



Total Rewards Strategy Alignment Study



Summary of Key Findings

Report 1 of 2

A Study on the Degree of Total Rewards Strategy Alignment With

External Environment and Key Stakeholders
Business Strategy & Organization Capabilities
People Strategy

About Grahall

AN INTELLECTUAL CAPITAL FIRM

Grahall is a cutting edge intellectual capital organization that collects and translates business, human resources, and investment information into useful forms for organizations seeking to convert knowledge assets into financial, personal, and business success.

As a thought leader with a profound understanding of the important role of knowledge assets in successful businesses, Grahall communicates its collective insights to clients/users through multiple channels.

These channels have been organized into groups of services to better support our clients. The following service channels allow us to most effectively interact with our client/user groups:

Grahall Survey and Data Services. Engages in substantive survey projects regarding critical business, human resource, and investment issues to help clients establish, refine, and improve their business, compensation and investment practices.

Grahall Research Institute. Conducts in-depth research in an effort to maintain a digital library of resources. These resources are available to assist clients with their research needs and to support Grahall's regulatory, consulting, investment, staffing, training and publishing efforts with relevant market research.

Grahall Regulatory Services. Provides clients with insightful legal, accounting, tax, actuarial and similar technical services, directly to clients or in conjunction with other Grahall business units.

Grahall Consulting Partners. Provides market leading compensation and total rewards consulting services to executives, Boards of Directors, Compensation Committees, and other management. Our methodologies are targeted to better align clients' business and people strategies with comprehensive rewards strategies through the use of advanced proprietary solutions including concepts, processes, diagnostic and analytical tools, research, and statistical and other analysis.

Grahall RewardsTemps. Provides a reliable and flexible source of compensation, benefits and total rewards contract professionals to help our clients develop and administer effective total rewards programs.

Grahall Online Solutions. A distinctive suite of web-based rewards tools targeted to human resource professionals, executives, and Directors. These tools assist the user to obtain, calculate and analyze information necessary to execute key business, people and reward strategy work.

Grahall Omni Media Center. Manages the flow of Grahall's intellectual capital to our clients/users through the publication of research reports, books, articles, press releases, investor alerts, presentations, and other mediums.

The Grahall Learning Institute. Provides advanced total rewards learning experiences to Directors, executives, and senior human resource professionals interested in expanding their total rewards knowledge beyond the scope of introductory or intermediate courses.

Grahall Investment Services. A unique and independent investment company, provides human capital research, portfolio design, and investment funds for institutional, high net worth and individual investors.

Grahall Properties. A conference and training center used by Grahall consultants, partners, and client/users seeking to create or exchange significant insights and to identify and resolve current issues affecting their respective businesses.

About This Series

A TWO PART STUDY ON TOTAL REWARDS STRATEGY ALIGNMENT

In preparation of the 2009 Business, People, and Total Reward Strategy Changes Survey, the Grahall Research Institute analyzed the interrelationship of the main factors influencing reward program design. The result is a unique database that helps organizations, in whatever business environment, understand how reward strategy can facilitate the execution of their desired business strategy.

In order to fully understand the influences on the design of rewards strategies in today's increasingly complex organizations and marketplace, Grahall researchers evaluated each of the major groups of factors that influence an organization's rewards strategy. The major groups of factors are organized within the Grahall conceptual diagram and fall into the following categories:

- > External Environment and Key Stakeholders
- > Business Strategy & Organization Capabilities
- > People Strategy

Report 1: Key Findings. Provides a summary of the most commonly reported alignment practices across all industry groups and revenue sizes.

Report 2: Key Findings and Study Results. Provides a summary of the most commonly reported alignment practices across all industry groups and revenue sizes, along with full study results and commentary on reported data.

Methodology. The research was conducted using a response form which elicited nearly 1,000 data points from each respondent regarding the various influences on reward design. Grahall researchers then made an evaluation of that data to identify strategic alignment highlights and trends.

The influences on rewards design were then categorized according to our conceptual model which provides a framework for the alignment of business, people, and rewards strategy.

