

# The Impact of Total Rewards in a Downshifting Economy

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## Overview

Words like Dow Jones Industrial Average and NASDAQ have taken on new meaning to many in corporate America. Our financial markets are in jeopardy, and the housing market continues to be in a state of flux that has put many economists on call. To most traditional economists, a downturn in the economy usually means a rise in unemployment. The economic downshifting has sustained a thought-provoking human resources question in most companies today: “How can we rethink our retention and recruiting strategies?” At the same time, many companies have had to think about spending less on staffing or have cut positions to remain in business. How can companies attract the best talent and keep employees happy in their jobs during this recession at a lower cost while maintaining the “Employer of Choice” mentality? The answer is Total Rewards.

Total Rewards is defined as a strategy that has three main components: compensation, benefits and the individual’s work experience. Simply stated, it is a strategy that offers a balance of each of these components and, if implemented correctly, can assist companies in their struggle for finding and retaining top talent. According to WorldatWork, organizations that understand this concept as it affects their industry and competitive environment and deploy critical resources to their strategic advantage will be the clear winners in the battle for

talent. A successful Total Rewards program involves understanding your industry and developing the correct combination of the three components. The key is to balance the mix appropriately and not view any one aspect in a silo.

*Employees believe, “...if I do this....I can get this...”*



## Compensation

Compensation, one of the major components in a total rewards strategy, includes base, annual and long-term incentives where appropriate. These elements are part of a “total pay system.” Base pay is the amount an employee is paid to do his or her job. It is impacted heavily by market competitiveness. Many organizations are comparing themselves against their peers either through custom surveys, proxy data from publicly traded companies or via published survey sources. Companies should spend a great deal of time pondering this component of the total rewards mix as, all other things being equal, it can be the driving factor of why an individual chooses one company over another.

Statistically we know that compensation does not drive retention, however, it can drive attraction. Variable pay, defined as incentives or bonuses, puts more pay at risk for employees but offers a “quid pro quo.” Employees believe, “...if I do this...I can get this...” More and more companies are putting pay at risk provided there are defined metrics and traceability to those metrics. Finally, long-term incentives, usually in the form of equity, can provide retention on an ongoing basis for key stakeholders in the organization. For this component of the Total Rewards strategy, companies want to position themselves as closely to the “market” of their peers as they can.

Some Total Rewards strategists suggest that it is important for an organization to pay an employee for performance outcomes that directly affect corporate goals and objectives. A compensation reward strategy gives specific direction to how the company will design its individual reward programs for the cash piece of the puzzle. Rewarding employees for performance that meets corporate goals ensures that the company is paying for results it can now afford, given the increase in overall financial performance.

### Benefits

The next major component of the total rewards strategy involves employee health and welfare. Employee benefits and retirement plans are also critical factors in attracting and retaining top talent. More than ever, benefits play a strategic role in gaining loyalty within an organization. According to the WorldatWork/EBRI Value of Benefits Survey, healthcare insurance is the most important part of a benefits package for U.S. workers. In this same survey, 78% of full- and part-time employees said the benefits offered by prospective employers are very important in their decision to accept a job offer. A typical assortment of benefits might include medical, dental, vision, PTO, FSA, 401(k) plans, death and disability, and life. As a more creative approach to benefits, we are now seeing organizations include wellness initiatives as part of their benefit plan. Wellness has taken a front seat in the future of healthcare as organizations look to being more proactive in healthcare management. Organizations are also moving toward designing benefit plans that will reach across geographic locations, as well as meeting the needs of a diverse workforce. Designing a comprehensive benefits component requires knowledge of the culture, meeting the employees’ personal issues, addressing wellness and being flexible. If implemented correctly and balanced appropriately with compensation, benefits can position a company to be in the league of “Employer of Choice.”

*Wellness has taken a front seat in the future of healthcare.*



## Work/Life—The Work Experience

With rising costs in healthcare, and remaining stagnant compensation packages, employers are begging for unique ways to differentiate their organizations. There are affordable organizational benefits that can be offered to entice employees and stay competitive. The work experience is the final component to the Total Rewards mix. Today's workforce is just as interested in other "soft" benefits that enhance their balance between their work and personal lives. Even though work experience benefits are less tangible than the other two aspects of Total Rewards, they are just as important to attracting and retaining key employees. Recent research suggests that employees place high value on benefits that give them more time with their families and support a work culture that enhances appreciation and communication.

Employers are starting to catch the wave of work/life benefits to assist employees in the need for balanced lifestyle. Work/life benefits include anything that supports an employee in balancing their work and personal time such as flexible work arrangements, child and eldercare support, tuition reimbursement, and concierge services. Many employers are now recognizing that well-designed work/life programs are highly valued by most employees and are relatively low in cost.



While more time with family is an important aspect of the work experience, it is not the only aspect. According to a study conducted by Lockton Companies, the number one driver of employee satisfaction while on the job is the connectivity an employee has with his or her manager, co-workers and the organizational culture. This research indicates that if employees are connected to their manager and believe they have respect, growth opportunities and an understanding of their personal commitments, they will be more satisfied and stay in their job as an engaged employee, even when compensation and benefits are not as competitive. This is proof that this third gear of the Total Rewards mechanism is just as powerful and should be balanced with as much effort as compensation and benefits.

## Total Rewards Implementation

Developing the correct mix for the Total Rewards Strategy is the key to employing and keeping the best talent. So, how can a company create the "best" mix? The first step is identifying the culture, employee climate, and employee demographics. This can be determined through an employee survey, focus groups or key employee interviews. After identifying what drives employee motivation, commitment, and loyalty for your organization, then you can determine how much you are willing to spend.

