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Total Rewards: *Everything* That Employees Value in the Employment Relationship

Fifty years ago, when a group of visionary professionals formed what was to become WorldatWork, the world of work and the world of pay were much simpler than they are today. Compensation was the primary “reward” and benefits, still in their infancy, were a separate and seemingly low-cost supplement for employees. The concept of combining these things—let alone using them with still other “rewards” to influence employee behavior on the job—was decades away.

Today we are only partially through an evolution from a largely industrialized business environment to a far more virtual, knowledge- and service-based environment, at least in North America and Europe. Among some major shifts:

- Business increasingly operates as a global village, with work moving to different parts of the world to take advantage of lower-cost labor and address skill gaps.
- Technology continues to revolutionize work, not only in terms of automating more jobs, but also in enabling the virtual workplace as more professionals conduct business in home offices or remote locations.
- Women are equally represented in the overall workforce, if not yet fully in

the ranks of senior management.

- Traditional hierarchical distinctions have eroded in the name of faster decision making and speed to market. Teamwork is one of the most common behaviors rated in performance reviews.
- More businesses and business units in the United States are owned by European or Asian parents, which expect their practices and norms to be followed and respected in the workplace.
- Job mobility is taken for granted, with workers averaging six employers over the course of a career.
- Gender, race, and religious differences are a common part of most work environments. Diversity has become a respected value, demonstrated through a range of specific programs.
- Business leaders increasingly regard employees as drivers of productivity, rather than as relatively interchangeable cogs in a larger wheel.

Along with these changes have come dramatically different views about the nature of rewards. In the shift toward a more knowledge- and service-based economy, the relationship, or deal, between employer and employee began to evolve as well. Viewing employees as performance drivers meant thinking differently about what it would take to attract, keep, and engage them in giving discretionary effort on the job. And so *total rewards* entered the lexicon to address these needs.

BROADENING THE DEFINITION OF TOTAL REWARDS

The definition of total rewards always sparks debate. For example, [Figure 1.1](#)

includes a comprehensive list of items that have shown up at one time or another in one company's definition of total rewards. From this, it is easy to see how people can use the term in conversation only to find that they are referring to very different notions.

Generally speaking, there are two prevailing camps of definitions:

- *Narrow definitions.* These virtually always comprise compensation and benefits, and sometimes include other tangible elements (e.g., development). This sometimes is referred to as *total compensation* or *total remuneration*.
- *Broad definitions.* These can expand to encompass everything that is “reward ing” about working for a particular employer or everything employees get as a result of their employment. Sometimes terms such as *value proposition* or *total value* are used interchangeably with *total rewards*.

While the narrower definitions have been around for a long time, it is the broader notion that is generating buzz. (See [Sidebar 1.1](#).) Indeed, much of the current activity in total rewards involves companies moving to a broader definition. There are several reasons for this:

- *Erosion of the “core” elements of the package.* The traditional elements of rewards— pay, benefits, and stock awards—are no longer differentiating factors for organizations. The competitive position for pay is trending toward median or mean. Benefits costs continue to rise. Stock programs, such as the distribution of options, do not offer the appeal they once did. Given all of this, a logical response is to broaden what companies provide for the overall employment package.
- *Pressure for operational efficiency and effectiveness.* Total rewards can

represent a major cost element. As companies seek to manage costs tightly, there is more emphasis on ensuring that all costs are counted and managed. By redefining rewards more broadly and focusing on those elements that achieve the biggest payoff, organizations can drive toward efficiency.

- *Catering to diverse needs.* Companies today are managing a much more heterogeneous population. For the diverse workforce, no single component becomes a value driver. Employees have choices to make and a need for greater flexibility. A broad definition of total rewards helps employers show how their slate of rewards responds to the broad needs of today's global workforce.
- *Need to more strongly reinforce business strategy.* Companies are concerned about sending clear business messages to employees. A properly structured total rewards package sends a key message—by aligning all the components of total rewards with the overall business vision, a company ensures its workforce is on the same page.

