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TOTAL REWARDS

Building a Better Employment Deal

By Stephen Watson, Ph.D., Link Reward Consultants

QUICK LOOK

- Total rewards encompasses a broader concept of "everything gained from working," and includes both monetary aspects and the softer aspects associated with job satisfaction.
- Employers have been forced to re-think how they attract and retain people in the war for talent … and money isn't always enough.
- Four areas of rewards can be developed into a practical way of diagnosing and developing a reward management position.

Before the 1990s, the word "reward" rarely appeared in any HR textbooks. Today, the concept of "total rewards" has left the dictionaries far behind and encompasses a broader concept of "everything gained from working." It includes both the obvious monetary aspects and the softer aspects associated with job satisfaction. It also answers the questions of why people work and why they work for a particular employer.

But, much like a riddle, these answers typically live within the organization, ranging from love to brute force, with pay existing somewhere in the middle. Employees always will have a perception of what it is like to work for a particular employer. While total rewards can be ignored, perhaps with no negative consequence, it also can be reacted to and planned for. But, regardless of which approach an organization takes, total rewards — good or bad — exist within every organization.

Conventionally, pay management focuses almost exclusively on financial aspects, though there is ample evidence that money alone is not a motivator. Total rewards management takes a broader view, seeking to link all aspects of the employment experience into a composite, well-designed offer, sometimes known as the "employment deal" or the "psychological contract."

Employers have been forced to reconsider how they capture their share of the skilled employee pool (i.e., the war for talent). However, in the war for talent, money is not enough. Intrinsic qualities, which are hard to build and replicate, provide the competitive edge that makes reward management a key business issue.

Total rewards should be a constructive and thoughtful approach to bring together all the elements of rewards into a well-designed set of principles and processes. A successful total rewards strategy becomes a coherent and mutually supportive philosophy that addresses the question, "Why do people work for specific companies?" It is a question of the organization's personality.

The reasons why people work for specific types of organizations are part of the huge subject of human motivation, which is neither reliably predictable nor individually consistent. What works for some may not work for others; however, rewards aspects can be grouped into four broad areas.

Financial

The financial components of rewards fall into a number of areas and, together, comprise the concept of "total compensation." Tangible financial components can be broken into:

- Base salary plus contractual add-ons
- Short-term variable pay, bonuses and incentives
- Long-term incentives
- Benefits/perquisites

Total compensation management seeks to introduce these elements into an appropriate mix that appeals to the employee and meets business needs. Figure 1 on page 50 shows the total rewards mix. Non-financial areas of reward are at the core.

Enablers and Frustrators

"Enablers" and "frustrators" are likely to create a working situation that enables the employees to do a good — or not so good — job. This can include the work site, the commute, flex scheduling, on-site daycare, effective business systems and an understanding of the increasingly important work/life balance. While perhaps not direct motivators, these enablers can lead to a general sense of work satisfaction or personal convenience. Conversely, they can be frustrating and serve as demotivators, potentially causing unwanted attrition.

Capability

To maintain competitiveness, refreshing and renewing skills and knowledge is important, if not essential, in knowledge-driven organizations. A reputation for high quality training and experience can significantly support an organization's ability to attract recruits, even if the actual pay is relatively low. For many employees, skills acquisition and practical experience is fulfilling and important for the career biography. Also, "people skills" (the ability to read and understand others) are becoming a key differentiator between individuals in their careers. The way those skills are developed can plan an important part in gaining satisfaction from work.

Motivators

Employee commitment can come from a belief in the organization's mission, a personal calling or, perhaps, an inspirational and charismatic leader. For most employees, commitment comes from a combination of these factors. In turn, organizations are becoming more thoughtful about what they offer to employees in terms of career or personal development. This is a reward in itself, and work challenges and experiences can be highly motivational. Meanwhile, other workers may be more concerned with the social side of the job (e.g., making friends with co-workers, or the simple freedom to just do their job).

Each of these four areas has tangible and intangible features that are important to the overall reward offer. This view of total rewards de-emphasizes the transactional, hard value aspects of pay and

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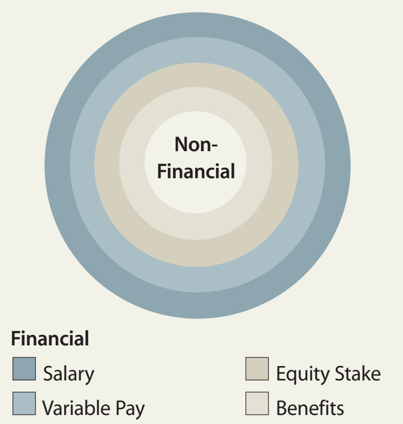
brings forward the impact of the work experience itself.

Putting It in Practice

Organizations usually want to create a team of skilled and committed people who are motivated to achieve individual success, thereby securing the ongoing success of the company. The total rewards strategy starts by identifying the business

FIGURE 1: TOTAL REWARD



needs from the underlying business strategy, which leads to conclusions about the type of employment deal that can realistically be delivered. It is pointless to offer sophisticated long-term benefits to a transient group of workers. Also, the type of person who might choose to work for an organization — along with his or her personal agenda — needs to be identified. Only then can the organization consider what might attract the people they need.

