Viewpoints

Q & A

Total Rewards Today: More Holistic, More Strongly Linked to Business Strategy

Human Capital Framework: Part II

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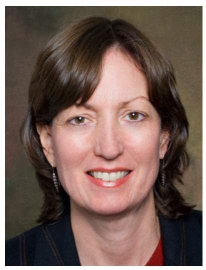

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This article is the second in a five-part series on Willis Towers Watson's human capital framework. In this discussion, our talent and reward experts examine ways the total rewards model is evolving to better help employers attract, engage and retain the talent they need to support the overall business strategy.

Q Sejen: Over the years, we've had a distinct perspective on total rewards. Why are we revisiting it now? How has it changed?

A **Wonders:** Employers have become more sophisticated in the way they understand and use the various elements of total rewards relative to the employee value proposition (EVP). We're seeing more and more organizations develop a sophisticated approach to total rewards; they're not compartmentalizing things in the old way anymore. Instead, they're looking at rewards more holistically and in a more interdependent, integrated way.

Also, the emphasis has moved from design to total rewards delivery. Willis Towers Watson's new human capital framework emphasizes how crucial leadership, communication and technology are in bringing the EVP – including total rewards – to life for employees.

Employee value proposition (EVP): the employment deal that defines what an employer expects from its employees and what it provides in return

Bremen: Employers are now connecting their reward programs with other elements of the EVP. They're learning that employees join and stay with organizations for a much broader set of reasons than many people previously assumed. We now better understand that total rewards operate in concert with a company's mission and values, the work employees do, the people they interact with, their manager and their direct reports.

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Employers now understand that some employees work for the organization because of its purpose; others are there because of the people, and others are there primarily because of the work they're doing. Total rewards play a supporting role along with those elements. And some people work for an organization primarily because of the rewards: the pay, the health insurance, the retirement plan, bonuses, stock, career development programs – any combination of those elements.

In short, today we have a deeper, more highly evolved and sophisticated understanding of the various reasons employees come to work every day and the ways to truly engage them.

Chakrabarti: In our work with leading companies, we've found very strong links between their business strategy, talent management implications, desired organizational culture and total rewards. Here's a very simple example: A company that's in a growth stage has a very different approach to reward program design than a company that's in a cost-containment/ return-on-assets orientation. Similarly, a company that has a talent acquisition strategy of growing talent from within would take a very different approach to pay progression than an employer that wants to hire the best talent from outside.

Each organization has various strategic attributes that influence its reward strategy. An efficiency-oriented employer may have more limited differentiation of rewards than an innovation-oriented company. As companies' business and talent management priorities evolve, they need to make sure their total rewards design and delivery remain aligned with those priorities and stay relevant and current.

Q Sejen: How can employers benefit by revisiting their total rewards strategy *now*?

A Wonders: There's rarely a bad time to revisit your talent and reward strategies. We find that comprehensive reviews are often prompted by a significant organizational change related to the business strategy or a transaction, such as a merger or an acquisition, or by a change in leadership at the organizational level or within HR. Right now, we're seeing very significant demographic changes in the workplace: changes in age, gender, location, and employee needs and preferences.

If an employer hasn't reviewed its reward strategy for quite some time, it's likely the strategy was created for an employee population very different from the one now in the workplace. A review is really key to ensuring that the talent and reward strategies now in place will actually attract, engage and retain the kind of people the company wants.

Even the most successful organizations can identify areas where further optimization is possible; it's often much easier to do that from a position of strength than to do it when times are hard or there's turmoil. We encourage clients to keep their reward strategy under continual review, rather than seeing the review as a periodic piece of work to be undertaken at a specific point in time. It's more of a continual process.

Chakrabarti: To build on Joris' comment, most employers can probably find opportunities to optimize their total rewards program design or delivery. There are three reasons to do so now. First, in some markets around the world, critical talent is hard to attract. Second, reward programs are among the top three drivers of talent attraction. And third, pay differentiation based on performance is a primary retention driver for high-performing employees, and that's an area that really needs improvement at most organizations.

Rewards still constitute an organization's largest human capital investment, so it's critical for employers to make sure that their reward programs are relevant, and, more important, are delivering on the expected outcomes of attracting and retaining critical talent and boosting performance.

Q Sejen: Aligning the reward strategy and programs with an organization's business strategy yields a high return. What's the incremental gain in connecting everything within a human capital framework?

A Bremen: The comprehensive set of programs that comprise the EVP represent the totality of the way employees experience their life in a given organization. If we want to align employees' efforts with what we're trying to achieve as a business, it's imperative to link all of the elements in the EVP and the desired culture back to an organization's business strategy.

Wonders: Employers sometimes struggle to demonstrate very clear links among specific talent or reward programs and their business strategy. Our human capital framework incorporates the aspects of EVP and culture. These allow employers to articulate how a talent-related or reward intervention or program supports their EVP or their culture and then, in turn, how that positively affects the business strategy. Our framework provides very specific guidance supported by our consulting to help organizations better understand how to create those links and build the programs, workplace culture and environment that can foster those desired outcomes.

Another important area to focus on is cost. The total rewards investment is very significant for most organizations, and just making sure they know how that spend is allocated will help them realize the greatest kind of return. Each change in strategy and in the market could alter a point of view on the optimal deployment of those resources.

Bremen: There's also a link to segmentation. When we look at cost, it's clearly to maximize the return on investment across the full portfolio of reward programs and the full spectrum of employee segments. There are a couple of important questions that employers need to ask relative to the drivers of attraction, engagement and retention. Ultimately, better performance at both the employee and organizational level requires knowing which drivers the organization is trying to affect, and also knowing whether the programs they're investing in are affecting those drivers to the degree the organization wants.

Chakrabarti: From my perspective, our new human capital framework achieves two key objectives. First, it helps the employer establish a stronger linkage between its reward program and its talent strategy. For example, the supply and demand for critical talent in a company's markets have a strong influence on its reward strategy. Similarly, any changes to its workforce composition prompt corresponding changes to its reward programs. The recognition that reward strategies will become even more outside-in focused than they are today will be an important shift for many organizations to make.

Second, the framework helps the employer measure the success it achieves in the four areas of program delivery: communication, process, technology and governance. For example, the framework helps leaders assess managers' readiness to communicate and support reward decisions. It also helps leaders determine whether managers understand and trust in reward processes and outcomes — two areas crucial to effective total rewards delivery.

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