Direct Financial	Work	Affiliation
Base Salary	Autonomy	Athletic Leagues
Bonus	Casual Dress Policy	Community
Cash Profit Sharing	Challenging Work	Involvement
Employee Referral Program (Cash)	Constructive Feedback	Diversity Programs
Stock Programs	Covered Parking	Employee Celebrations
Suggestion Program (Cash for Ideas)	Ergonomics/Comfortable Workstations	Employee Clubs
	Flexible Work Schedules	Professional Associations
	Free Parking	Seminars
Indirect Financial	Interesting Work	Spring and Holiday Parties
Adoption Assistance	Job Skills Training	Support Groups
College Savings Plan	Modern, Well-Maintained Workspace	Volunteer Connection
College Tuition and Fees	Open Communication	Other/Convenience
Commuter Reimbursement (Pre-tax)	Performance Management	ATMs Onsite
Company Cafeteria	Promotion Opportunities	Carpooling/Van Pooling/Shuttles
Company Store	Safe Work Environment	Car Seat Vouchers (for Newborns)
Dependent Care	Suggestion Program (No Cash)	Child Care Resources
Dependent Scholarships	Telecommuting Opportunities	Credit Union
Discount Tickets	Uniforms/Uniform Allowance	Employee Assistance Program
Educational Assistance	Workshops	Employee Card and Gift Shop
Fitness Facilities Discounts	Career	Expectant Parent Program
Health and Welfare Benefits	360° Skills Assessment	Legal Services
Incremental Dependent Care (Travel)	Career Advancement	Medical Center
Insurance (Auto/Home) via Payroll Deduction	Coaching	Military Deployment Support
Long-Term Care Insurance	Lunch and Learn Series	Online Services
Matching Gifts	Management Development	Onsite Dry Cleaning Pickup
Relocation Program	Mentoring Program	Onsite Flu Shots
Retirement Plan(s)	Open Job Posting	Onsite Food Services
Saving Bonds via Payroll Deductions	Preretirement Counseling	Onsite Post Office
Scholarships	Service Awards	Personal Travel Agency
Stock Purchase Program	Training and Development	Wellness Program
Student Loans		Worldwide Travel Assistance
Tuition Reimbursement		

FIGURE 1.1 Total rewards: different things to different employers.

Given these factors, it is not surprising that a broader definition is gaining favor

in the marketplace. Companies still need to decide how broadly they want to define total rewards, based on what they can adequately measure and manage.

Sidebar 1.1: How We Define It

For the purposes of this book, the term *total rewards* refers to *everything* that employees value in the employment relationship (i.e., everything an employee gets as a result of working for the company).

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

- Compensation.
- Benefits.
- Work-Life.
- Performance and Recognition.
- Development and Career Opportunities.

Total rewards strategy is the art of combining these five elements into tailored packages designed to achieve optimal motivation. (See [Figure 1.2](#): Components of total rewards.)

For a total rewards strategy to be successful, employees must perceive monetary and nonmonetary rewards as valuable.



FIGURE 1.2 Components of total rewards.

EVOLUTION OF THE WORLDATEWORK TOTAL REWARDS MODEL

In 2000, when the American Compensation Association changed its name to WorldatWork, the association affirmed its commitment to the concept of total rewards as a more comprehensive model reflecting the value employees receive from their employment.

In the same year, after facilitating discussion with leading thinkers in the field, WorldatWork introduced a total rewards framework intended to advance the concept and help practitioners think and execute in new ways. The model focused on three elements:

- Compensation (e.g., pay, incentives).
- Benefits (e.g., health care, retirement funding).
- The Work Experience.
 - Acknowledgment.

- Balance (of work and life).
- Culture.
- Development (career/professional).
- Environment (workplace).

Up to this point, the association had focused solely on compensation and benefits. Yet, specialists and generalists alike agreed that compensation and benefits—while foundational and representing the lion’s share of human capital costs—cannot be fully effective unless they are part of an integrated strategy of other programs and practices to attract, motivate, and retain top talent.

Thus, “the work experience” aspect of the first WorldatWork total rewards model included aspects of employment that may be programmatic or just part of the overall experience of working. For instance, acknowledgment may be part of a formal rewards program or may be as simple as a “thank you” from the boss or a coworker. Workplace flexibility (part of work-life) may manifest itself as a formal telework program or as having a culture or practice that embraces work-life flexibility.

