition of the firm to a next stage, the total rewards strategy needs to reflect this reality and the firm's unique requirements. But, that is not all.

A sound rewards strategy also needs to consider the nature and needs of the workforce. Understanding the current needs and aspirations of the workforce is essential to the development a set of programs and services that are meaningful to the individual. Consequently, the staffing plan and profile of the

workforce should shape the design and communication of the rewards strategy. As stated earlier, a reward is something that one perceives as meaningful for doing something their organization wants. This means that the employee is the one who determines the value of the reward, not the executives or human resource program manager.

Understanding the needs of the workforce is akin to understanding customer segments in the marketing function. The marketing profession has many frameworks for researching and describing different segments of a marketplace. Every successful company knows the value of this understanding and then designs its products or services to be appealing to the desired market segments. So too, in the competitive landscape of human resources, the organization's leaders need to know what is important to their workforce so that they can effectively communicate and motivate them to optimal performance. There are many studies that describe the differences between the primary generations – Traditionalists, Baby Boomers, Generation X & Y, and the Millennials. Further, there are differences in employee perceptions about what is valuable when you cross geographic boundaries. Describing these in detail is beyond the scope of this chapter, but it is important that the content as well as the media for communicating the total rewards strategy reflect these differences. New technology and communication tools are enabling rewards to be personalized to the requirements of the organization and ultimately to their people. Then the organization can form a stronger bond and engagement with each person that seeks to maximize their contributions to the organization's success.

How To Implement the Total Rewards Strategy

When a total rewards strategy has been developed, it then takes two directions. The first involves the communication of the strategy to the workforce through any and every channel available. This will help the employees to understand what is important to the organization and what the organization is offering them for their service, talent and performance. The content and media of this communication

should be directed to the different segments of the employee population so that they can easily understand and value what is being said. Second, the strategy statement enables the organization to conduct a rigorous analysis of the effectiveness of current programs and assess how well they operate consistent with what has been communicated. This assessment and alignment task is critical if the employee population is to have confidence in what is being communicated to them.

When a strategy is implemented, one sees changes to policies, programs, systems, practices, behaviors that hopefully align results with vision. The strength of an effective rewards strategy will be in how it achieves the right connection between the strategic requirements of the organization and what is meaningful to the individuals that make the organization successful. This process of strategy development, program and process assessment, and change implementation translates the vision of the firm's leaders into action that people can utilize every day. Organizations say and measure many things. However, it is only those areas that are associated with some form of consequences that gets the real attention of the workforce. The total rewards strategy and the implementation efforts enable these consequences to be aligned with the overall strategy and core values of the organization. It translates the vision into reality.