This study presents the findings from the response form and includes additional discussion of strategy alignment. This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional service. If legal advice or other expert assistance is required, the services of a competent professional person should be sought.

Contributors. Grahall Research Institute extends special appreciation to Michael Dennis Graham, the author, and Claudia DeFrancisco and Pate Steele, primary contributors for the production of this report series. Questions or concerns about this report should be submitted in writing to The Grahall Research Institute (research@grahall.com).

The Influences on Total Rewards Design

THE IMPORTANCE OF ALIGNMENT

The Importance of Aligning Your Business, People, and Rewards Strategies

More often than not, companies realize their rewards programs are not effective in motivating employees to accomplish the business strategy. For example, CEOs often complain that their new business strategy doesn't have any "traction" with employees. The key is to align the firm's business, people, and rewards strategies in ways that drive the factors that reinforce the behavior and performance required to support the organization's overall business strategy.

No two organizations deliver value in the exact same way – some may be focused on the beginning of the value chain such as purchasing (Wal-Mart) or research (Intel), while others may be focused on the end of the value chain such as customer service and satisfaction (Nordstroms). That's why you need a "surgical" approach, vs. a one-size-fits-all approach, when you design a Total Rewards Strategy.

To further explore that point, if you believe customer satisfaction drives your competitive advantage, then your rewards strategy needs to be designed around rewarding those behaviors that drive customer satisfaction and loyalty. However, if your priority is to be first to market with your products, then your rewards strategy needs to be designed around rewarding those behaviors that drive reductions in production cycles. Supporting your business strategy and management processes is the heart of the Total Rewards Strategy alignment issue.

If companies build their individual reward plans in silos, they'll do a great job on individual programs, but to maximize all the tools on their playing field, an integrated approach is needed. Think of a sailboat race — As the skipper, you can trim only one sail and still make headway, but by trimming all the sails together you are maximizing your speed. Similarly, all companies are in a race against their competitors, market trends, the business cycle, and so on. It should stand to reason then that in order to ensure the most effective suite of compensation and benefit plans, all stakeholders benefit from a comprehensive and coordinated review.

From now into the future, we believe that Total Rewards are going to be the differentiator of great organizations vs. the good ones. It's the most powerful way to motivate employees to accomplish business results.

The Influences on Total Rewards Design

THE GRAHALL CONCEPTUAL DIAGRAM

The Three Primary Factors

In order to fully understand the influences on the design of rewards strategies in today's increasingly complex organizations and marketplace, Grahall researchers evaluated each of the major groups of factors that influence an organization's rewards strategy. The following is an explanation of the components of the major groups of factors within the conceptual diagram for the alignment research study. These groups of factors fall into the following categories:

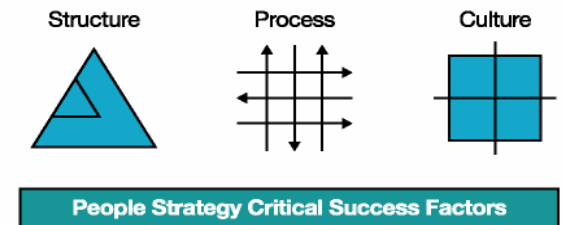
1. External Environment and Key Stakeholders



2. Business Strategy & Organization Capabilities



3. People Strategy



The Influences on Total Rewards Design

THE GRAHALL CONCEPTUAL DIAGRAM

Factor 1. External Environment and Key Stakeholders

The first major group of factors influencing rewards design is the External Environment and Key Stakeholders. While more firms understand the relationship that key stakeholders have over their rewards programs, it is also important to understand the external environment.

The influences of the **External Environment** are similar for most organizations and industries, and include:

The Public. Private and public firms can be equally affected by positive or negative attention in the Press and public perception of their products / services.

The Government. To some degree, every company is affected by federal and state regulations, including ERISA, regulatory standards, proxy reporting requirements, and so on. Of course, certain industries are more regulated than others.