From 2000 to 2005, the bodies of knowledge associated with total rewards became more robust as practitioners experienced the power of integrated strategies. Organizational and departmental structure changes allowed for better integration, and professional understanding improved, as well. Advanced literature, research, and case studies accelerated visibility for total rewards beyond the Human Resources (HR) profession, garnering notice from line managers, and, indeed, the C-suite.

Given this advanced thinking and the increased importance of total rewards as a core business strategy, WorldatWork convened teams of leading professionals in

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	<i>Performance:</i> 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. <i>Recognition:</i> Acknowledges or gives special attention to employee actions, efforts, behavior, or performance. It meets an intrinsic psychological need for appreciation for 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.).

Development and Career Opportunities

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.

Career opportunities: A plan for employees to advance their career goals. May include advancement into a more responsible position in an organization. The organization supports career opportunities internally so that talented employees are deployed in positions that enable them to deliver their greatest value to their organization.

FIGURE 1.4 Total rewards definitions.

Total Rewards

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

- Compensation.
- Benefits.
- Work-Life.
- Performance and Recognition.
- Development and Career Opportunities.

Total rewards strategy is the art of combining these five elements into tailored packages designed to achieve optimal motivation. For a total rewards strategy to be successful, employees must perceive monetary and nonmonetary rewards as valuable.

Compensation

Pay provided by an employer to an employee for services rendered (i.e., time, effort, and skill). Compensation comprises four core elements:

- *Fixed pay:* Also known as "base pay," fixed pay is nondiscretionary compensation that does not vary according to performance or results achieved. It usually is determined by the organization's pay philosophy and structure.
- *Variable pay:* Also known as "pay at risk," variable pay changes directly with the level of performance or results achieved. It is a one-time payment that must be re-established and re-earned each performance period.

- **Short-term incentive pay:** A form of variable pay, short-term incentive pay is designed to focus and reward performance over a period of one year or less.
- **Long-term incentive pay:** A form of variable pay, long-term incentive pay is designed to focus and reward performance over a period longer than one year. Typical forms include stock options, restricted stock, performance shares, performance units, and cash.

Benefits

Programs an employer uses to supplement the cash compensation that employees receive. These programs are designed to protect the employee and his or her family from financial risks and can be categorized into the following three elements:

- **Social Insurance**
 - Unemployment.
 - Workers' compensation.
 - Social Security.
 - Disability (occupational).
- **Group Insurance**
 - Medical.
 - Dental.
 - Vision.
 - Prescription drug.
 - Mental health.
 - Life insurance.
 - AD&D insurance.
 - Disability.
 - Retirement.
 - Savings.
- **Pay for Time Not Worked:** These programs are designed to protect the employee's income flow when not actively engaged at work.
 - At work (breaks, clean-up time, uniform changing time).
 - Away from work (vacation, company holidays, personal days).

Work-Life

A specific set of organizational practices, policies, programs, plus a philosophy, which actively supports efforts to help employees achieve success at both work and home. There are seven major categories of organizational support for work-life effectiveness in the workplace. These categories encompass compensation, benefits, and other HR programs. In combination, they address the key intersections of the worker, his or her family, the community, and the workplace. The seven major categories are:

- Workplace flexibility.
- Paid and unpaid time off.
- Health and well-being.
- Caring for dependents.
- Financial support.
- Community involvement.
- Management involvement/culture change interventions.

Performance and Recognition

Performance

A key component of organizational success, performance is assessed in order to understand what was accomplished, and how it was accomplished. Performance involves the alignment of organizational, team, and individual effort toward the achievement of business goals and organizational success.

- Performance planning is a process whereby expectations are established linking individual with team and organizational goals. Care is taken to ensure goals at all levels are aligned and there is a clear line of sight from performance expectations of individual employees all the way up to organizational objectives and strategies set at the highest levels of the organization.
- Performance is the manner of demonstrating a skill or capacity.
- Performance feedback communicates how well people do a job or task compared to expectations, performance standards, and goals. Performance feedback can motivate employees to improve performance.

Recognition

Acknowledges or gives special attention to employee actions, efforts, behavior, or performance. It meets an intrinsic psychological need for appreciation for 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.).

The value of recognition plans is that they:

- Reinforce the value of performance improvement.
- Foster continued improvement, although it is not guaranteed.
- Formalize the process of showing appreciation.
- Provide positive and immediate feedback.
- Foster communication of valued behavior and activities.

