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Why the Total Rewards Approach Works

Throughout the decades, there has been compelling evidence showing that the best way to attract, engage, and retain employees is to focus on total rewards, not just pay and benefits.

In the 1950s, Frederick Herzberg conducted his famous study of factors affecting job attitudes. He identified 16 factors and categorized them into 10 “hygiene factors” and 6 motivators (growth, advancement, responsibility, work itself, recognition, and achievement). Note that the motivators do not include pay and benefits—these are hygiene factors. To motivate, a total rewards approach must be taken.

Since the 1960s, psychologists (including Abraham Maslow) stressed how less tangible needs, such as growth and self-actualization, were equally important to individuals’ sense of worth. [Figure 2.1](#) illustrates how total rewards maps to Maslow’s famous hierarchy. This message has been reinforced over the years by other leading thinkers and management gurus, including Maslow, Ed Lawler,

Peter Drucker, and Edward Demming.

Most data show that work and career opportunities, leadership, and recognition are leading drivers in employee engagement and retention—not pay.

What do you do when you get a job offer? Take a sheet of paper, draw a vertical line down the middle, label one column “stay” and the other “take the offer.”

Then fill in the columns with a list of the total rewards associated with each opportunity. If a total rewards mindset is used to make this individual decision, shouldn’t the same mindset be applied when thinking about how to attract, retain, and motivate the broader workforce?

In today’s environment, the case for a total rewards approach is stronger than ever:

- *Total rewards addresses today’s business needs for managing costs and growth.* Research suggests that a more limited view of rewards can be more costly, because organizations tend to respond to every situation with cash. Total rewards supports moving away from ineffective programs toward those that help drive the business forward.
- *Total rewards meets the evolving needs of today’s employees.* As the workforce continues to diversify, employees’ expectations change. For example, there is stronger emphasis on job enrichment, flexible work schedules, and the overall work environment. A total rewards approach better addresses many of these varying employee needs.
- *Total rewards fits with a movement away from cash and stock.* As the role of stock becomes deemphasized in most companies, the hunt is on for other items that help redefine a compelling and differentiated offer in the market for talent. Total rewards can help do this.



FIGURE 2.1 The link between total rewards and Maslow’s hierarchy of needs.

THE TOP FIVE ADVANTAGES OF A TOTAL REWARDS APPROACH

1. Increased Flexibility

With the one-size-fits-all approach essentially gone, the twenty-first century may well become the “rewards your way” era. Just as companies create niche products and services to cater to small consumer segments (micromarketing), employers need to start creating different blends of rewards packages for different workforce segments. This is particularly true in a global labor market where workforce diversity is the rule, not the exception, and when specific skills are in short supply.

A total rewards approach—which combines transactional and relational awards

—offers tremendous flexibility because it allows awards to be mixed and remixed to meet the different emotional and motivational needs of employees. Indeed, flexibility is a two-way street. Both employers and employees want more of it.

As the importance of flexibility has become more understood, more companies are allowing employees to determine when they work, where they work, and how they work. Total rewards recognizes that employees want, and in many instances demand, the ability to integrate their lifestyle and their work.

2. Improved Recruitment and Retention

Organizations are facing key shortages of best-in-class workers (top performers), Information Technology (IT) workers with hot skills, and workers for entry-level, unskilled jobs. The classic initial solution to a recruitment and retention dilemma is to throw money at the problem. But because this solution is so overused, it does not offer a competitive advantage. Furthermore, it immediately raises costs.

A total rewards strategy is critical to addressing the issues created by recruitment and retention. It can help create a work experience that meets the needs of employees and encourages them to contribute extra effort—developing a deal that addresses a broad range of issues and spending rewards dollars where they will be most effective in addressing workers' shifting values.

Indeed, today's workers are looking beyond the "big picture" in deciding where they want to work. Work and personal life should be seen as complementary priorities, not competing ones. When a company helps its employees effectively run both their personal and work lives, the employees feel a stronger commitment to the organization. In addition, numerous studies show that employees look at the total rewards package when deciding whether to join or

stay with an organization.

An actual summary statement can be prepared for potential employees, enabling them to see the whole value of being employed by a company. As such, as highly desirable job candidates explore their options with various companies, companies with total rewards have a competitive advantage because they are able to show the “total value” of their employment packages.

3. Reduced Labor Costs/Cost of Turnover

The cost of turnover—often the driver of recruitment and retention—is sometimes invisible. In reality, it’s far from cheap. Estimates of the total cost of losing a single position to turnover range from 30 percent of the yearly salary of the position for hourly employees (Cornell University) to 150 percent, as estimated by the Saratoga Institute, and independently by Hewitt Associates (Lermusiaux 2003). In addition, the cost of turnover includes indirect costs such as losses from customers and sales, as well as decreased efficiencies as productive employees leave and the remaining workers are distracted.

4. Heightened Visibility in a Tight Labor Market

Talent shortages have become a chronic condition of business life, and experts agree that the tight labor market is going to get tighter. As a result, employers can no longer afford to simply view their employees as interchangeable parts. Organizations quickly are realizing that every employee matters even more when there are not enough employees to fill the available jobs.

In addition, demographic shifts (e.g., the increasing number of women in the workforce) coupled with new economic forces (e.g., global competition) have changed the employment landscape, creating an unprecedented need for committed employees at a time when loyalty is low. If people can find an

environment that's more in sync with their needs, they will make changes for that. Likewise, they will stay put when they feel their needs are being met.

By gaining a clear understanding of what employees value, and mixing and matching rewards within a comprehensive framework, companies can reallocate their investment dollars to match what employees say they value most, and can communicate the total package versus a patchwork of individual components.

5. Enhanced Profitability

Aside from the high costs of technology, HR professionals also are saddled with escalating benefits costs and changes in health care coverage and medical protocols. Employees want a “new deal” at the same time that companies—struggling to deliver their financial targets—are readily cutting programs to trim costs. How to balance these two realities? Change the mix.

A big misconception about total rewards packages is that they are more expensive. That's because a number of companies equate the notion of rewards with “more”—more pay, more benefits, and more combinations of rewards. What companies need to realize is that by remixing their rewards in a more cost-effective way, they can strengthen their programs and improve employees' perception of value without necessarily increasing their overall investment. It's largely a matter of real-locating dollars rather than finding more dollars.

Indeed, as companies discover the power of targeted reallocation of rewards and begin promoting the total value of their programs, they are abandoning the practice of setting pay, benefits, and other budgets in isolation, without reference to broad strategic and cost objectives. As they begin understanding their true aggregate costs—often for the first time—they are in a position to measure the extent to which their expenditures are in line with, over, or under competitive practice. And they can then measure whether they're getting a reasonable return

on their overall investment.

In addition, today's workforce includes several distinct generations, each with a different perspective of the employer-employee relationship. Most employee research indicates that younger employees place a far higher priority on work environment and learning and development than on the traditional rewards components. In contrast, older workers put more emphasis on pay and benefits. All employees are concerned with health care, wealth accumulation, career development, and time off. It simply is no longer possible to create a set of rewards that is universally appealing to all employees or to address a series of complex business issues through a single set of solutions.

The challenge is to develop and implement a flexible program that capitalizes on this diverse workforce. Valuing each employee includes understanding that everyone does not want to work the same way or be rewarded the same way. To achieve excellence, employers need a portfolio of total rewards plans.

REFERENCE

Lermusiaux, Yves. *Calculating the High Cost of Employee Turnover*. Taleo Research, 2003. www.taleo.com.