

Perspectives

Total Rewards: The Right Time

Is Right Now

“Total rewards” has been in the HR lexicon for well over a decade.

However — for reasons ranging from internal structure, to concerns about complexity, to change resistance — organizations have focused more on discussing than implementing the concept. But that’s changing fast.

In the last year or two, there's been a strong surge of interest in *applying core total rewards principles* in designing and delivering workforce programs. A greater appreciation for the value of a more integrated portfolio is helping break down internal silos across compensation, benefits, training and other HR functions. And enhanced technology solutions are enabling more efficient coordination across a broader range of reward programs.

A Global Imperative

Initially, some organizations used total rewards to manage and communicate plan cutbacks required by the economic downturn. They could allocate limited dollars more efficiently and present the employment deal to employees in a more comprehensive way, balancing what they were changing with what they were maintaining or even, in some cases, enhancing.

More recently, the driving force has been talent. Particularly in the fast-growing economies of Asia and Latin America, there is strong competition for — and shortages of many — critical skills. Savvy employers, wherever headquartered, have learned that securing talent requires a compelling and differentiated employee value proposition (EVP) that goes well beyond core salary and incentives. More than a decade of research has shown that attracting, retaining and engaging employees at all levels requires a well-balanced mix of programs that encompass culture, leadership style, career opportunities and job structure as well as the pay, benefit and training programs more typically thought of in this context.

21st-Century Rewards

But beyond cost and talent is an even more significant factor: “modernization” of the EVP and the programs that underpin it. Organizations routinely adapt business practices to the realities of a complex and interconnected business environment they take for granted. But their employment practices don't necessarily keep pace. Employers that bring state-of-the-art techniques to product development, consumer marketing, value chain management and other business processes often continue to rely on workforce programs designed for a more traditional world. Yet the ability to conduct business efficiently across borders amid accelerating technological change depends on workforces equally ready to take on the challenges of a fast-paced and very fluid environment.

“Creating an overarching framework within which to evaluate the relative value and costs of various programs — and creating combinations that make sense — supports the way organizations operate across all spheres of business.”

The programs that support, enable, engage and focus employees have to keep up and, perhaps, even leap ahead.

That means rethinking not only what to provide, but to what extent, for which segments of the population, through what channels, and with what cost-sharing elements to achieve what goals or behaviors. Designing, financing and managing programs for diverse populations of employees in far-flung locations is inefficient and costly when handled piecemeal on a program-by-program basis. Creating an overarching framework within which to evaluate the relative value and costs of various programs — and creating combinations that make sense — supports the way organizations operate across all spheres of business.

Back to the Future

Getting started on the next-generation approach to total rewards begins with a fundamental shift in philosophy: treating your workforce programs as a *portfolio of integrated investments with different yet complementary purposes and desired outcomes*, rather than as a set of disparate plans that stand alone and don't relate to one another. This shift provides the foundation to take three steps essential to meeting cost and talent objectives:

- Accurately determine and “size” your total investment in workforce programs to ensure it's in line with financial realities and business needs.
- Improve your value-to-cost relationship by allocating your desired total investment across the portfolio in ways that drive the right employee behaviors.
- Create a framework that adapts quickly and efficiently to changes in the business strategy and workforce composition over time and across countries, employee segments or business divisions.

The figure below illustrates Towers Watson’s framework for developing a total rewards strategy. Several elements distinguish it. First, the framework positions total rewards front and center in the EVP as the most tangible element of the broader employment deal. Second, it organizes the full array of workforce programs into three core categories that mirror how employees themselves typically view their rewards. These include:

- *Foundational* programs provided to employees as a condition of employment
- *Performance-based* programs offered for superior performance to drive a high-performance culture
- *Career and environmental* programs that enrich the EVP, and help employees manage their careers and efficiently navigate their work environment

Finally, and most critically, the framework is grounded in three core principles of sound program design and delivery that hold true regardless of whether your organization manages its programs holistically or continues to operate in discrete functional areas.