Development and Career Opportunities

Development

A set of learning experiences designed to enhance employees' applied skills and competencies; development engages employees to perform better and leaders to advance their organizations' people strategies.

Career Opportunities

A plan for employees to advance their own career goals and may include advancement into a more responsible position in an organization. The organization supports career opportunities internally so that talented employees are deployed in positions that enable them to deliver their greatest value to their organization. Development and career opportunities include the following:

- **Learning Opportunities**
 - Tuition assistance.
 - Corporate universities.

- New technology training.
- Attendance at outside seminars, conferences, virtual education, etc.
- Self-development tools and techniques.
- On-the-job learning; rotational assignments at a progressively higher level.
- Sabbaticals with the express purpose of acquiring specific skills, knowledge, or experience.
- **Coaching/Mentoring**
 - Leadership training.
 - Access to experts/information networks—association memberships, attendance and/or presentation at conferences outside of one's area of expertise.
 - Exposure to resident experts.
 - Formal or informal mentoring programs; in or outside one's own organization.
- **Advancement Opportunities**
 - Internships.
 - Apprenticeships with experts.
 - Overseas assignments.
 - Internal job postings.
 - Job advancement/promotion.
 - Career ladders and pathways.
 - Succession planning.
 - Providing defined and respectable "on and off ramps" throughout the career life cycle.

An Integrated Total Rewards Strategy

Culture

Culture consists of the collective attitudes and behaviors that influence how individuals behave. Culture determines how and why a company operates in the way it does. Typically, it comprises a set of often unspoken expectations, behavioral norms, and performance standards to which the organization has become accustomed. Culture change is difficult to achieve because it involves changing attitudes and behaviors by altering their fundamental beliefs and values. Organizational culture is subject to internal and external influences; thus, culture is depicted as a contextual element of the total rewards model, overlapping within and outside the organization.

Source: Schein, E. "Organizational Culture." *American Psychologist* 43, no. 2 (February 1990): 109–19.

Environment

Environment is the total cluster of observable physical, psychological, and behavioral elements in the workplace. It is the tangible manifestation of organizational culture. Environment sets the tone, as everyone who enters the workplace reacts to it, either consciously or unconsciously. Because they are directly observable and often measurable, specific elements of the environment can be deliberately manipulated or changed. The external environment in which an organization operates can influence the internal environment; thus, environment is depicted as a contextual element of the total rewards model, overlapping within and outside the organization.

Attraction

The ability an organization has to draw the right kind of talent necessary to achieve organizational success. Attraction of an adequate (and perpetual) supply of qualified talent is essential for the organization's survival. One way an organization can address this issue is to determine which "attractors" within the total rewards programs bring the kind of talent that will drive organizational success. A deliberate strategy to attract the quantity and quality of employees needed to drive organizational success is one of the key planks of business strategy.

Retention

An organization's ability to keep employees who are valued contributors to organizational success for as long as is mutually beneficial. Desired talent can be kept on-staff by using a dynamic blend of elements from the total rewards package as employees move through their career life cycles. However, not all retention is desirable, which is why a formal retention strategy with appropriate steps is essential.

Motivation

The ability to cause employees to behave in a way that achieves the highest performance levels. Motivation comprises two types:

- *Intrinsic Motivation:* Linked to factors that include an employee's sense of achievement, respect for the whole person, trust, appropriate advancement opportunities, and others, intrinsic motivation consistently results in higher performance levels.
- *Extrinsic Motivation:* Extrinsic motivation is most frequently associated with rewards that are tangible such as pay.

There also are defined levels of intensity with regard to motivation:

- *Satisfaction:* How much I like things here.
- *Commitment:* How much I want to be here.
- *Engagement:* How much I will actually do to improve business results.

Another key plank of the business strategy, motivation can drive organizational success.

FIGURE 1.5 Model definitions.

Compensation

This includes fixed pay (base pay) and variable pay (pay at risk). It also includes several forms of variable pay including short-term incentive pay 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 Social Security, medical and dental insurance, but also nontraditional programs such as identity theft insurance and pet insurance.

Work-Life

This area refers to any programs that help employees do their jobs 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

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 a necessity in order 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.