

The Magazine of WorldatWork®

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04
90

THE New
**Total
Rewards
Model** LEADS
THE WAY

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THE “IT” FACTOR A New Total Rewards Model LEADS THE WAY

By Jean Christofferson and Bob King, WorldatWork

at Starbucks, it is known as “your special blend.” At Google, it might include bringing your dog to work or pool tables in the lobbies. At Nordstrom it may be low-cost health insurance and on-site daycare. And when the automobile companies deal with rising labor costs, it is a part of discussions between labor and management.

It is the unique and proprietary way you attract, retain and motivate employees.

It is total rewards — the monetary and nonmonetary return provided to employees in exchange for their time, talents, efforts and results. Total rewards involves the deliberate integration of five key elements that effectively attract, retain and motivate the talent required to achieve desired business results.

It is about integration. “Lots of research has shown that employee engagement is critical to business performance,” said Michael L. Davis, CCP, WorldatWork board chair and vice president, HR, U.S. retail and corporate, General Mills. “We’ve come to the conclusion that siloed benefits plans don’t drive employee engagement as much as a totally integrated model.”

WorldatWork has just released a new and fully integrated model that reflects the next generation of thinking about total rewards. It puts total rewards in context, presents a perspective of the profession and represents the art of

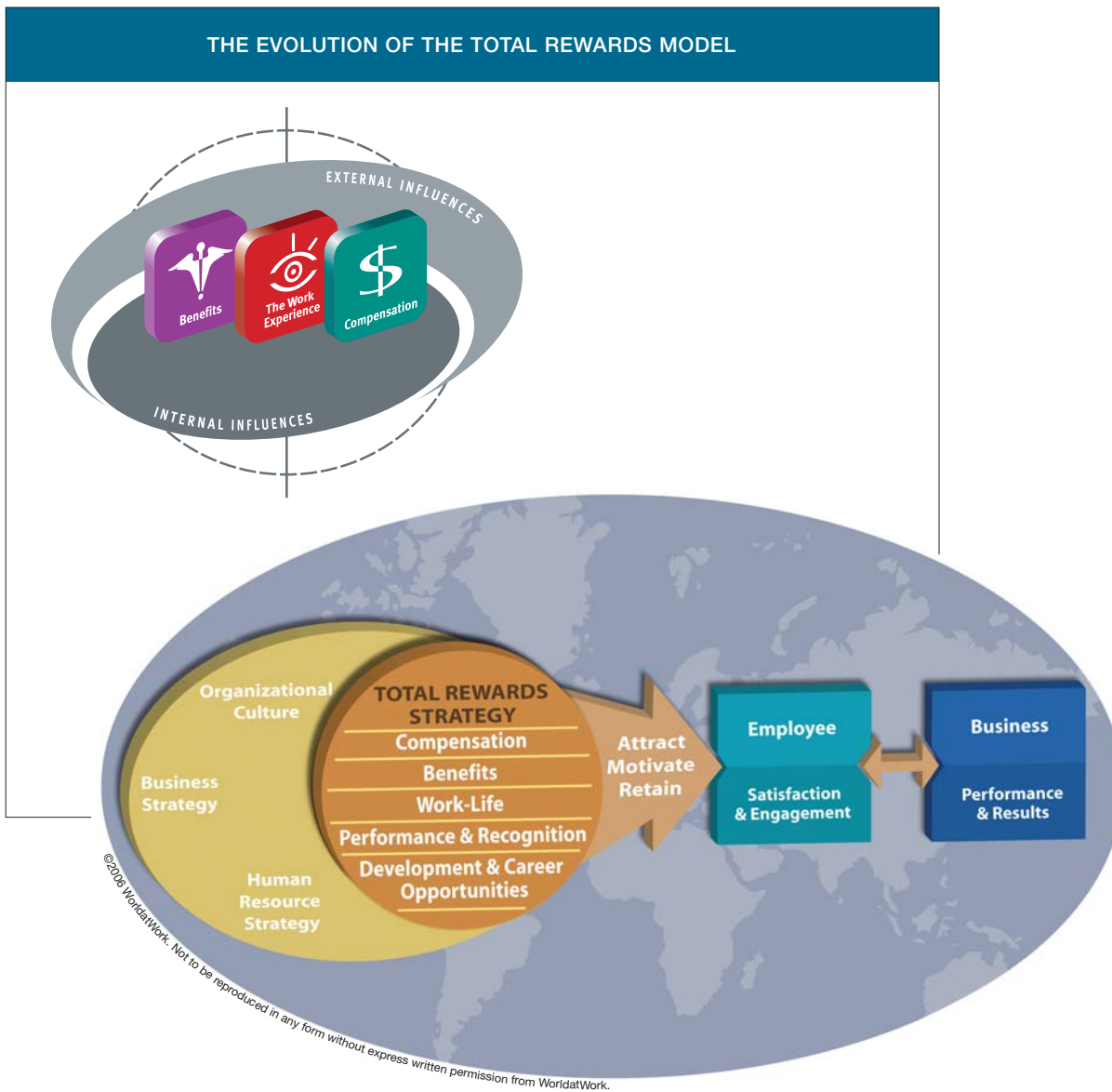
combining five elements into tailored packages designed to achieve optimum business results. (See Figure 1, on page 3.)