The four broad primary areas of rewards outlined can be developed into a practical way of diagnosing and developing a reward management position.

Getting Pay Right: The Structure of the Financials

Pay is an emotive subject that can motivate and, perhaps more dangerously, de-motivate. The need or desire for money can influence behavior to achieve the award, but often with a short and fading motivational effect. The emotive aspect frequently is about pay relativities rather than absolutes, both internally and externally. Comparisons are made about the amount paid and a perception of fairness based on cultural beliefs of the value of the contribution made by the job and individual. Get the pay just about right, and the emotional, destructive forces tend to dissipate and the other underlying areas of total rewards come to the fore in the motivational hierarchy.

Making Work Viable: Ensuring the Enablers and Overcoming the Frustrators

It may be the work situation is just too difficult to be sustainable for the individual either from a practical viewpoint or due to at-work frustrations. Work/life balance issues are addressed in this area. What will make the difference between creating and surfeiting an appetite for the work? How can you prevent an employee from feeling that they are "fighting" the job rather than "driving" it?

Building Capability: Finding and Replenishing Employee Knowledge and Skills

Providing opportunities for development may be both an important need for the organization and a real motivator. Competent and confident people are more likely to achieve. At the core is the need for sensitive and relevant assessment of needs and delivery of opportunities to develop.

Creating Commitment: Positive, Reinforcing Motivators

The most important long-term area is the ability to gain employees' commitment. This manifests itself in the way individuals deploy their discretionary effort in the pursuit of the job outcomes. The evidence shows that the way individuals choose to spend the limited amount of personal discretionary effort makes the difference. Within each area, an organization will develop the detail. Figure 2 shows a diagram with more details in each primary area.

Managing the Tangibles and Intangibles

Each area has an aspect of *tangible* and *extrinsic* rewards — something that can be attributed an objective value. Each area also has an intangible and intrinsic reward that is much harder to define and is more subjective to measure. The strength of the tangible and intangible can be illustrated by the variable thickness of "rings" around the four areas in Figure 3. This gives a total reward "shape" or "profile" to the job.

For conventional paid work (versus voluntary work), it is the reward areas "getting paid right" and "making work viable" that will emphasize the tangible aspects, while the areas of "building capability" and "creating commitment" emphasize the intangible aspects. Note, though, that this may not be the case for other work types.

In Figure 3 on page 51, the intangible rewards derived from offering fulfillment in the "capability" and "commitment" areas are greater than those provided by the tangibles of pay.

The tangible aspects of rewards tend to be transactional in nature, often written directly into the employment contract. Conversely, the softer intangibles tend to make the long-term difference in creating and sustaining change; they are transformational and are at the

FIGURE 2: PRACTICAL TOTAL REWARD

Getting Pay Right	Creating Commitment	Making Work Viable	Building Capability
• Work design	• Image	• Logistics	• Job skills
• Total remuneration	• Leadership spirit	• Physical Environment	• Knowledge
• Market position	• Organization effectiveness	• Equipment & systems	• People skills
• Recognition	• Career	• Flexible work	• Managing performance

heart of the organization. As such, they are much harder to put in place, therefore becoming the competitive difference.

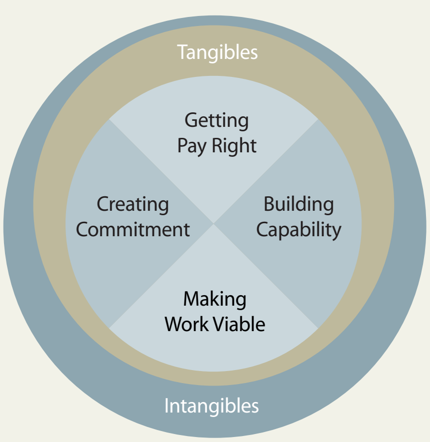
Using a simple framework and building on the four primary areas, a generic shape of the reward can be built. The current offer can be compared with an "ideal" offer to see how well it matches employees' desires. The magnitude of the differences can be assessed and prioritized so that a reward management plan can be developed, putting scarce resources where they will have the most impact.

Making the Most of Rewards

Too often money is thrown at the problem (employees). In the end, the problem may dissipate on the surface, but the underlying reward issue still has not been addressed. Market pricing is the technical answer for the naïve who are relying on an outdated concept of human motivation.

A more sustainable and effective approach would be to carefully consider each primary reward area in turn and develop suitable details in each area so that an integrated total rewards strategy is evolved, forming a coherent and mutually reinforcing unit. In this way, the real value of implementing total rewards can be managed and a significant return on management and financial investment achieved. WS

FIGURE 3: TANGIBLES & INTANGIBLES



ABOUT THE AUTHOR

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FOOT NOTES

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- Go to the "Info Finder" section of the home page, click on the blue "Power Search" button and then click on "Advanced Search."
- Leave the "Rewards Category" and "Optional Filter" blank.
- Type in this key word string on the search line: "Total rewards" OR "total rewards strategy" OR "intrinsic" or "extrinsic."