Competitors. A firm's competitive landscape is shaped by the maturity and scale of its industry, including direct and indirect competitors, and the firms' response in competing against them.

Employee Unions. For those companies and industries that are unionized, their rewards programs are highly affected by Employee Unions. Many firms are forced to reconcile the interests of the employees, the union, and the firm's current and future business needs.

The types of **Key Stakeholders** affecting each organization are those that "have a stake" in the organization's success, and include:

Employees. Depending on where employees fit into an organization's overall business strategy and value chain, and the linkages they see to their personal success in concert with the firm's success, they can make or break your business, especially if the employee population is highly specialized.

Suppliers. In industries where suppliers compete for a firm's business, the firm has the upper hand. However, in industries where the list of suppliers is limited, they can wield enormous influence over an organization.

Owners. Owners have much of, but not all, the influence over an organization. Owners have their own set of influences which can positively or negatively impact them as well as the organization.

Partners. The type of, number of, and relationships between partners all influence business, people, and rewards strategy and directly impact corporate culture, structure, and communication, all of which are crucial to a firm's success.

Customers. Nearly all firms offering a product or service are highly influenced by their interaction with customers — before, during, and after the "sale." While customer opinions, expectations, and experience influence an organization, a company has the choice of determining its customer base. Therefore, only customers within an organization's target market have significant influence over the firm.

Figure 1. External Environment and Key Stakeholders



The Influences on Total Rewards Design

THE GRAHALL CONCEPTUAL DIAGRAM

Factor 2. Business Strategy & Organization Capabilities

The second major group of factors influencing rewards design is Business Strategy and Organization Capabilities. While it is typical for a firm to start out with its rewards programs aligned with its business strategy, most end up applying the “PB&J” approach — that is, trying to be equitable to all employee groups by spreading the rewards evenly across them like a Peanut Butter & Jelly sandwich. When, in fact, what they should be doing is weighting their rewards programs to favor those employees who have the most influence over business strategy and organization capabilities.

The elements of **Business Strategy** affecting your organization include:

General and Specific Business Strategies. Rewards programs are perhaps influenced the most by the firm’s business strategies. Programs should reflect the long-term objectives of the General Business Strategy, and the shorter-term objectives of the Specific Business Strategy.

Vision, Mission, and Value. Rewards programs are influenced by, and responsible for, propagating an organization’s values and spirit, both within and outside the organization.

Value Chain Strategy. The importance of various divisions / units in a company depends on their contribution to the overall success of the firm and their place in the value chain. Although often affected by the “PB&J” approach, a rewards system should reflect increased value with increased pay.

The **Organization Capabilities** influencing your organization include:

Customer Satisfaction. Customers have influence over an organization in the sense that they are in a position to provide direct and indirect feedback about their level of satisfaction with the organization’s products and services. Business strategy, and thus people and rewards strategies should reflect the company’s response to key customer capabilities.

Products and Services. An organization’s business strategy and value chain are directly influenced by the products and services it produces. As such, its rewards programs are shaped by its critical organization capabilities required to deliver its products and services.

Management and People. The layers of management, skills of its people, and the communication between them have great influence over the design of rewards programs.

Systems and Technology. The reliance or focus of an organization on Systems and Technology influences its operations, business strategy, and place on the value chain. However, there is a difference in the level of influence between technology providers and those who use technology to accomplish business objectives.

Figure 2. Business Strategy & Organization Capabilities



The Influences on Total Rewards Design

THE GRAHALL CONCEPTUAL DIAGRAM

Factor 3. People Strategy

The third and final major group of factors influencing rewards design is People Strategy including Critical Success Factors. Often misunderstood, an organization's People Strategy can be described as the way in which people are organized and process the work flow within their respective culture. All three have an enormous influence on rewards design.