“Since the last update to the model in 2000, both thinking and practice around the elements that comprised ‘the work experience’ have evolved considerably,” said Charles Bell, CCP, vice president, compensation and benefits, Amgen Inc. “It was important to recognize this progress in a new model that is more relevant to the challenges that organizations face today, and highlights the drivers for making total rewards decisions, as well as the opportunities for integrating the elements that attract, retain and motivate employees.” Bell was 2004-2005 chair of the WorldatWork Strategy Committee that spearheaded the new model.

QUICK LOOK

- ⇒ *It is total rewards — the monetary and nonmonetary return provided to employees in exchange for their time, talents, efforts and results.*
- ⇒ *Recognition is necessary in order to reinforce the value of performance improvement and foster positive communication and feedback. It can be programmatic or simply cultural in execution.*
- ⇒ *Well-crafted total rewards strategies align appropriately with five key areas to attract, motivate and retain talent that produces desired business results.*

FIGURE 1:



Exploring the Key Areas

Following is a brief description of the five elements of the new WorldatWork total rewards model. (See “Total Rewards Definitions” on the back cover for more detail.)

Compensation

This includes fixed (base) pay and variable pay (pay at risk). It also includes several forms of variable pay, including short- and long-term incentive pay. While one of the most traditional elements of total rewards, it remains a necessity for business success.

Benefits

While this area seems to be continuously challenged during this time of shrinking health-care benefits, and expanding health-care premiums, businesses are trying to redefine the traditional benefits program. In basic form, benefits programs protect employees and their families from financial risks. This area includes traditional programs such as retirement and medical and dental insurance, as well as nontraditional programs, such as identity theft and pet insurance.



Work-Life

This area refers to any programs that help employees do their job effectively, such as flexible scheduling, telecommuting, child-care programs, etc. One of the most talked about areas of late, work-life has become the “secret sauce” in many organizations’ recipes for business success.

In 2003, Alliance for Work-Life Progress (AWLP) joined the WorldatWork family of organizations, reflecting work-life as an integral component of total rewards.

Performance and Recognition

Rarely does an issue of *workspan* go by without at least one article or column detailing pay-for-performance strategies. Perhaps one of the anchors in talent management, performance involves the alignment of organizational and individual goals toward business success.

Recognition is a way for employers to pay special attention to workers for their accomplishments, behaviors and successes. Recognition is necessary to reinforce the value of performance improvement and foster positive communication and feedback. It can be programmatic or simply cultural in execution.

Development and Career Opportunities

This key area focuses on the concept that motivating and engaging the workforce entails planning for the advancement and/or change in responsibilities to best suit individual skills, talents and desires. In this way, both the business and the employee benefit from this symbiotic relationship. Tuition assistance, professional development, sabbaticals, coaching and mentoring opportunities, succession planning and apprenticeships are all examples of career-enhancement programs.

Applying the Model in Everyday Business

Total rewards professionals are more than likely aware of the possibilities in the aforementioned areas. But how do they apply these concepts and ideas to everyday business?

Using a fictional *Fortune* 500 company as an example, attracting, retaining and motivating talent can, and should, take many forms.

For example, if the company is a high-tech software manufacturer, teleworking may be necessary to the overall business environment. In fact, with highly intelligent, methodical and technologically oriented employees, the absence of a telework program could mean the inability to attract future

talent, which most certainly affects the bottom line. In addition, through surveys and individual conversations, total rewards professionals have come to realize that these employees may be far more motivated, in this example, by sign-on bonuses and pay-for-performance strategies versus long-term incentives and substantial health insurance benefits. Consequently, the company measures and molds the total rewards strategy to fit both worker and organizational needs.

