

FORTUNE

Total Rewards

As demographic changes and technology reshape the labor market, companies are developing creative new ways to keep skilled workers on the job.

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The fast-growing biotech company offered a sweet package: higher pay, a move up the corporate ladder, and great career-building opportunities. But Bill MacGowan, senior vice president of human resources at Sun Microsystems, said it still wasn't enough to land one of his key employees. She

turned the company down flat when she learned she'd have to trade her flexible work schedule at Sun for one that kept her in the office from 8 A.M. to 5 P.M. five days a week.

"Once you have a taste of it, you don't want to go back," says MacGowan, and it's easy to see why. Sun's flexible iWork program lets employees design flexibility into not only their work schedule but also where they work. Launched in 1996 as a way to reduce real estate costs, the program saved the company \$69 million last year alone by allowing employees to work remotely from home or from drop-in centers. And by giving them a chance to build

Today's benefits plans need built-in portability so employees can seamlessly relocate, whether it's to Taiwan or Tajikistan.

a work-life that accommodates demands like child care and doctor appointments, the program has also created fierce company loyalty. iWork is now recognized as an effective, low-cost way to keep Sun employees from jumping ship.

The New Frontier

Small wonder, then, that Sun is looking to apply this same kind of flexibility to other parts of its benefits, compensation, incentives, and workplace programs. And it's not alone. Flexibility has become the newest frontier in corporate America's evolving world of human resources.

"Flexibility is key, key, key," says Harriet Hankin, a futurist and author

Changing Dynamics in the Workplace The new economy has created a challenging environment for today's workers. The past ten years have also brought major changes in the way employees and employers view each other and interact. [Read on >>](#)

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You & Us



1 Work has become more demanding on employees. 2 Employer-employee relationships have become less hierarchical and more transactional. >>

of *The New Workforce* (AMACOM). It gives people control of their lives so they can travel around the world, take care of an ailing relative, or run a marathon, she says, adding, "It can actually turn out to be more valuable than other benefits."

As demographics cause a dip in the talent pool, companies are discovering they need to find new ways to keep skilled baby boomers—and often those of the preceding generation—working longer. At the same time, they have to address the needs of the Gen-Xers, who are now turning 40, as well as those of the Gen-Yers, who have their own fast-paced and aggressive work style. Still to be determined are the needs of Millennials, the generation that will follow.

Demographics, of course, is but one of the many forces at work. Cultural diversity has become an important factor now that companies are operating in a global environment, says Lee Feinberg, managing director at UBS corporate employee financial services (CEFS). The compensation and stock plan solutions that CEFS offers must accommodate a multinational participant base, as well as a variety of languages for its corporate clients. Add in the growing mobility of the workforce, he says, and it's clear that plans need built-in portability so employees can seamlessly relocate, whether to Taiwan or Tajikistan.

In the old days, companies built employment packages around compensation and benefits, creating a single, one-size-fits-all plan for everyone. Over the past decade, this concept

has given way to a "total rewards" approach that makes room for other important aspects of the work experience. Now the work world is shifting again, as demographics, a global marketplace, and improved technology are creating a more fluid relationship between worker and employer.

Give-and-Take

These forces are in fact redrawing the work model, says Anne Ruddy, president of WorldatWork, a non-profit professional association that focuses on total rewards and the disciplines associated with attracting, motivating, and retaining a talented workforce. It recently adopted a new model that puts work-life, performance and recognition, and career development on the same plane as compensation and benefits. "It has become a transactional relationship," says Ruddy, noting that there is now significant give-and-take between companies and their employees, allowing greater individualization of everything from work schedules to professional training.

In other words, the traditional model based on company loyalty, working your way up the ladder, and paying your dues is totally yesterday, says Bruce Tulgan, author of *HOT Management* (HRD Press) and an expert on generational issues in the workforce. "People are constantly looking around to see what they will be offered today, tomorrow, and next week," says Tulgan. Now that the employment package has become a moving target, he adds, companies are finding they need to

construct plans that are nimble enough to respond to continuing changes in the workplace.

And employees are getting savvier every day, says Andrew Richter, vice president of compensation and benefits at NBC Universal, which means his biggest challenge is simply staying ahead of the curve. "We have to accept the fact that what

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WorldatWork® is the leading not-for-profit, member-based association focused exclusively on the human resources disciplines associated with attracting, motivating, and retaining an engaged, talented, and productive workforce through total rewards.