The three components of **People Strategy** are explained in more detail below:

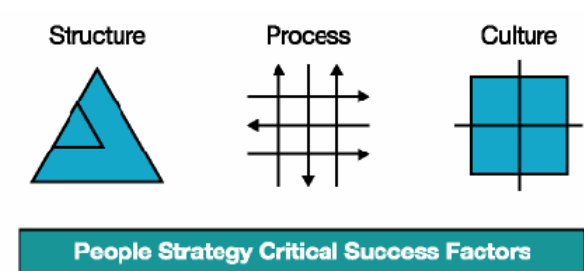
Organization Structure. Business gets done by deploying jobs and job functions in a structured way through the number of management layers and the separation of "line vs. staff" positions.

Organization Processes. Processes such as knowledge management, decision making, planning, supervision, communications, and managing change are all organizational processes that impact and are impacted by the rewards strategy.

Organization Culture. The behavioral norms and values that exist in an organization are what defines its culture. An organization communicates its values and expectations to and from owners, management, and employees through the messages "carried" by its rewards programs.

Critical Success Factors. The success of an organization's People Strategy can be measured through its Critical Success Factors. Rather than experimenting with rewards programs to see what works best (or hoping it just happens on its own), programs should be designed to encourage the behaviors and systems required to meet the Critical Success Factors.

Figure 3. People Strategy



The Influences on Total Rewards Design

THE GRAHALL CONCEPTUAL DIAGRAM

Total Rewards Architecture and Program Elements

Now that you have a basic understanding of the primary factors influencing rewards design, we can now hone in on the Total Rewards Strategy Architecture to see how the various influences are reflected in rewards plan design.

The **Total Rewards Strategy Architecture** sets the key aspects of the strategy. More specifically, the:

- > **Money** (amount or level of rewards),
- > **Mix** (the composition of various elements within the given level), and
- > **Messages** (the communication of desired behavior through rewards programs).

The Architecture provides a framework for the rewards system and its individual components which should align with the organization's Business and People Strategies. It should also communicate the organization's intentions, priorities, values, culture, and so on, and keep the organization focused on the things that are most important to its success.

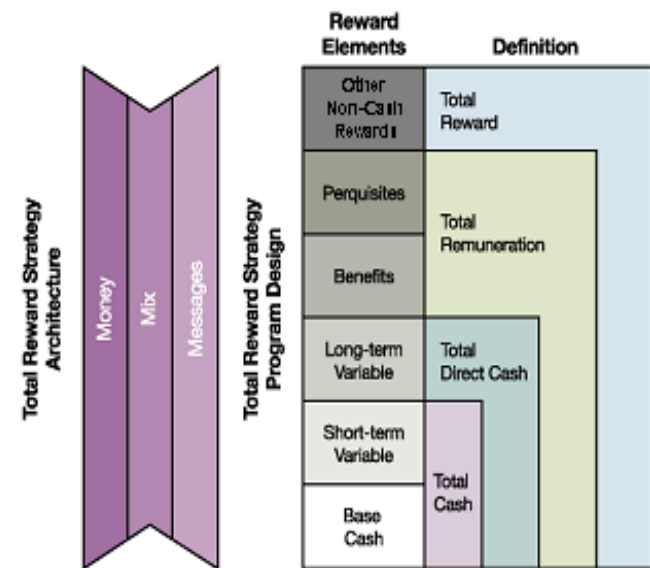
Those firms that align their Business and People Strategies and articulate that alignment in their rewards architecture are better positioned to achieve their strategic goals and objectives, optimize the incumbent/organization relationship, and leverage and support other people initiatives, creating value on many fronts.

Lastly, the Total Rewards Strategy Architecture defines the **Program Elements** in a way that facilitates the desired outcomes in the delivery of those rewards, including:

- > Competitive and fair levels of **base salaries** that attract and retain valued employees and help motivate and reinforce behaviors consistent with business strategy and culture.
- > **Incentive compensation** (short, mid, long, and career-term) that ties performance to organizational business objectives, focusing on drivers for success over the appropriate time frames.
- > Effective **benefits programs** that deliver consistent messages to incumbents and provide better organizational results (productivity, financial performance, innovation, etc.).
- > **Perquisites programs** that make cost, tax, and business sense.
- > Other non-cash rewards such as training, development, work-life, balance, and so on.