“If you don’t measure attraction, retention and motivation, you certainly aren’t going to manage them,” said Andrew Richter, Ph.D., CCP, vice president of compensation and benefits, NBC Universal. “The savvy rewards professional will need to get a lot of input from both line managers and colleagues in other parts of human resources before defining a strategy, implementing it and measuring success.” Richter was instrumental in developing the new model, heading a board of directors task team that initially addressed evolution of “the work experience” aspect of total rewards. “As the model presents, all the foundational components are visible,” said Linda Roundtree, president, Roundtree Consulting LLC.

It is total rewards — the monetary and nonmonetary return provided to employees in exchange for their time, talents, efforts and results. Total rewards involves the deliberate integration of five key elements that effectively attract, retain and motivate the talent required to achieve desired business results.

“This enables organizations to shift them around to match their strategies. For example, work-life may be viewed as a separate function in some organizations, and in others it may be a component of the benefits strategy.” Roundtree, as 2004-2005 AWLP strategy board chair, participated in the task team that addressed total rewards.


Looking Beyond the Obvious

Influencing total rewards strategy, and represented as backdrop components of the model, are environment (geographic, industry, legal), organizational culture, business strategy and HR strategy. Well-crafted total rewards strategies align appropriately with these components to attract, motivate and retain talent that produces desired business results.

“This is a critical update,” Roundtree said. “Companies continue to place more emphasis on global HR strategies. Specifically, companies are recognizing that employees view each area differently around the globe and that support strategies differ as a result.”

The Art and Science of Total Rewards

Total rewards strategy is the art of combining these five elements into a tailored package designed to achieve optimal motivation for the individual. When viewed within the model, the elements are not mutually exclusive. “The elements within total rewards can be viewed as levers to attract, motivate and retain employees,” said Don Griffith, WorldatWork strategy and marketing director. “HR professionals, rewards practitioners and management have different levels of influence or control over various levers. This model is intended to provide an integrated view of all the levers that can be deployed to engage employees and achieve desired business results.” Regardless of each organization’s unique total rewards approach, the desired end result is the same: a satisfied, engaged and productive group of employees who, in turn, create the

desired business performance and results. Employee satisfaction and engagement on one hand, and business performance and results on the other, are critical outcomes that depend upon one another. “Models get updated as thinking evolves and concepts get refined,” Richter said. “The new model is not a refutation of the earlier model — it is a refinement and elaboration of that model. We’ve realized for some time that compensation and benefits are a necessary, but not sufficient, condition for attracting, retaining and motivating employees. The new model seeks to better elaborate all the factors that drive attraction, retention and motivation in a way that should be intuitively reasonable to most total rewards professionals.” 

Editor’s Note: If you would like to submit a case study on your company’s total rewards strategy, please send inquiries and ideas to Editor Jean Christofferson, jchristofferson@worldatwork.org.

For more information on the total rewards model and to offer feedback, go to www.worldatwork.org/totalrewards.

RESOURCES PLUS

For more information related to this article:

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Testing the New Model

By Sonya Goshe, WorldatWork

In August 2005, WorldatWork asked its members to evaluate the new total rewards model. To test the model's effectiveness, a representative segment of WorldatWork members was asked to evaluate the model by completing a survey. Respondents rated the visual depiction of the model, the definitions of each component and their beliefs about past and future trends for total rewards professionals.

Survey results demonstrate that the new model resonated with the membership. In particular, respondents felt they could apply the model to their jobs and use it as a template to communicate with senior leadership. Following are some of the survey highlights.

Overall Graphics and Definitions

Respondents assigned high marks to the graphic on a variety of levels. When asked if the model made sense to them, respondents gave the graphic a highly positive 5.9 average rating. Members also agreed the graphic could be a useful tool to describe total rewards to senior leadership and supervisors, although they felt it would be slightly less useful with employees.

Naming the "It" Factor

Has the term total rewards caught on? The answer appears to be "yes." Although the concept described here as "total rewards" goes by a number of different names, "total rewards" was chosen by 45 percent of survey participants. Forty-seven percent refer to the concept as "total compensation," and about 43 percent label it the "compensation and benefits package." Taken together, about nine out of 10 practitioners use one of the three terms. Surprisingly, about 12 percent of participants use no particular term frequently, and 16 percent hold on to the general term "human resources."

Rising Levels of Importance

Compensation and benefits have the longest history with the core profession of compensation and benefits professionals. According to survey respondents, both areas have not only retained their significance, but also gained increasing importance to attraction, motivation and retention. For compensation specifically, about 58 percent of members indicate it has at least

somewhat increased in importance, while slightly more than one-third believe its importance has stayed the same. (See Figure 2 on page 7.) Only about 2 percent believe the importance of compensation has decreased. Similarly, about 55 percent of members perceive the importance of benefits has risen, and 37 percent feel it remains unchanged.