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For more information, visit www.worldatwork.org or call 877-951-9191.



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was an awfully good offering yesterday won't work next week," he says. "We have to earn our employees' loyalty every day."

What does a cutting-edge employment package look like today? There's no single model. One company can't simply adopt another firm's program wholesale. Each needs to think through its own specific needs and





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3 Employers are moving away from long-term relationships. **4** Employees have less confidence in long-term rewards and have greater short-term expectations.

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find the unique answers that work for its particular workforce. Over the past two years, for example, Amgen Inc., a 14,000-employee biotech firm, added flexibility, portability, and increased paid time off to its benefits package. "Rather than design plans that keep people from leaving, I prefer to design plans that make people want to stay," says Chip Bell, vice president of compensation and benefits.

One new Amgen benefit, first offered in 2004, is an extra four days of paid time off created by closing the company between Christmas and New Year's Day. It's a benefit with multigenerational appeal. "Young people might want to go surfing and older people might want to have the grandkids come for a visit," says Bell. The company closing was so well received, he says, it is now a permanent part of Amgen's employment package.

Making Things Work

Looking ahead, some see flexibility moving deep into the corporation, as the transactional model takes hold in daily operations. "The key to making this stuff really work is to have a performance-based element to it," Tulgan says. The employment "deal" then gets reduced to a series of short-term transactions designed to support long-term corporate goals. If Mary wants to work a flexible schedule this week, Tulgan says, she'll have to meet certain goals set by her boss. And if she wants the

same schedule next week, she'll have to meet that week's goals.

Industry's shift towards "the deal" is putting increased responsibility on employees. Similar to the move from defined-benefit to defined-contribution retirement plans, flexible employment packages make employees more responsible for constructing their own safety net, says John Boudreau, a professor at the Center for Effective Organizations at the University of Southern California's Marshall School of Business.

The push for greater flexibility and individualization is also visible in the custom-designed incentives programs increasingly used to reward employees for specific achievements such as meeting a sales goal, improving customer service, or landing a new client. The traditional reward is cash, but these days many companies prefer to give employees their choice of merchandise, which some

see as a far more effective motivator. A new digital camera, projector, or a high-end pair of binoculars "has a trophy value," says Terry Markwart, director and assistant general manager of Canon USA's special sales division of the consumer-imaging group. A well-chosen reward, he adds, will continually remind the employee of his or her accomplishment every time it is used.

In some cases, Markwart says, the rewards program kicks in even before the employee is hired, illustrating how far the transactional employment relationship has developed. "A lot of companies now say if you sign with us today we'll give you a digital camera," he says. And while corporate sales departments tend to be the largest users of customized incentives programs, Markwart says companies are increasingly expanding these programs to include all employees in their organization.

Job Well Done

"If you want a workplace that has some humanity to it, you want a culture that appreciates people and recognizes their accomplishments," says NBC's Richter. His company is now in the second year of a program called Ovation, which uses gift cards and merchandise to reward people for a job well done. The cards range from \$50 to \$5,000 in value.

Some companies, having found their employees crave opportunities for self-advancement, even use professional development as an incentive. "You can pay someone a lot of money," says Worldat-Work's Ruddy, "and they can still be frustrated with you because you haven't figured out how to make them more than they are." Paying for a professional conference or a specialized training course not only makes the employee happy, but also provides the company with more qualified employees.

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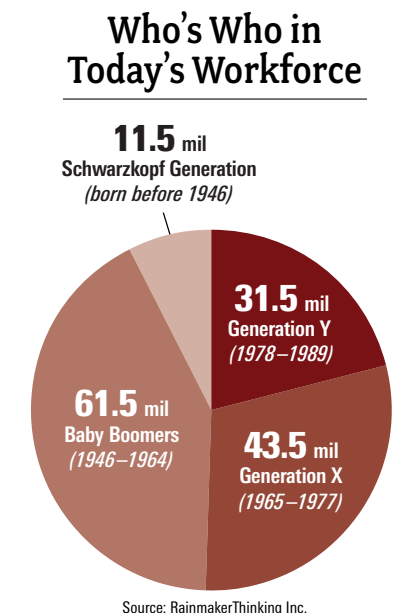
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5 Immediate supervisors are now the most important people in the workplace. **6** Supervising employees requires more time and skill on the part of managers.

corporate desire for low-cost ways to sweeten the employment package, many companies are turning to credit unions for no-cost financial services for their employees. Chicago's Alliant Credit Union promotes credit-union membership as a hassle-free benefit that companies can provide without spending a cent. "We can offer what a bank can't," says Judy Whitcomb, director of business development and service centers, noting that Alliant pays significantly higher returns on savings accounts and charges lower interest on loans. The reason: "We're not-for-profit. The money we earn is returned to our members in the form of high dividends, low loan rates, and many free products and services," she says.