1. Align your total rewards strategy with your organization’s business strategy and related workforce goals. Effective workforce programs are an extension of the business strategy, explicitly supporting key priorities and goals, and clearly communicating the level and nature of the contribution a company expects from its people.

A strategy focused on technological innovation, for instance, might call for a relatively strong emphasis on *performance-based rewards* to attract and

incent entrepreneurial workers eager to innovate and take risks. A strategy focused on customer service, by contrast, might put more emphasis on the *foundational rewards* important to employees who place a premium on a secure safety net of benefits.

Among the key questions to consider in building a total rewards strategy are:

- What are our top workforce priorities, given our strategic focus over the next three to five years? Developing leaders? Cross-training the workforce? Improving service quality? Delaying retirements? Retaining key skill groups?
- What are our pivotal roles and critical workforce segments, and to what extent should programs be customized for these groups?
- What do we want to be known for as an employer?
- What is our current total rewards strategy? How do we want that to change — and over what period? What obstacles do we have to address?

2. Optimize your total spend by allocating it among those programs that matter to employees, and deliver the right return relative to cost and risk objectives. Despite the magnitude of spend on reward programs — upward of \$2 billion to \$3 billion for a typical global organization with 20,000 employees — many organizations don’t consistently measure returns or clearly understand the relationship between program costs and the value employees attach to them.

“Effective workforce programs are an extension of the business strategy, explicitly supporting key priorities and goals, and clearly communicating the level and nature of the contribution a company expects from its people.”

Towers Watson’s Total Rewards Framework



Putting the “total” into rewards brings the aggregate size of the investment into focus. Is this investment allocated where it will deliver the most value to the company? Will it drive the right behaviors and desired level of risk taking? And does it maximize perceived value to employees?

Despite all the surveys and information gathering employers do, many don't have an accurate sense of what employees value. Partly, the problem is the way preferences are gathered. Simple opinion surveys may not bring the right level of information to the surface. The sophisticated trade-off analyses that many organizations are now adapting from classic consumer marketing are far more effective in yielding insights because they require employees to make tough choices from among a defined set of realistic program options.

With Towers Watson's Total Rewards Optimization (TRO) approach, for instance, employers can test different combinations of reward portfolios — and the relative costs and level of risk associated with each — to understand how those various combinations affect specified employee behaviors and/or change the company's cost or risk profile. For the nursing staff of a large U.S. hospital, a TRO analysis revealed that offering significant flexibility in work arrangements could elicit the same degree of engagement as a relatively modest base salary increase.

- 3. Design, communicate, implement and deliver rewards that drive the specific employee behaviors you need to achieve your business strategy.** At one type of company, for instance, employees' technical skills and knowledge might

be a key factor in driving customer loyalty — leading to an emphasis on deep technical training and development, among other things. At another organization, rapid turnaround, flexible problem solving or fanatical attention to store cleanliness and point-of-service assistance might be far more important influences on customer behavior, leading to a very different mix of programs to shape employee behavior and attitudes. Identifying the right mix is not only a function of cost versus value, but also the culture and work environment the organization needs to build and sustain to meet its strategic goals.

An Approach for All Seasons

The value of total rewards in the current environment lies in its comprehensiveness and flexibility. It adapts to the unique circumstances of diverse and dispersed workforces, and the increasing array of alternative work arrangements available in a technology-enabled environment. It provides meaningful choices to employees within a consistent framework that operates as efficiently across as within borders. It lets employers channel their expenditures in optimal ways for their needs, deciding if and where to reduce investments with a clear understanding of how those decisions will affect retention, engagement, productivity and a host of other behaviors or attitudes. And it brings a strategic focus to decisions about workforce programs, whether the strategy is to pare back, restructure, reallocate or increase investment. Executed well, it embodies the truism that the whole is greater than the sum of its parts.

For more information about total rewards, visit us at: towerswatson.com/global-total-rewards.

About Towers Watson

Towers Watson is a leading global professional services company that helps organizations improve performance through effective people, risk and financial management. With 14,000 associates around the world, we offer solutions in the areas of employee benefits, talent management, rewards, and risk and capital management.