Work-life also has gained in perceived importance as a significant contributor to attraction, motivation and retention. Fifty-eight percent of participants report the importance of work-life has increased, while about one-third maintain it has remained stable. Less than 8 percent believe it has lost significance.

The largest reported changes substantiate the newer, expanded total rewards model. Participants report the largest increases in perceived importance in the areas of performance and recognition, as well as development and career opportunities. Two-thirds of survey participants believe the importance of performance and recognition has increased to some degree, and 62 percent rated development and career opportunities as increasing in importance.

In addition to looking backward, survey participants were asked what they felt would be important in the next two years. Again, respondents believe the value of all the elements of the new total rewards model will increase in the next two years. According to the data shown in Figure 3 on page 7, the trends in the next two years lie with work-life, performance and recognition, and development and career opportunities. About three of four survey participants believe these areas will increase in importance in the next two years, and about one third believe the increases will be substantial.

Members highlighted work-life effectiveness as both an area that emerged as an important trend in the last several years, and one that will continue in the future. Training and development issues, as well as addressing the rising costs of benefits (especially health care), also made both lists. Other frequently cited trends included shifting accountability from employer to employee, facing a tight labor market when attracting and retaining key talent, workplace diversity, the increasing importance of integrating total rewards strategy with business goals and tailoring rewards elements to a diverse workforce.

FIGURE 2:

COMPARED TO TWO YEARS AGO, THE IMPORTANCE OF THIS AREA OF TOTAL REWARDS TO YOUR ORGANIZATION'S OVERALL EFFECTIVENESS IN ATTRACTION, MOTIVATION AND RETENTION HAS:						
	Decreased Substantially	Decreased Somewhat	Stayed the Same	Increased Somewhat	Increased Substantially	Don't Know
Compensation	*	2%	37%	38%	20%	3%
Benefits	<1%	7%	37%	37%	18%	3%
Work-Life	<1%	7%	32%	35%	23%	3%
Performance & Recognition	*	3%	29%	43%	23%	2%
Development & Career Opportunities	<1%	5%	31%	36%	26%	2%
Other Total Rewards Activities	*	2%	31%	12%	11%	44%

* Indicates 0% response.

FIGURE 3:

IMPORTANCE OF TOTAL REWARDS ELEMENTS TWO YEARS FROM NOW						
	Decreased Substantially	Decreased Somewhat	Stayed the Same	Increased Somewhat	Increased Substantially	Don't Know
Compensation	*	<1%	31%	45%	21%	2%
Benefits	*	3%	32%	39%	23%	3%
Work-Life	<1%	2%	22%	43%	30%	2%
Performance & Recognition	*	1%	22%	45%	30%	2%
Development & Career Opportunities	*	2%	19%	44%	34%	2%
Other Total Rewards Activities	<1%	26%	19%	12%	42%	*

* Indicates 0% response.

Total Rewards Definitions

Total Rewards Component	Definition
Compensation	Pay provided by an employer to an employee for services rendered (i.e. time, effort and skill). Includes both fixed and variable pay tied to levels of performance.
Benefits	Programs an employer uses to supplement the cash compensation that employees receive. These health, income protection, savings and retirement programs provide security for employees and their families.
Work-Life	A specific set of organizational practices, policies and programs, plus a philosophy, that actively supports efforts to help employees achieve success at both work and home.
Performance and Recognition	<p>Performance: The alignment of organizational, team and individual efforts toward the achievement of business goals and organizational success. It includes establishing expectations, skill demonstration, assessment, feedback and continuous improvement.</p> <p>Recognition: Acknowledges or gives special attention to employee actions, efforts, behavior or performance. It meets an intrinsic psychological need for appreciation of one's efforts and can support business strategy by reinforcing certain behaviors (e.g., extraordinary accomplishments) that contribute to organizational success. Whether formal or informal, recognition programs acknowledge employee contributions immediately after the fact, usually without predetermined goals or performance levels that the employee is expected to achieve. Awards can be cash or noncash (e.g., verbal recognition, trophies, certificates, plaques, dinners, tickets, etc.)</p>
Development and Career Opportunities	<p>Development: A set of learning experiences designed to enhance employees' applied skills and competencies. Development engages employees to perform better and engages leaders to advance their organizations' people strategies.</p> <p>Career opportunities: Involve the plan for employees to advance their career goals. May include advancement into a more responsible position in an organization. The company supports career opportunities internally so that talented employees are deployed in positions that enable them to deliver their greatest value to the organization.</p>

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