As a financial partner for human resource professionals, Alliant is also hoping to boost its benefit appeal. Whitcomb says the credit unit offers no-cost, on-site seminars on topics such as basic money management,



debt, and saving for retirement, all areas that HR departments have identified as important to employees.

As for the future, the experts say the trend toward flexibility and

individualization can be expected to continue. The pace of change is not apt to slow. The U.S. is now exporting many of these new concepts, which are spreading around the world with remarkable speed. "If the U.S. sneezes, internationally we have a cold," says Zurich-based Oliver Freigang, UBS executive director of corporate employee financial services.

Taking their cue from the U.S., the U.K. and the rest of Europe are moving fast to adopt new workplace thinking. And while Asia is lagging far behind, Freigang says it's just a matter of time before India and China jump on the bandwagon. After all, he says, last year direct foreign investment in China exceeded \$60 billion. That means cutting-edge human resources thinking probably isn't far behind.

—Lynn Asinof

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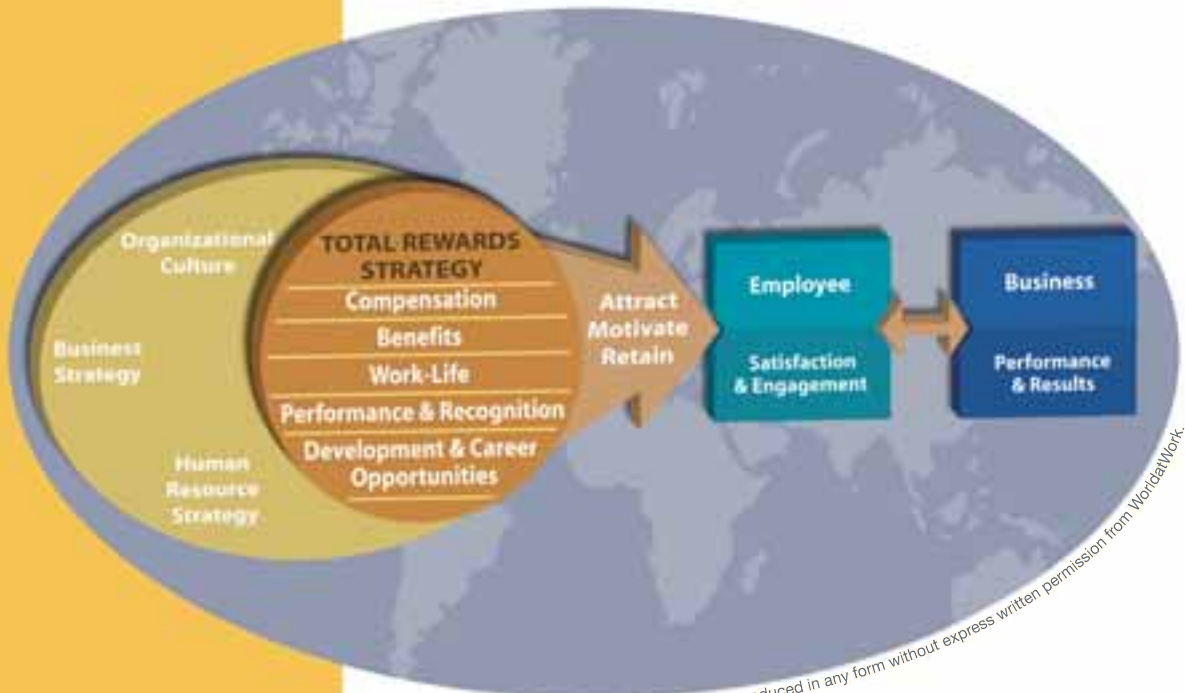
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