An organization that designs a Total Rewards system using this more integrated view of the connection between Business, People, and Rewards Strategies will be more aligned and considerably more successful, now and in the future.

Figure 4. Total Rewards Architecture and Program Elements



The Influences on Total Rewards Design

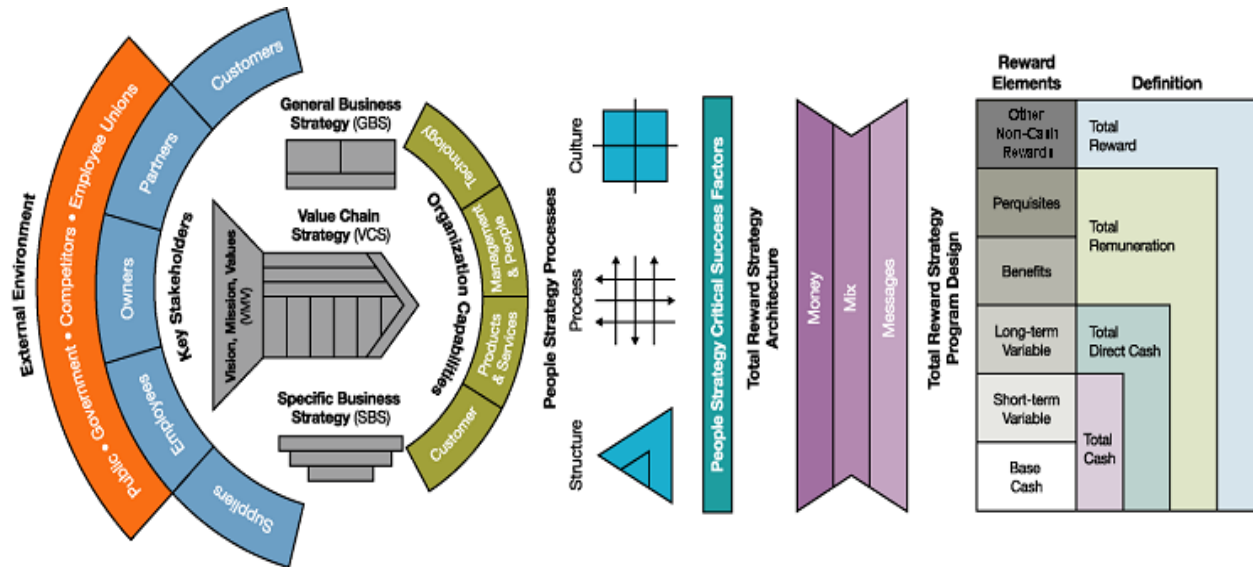
THE GRAHALL CONCEPTUAL DIAGRAM

Putting It All Together With the Grahall Conceptual Model

As illustrated below, Grahall has organized the major groups of factors influencing an organization's rewards strategy into a conceptual diagram. As you can see, the influences are not random and unpredictable. Instead, they are part of a systematic approach to designing rewards programs and aligning them with an organization's Business and People Strategies.

This study evaluates each of the major groups of factors that influence an organization's rewards strategy in order to fully understand the influences on the design of rewards strategies in today's increasingly complex organizations and marketplace.

Figure 5. Total Rewards Architecture and Program Elements



Benefits of Alignment

The company and its people are both successful.

It's becoming easier to execute on the basic business strategy.

Employees see and understand the link between their reward programs and the organization's goals and are energized and motivated to contribute.

There is frequent and productive communication across layers of management and divisions.

Symptoms of Misalignment

Employees earn big incentives by meeting targets, but the firm's performance is lacking.

Executives reach short-term targets at the expense of long-term success.

A firm develops a personality disorder because its leadership is trying to accomplish different objectives, and neither are succeeding.

Summary of Key Findings

THE GRAHALL PERSPECTIVE

According to our research, less than one in five companies say its compensation, benefits, and rewards programs are meeting their objectives. The not so surprising result — instead of motivating employees, the majority of rewards plans are often ineffective and even worse, counterproductive.

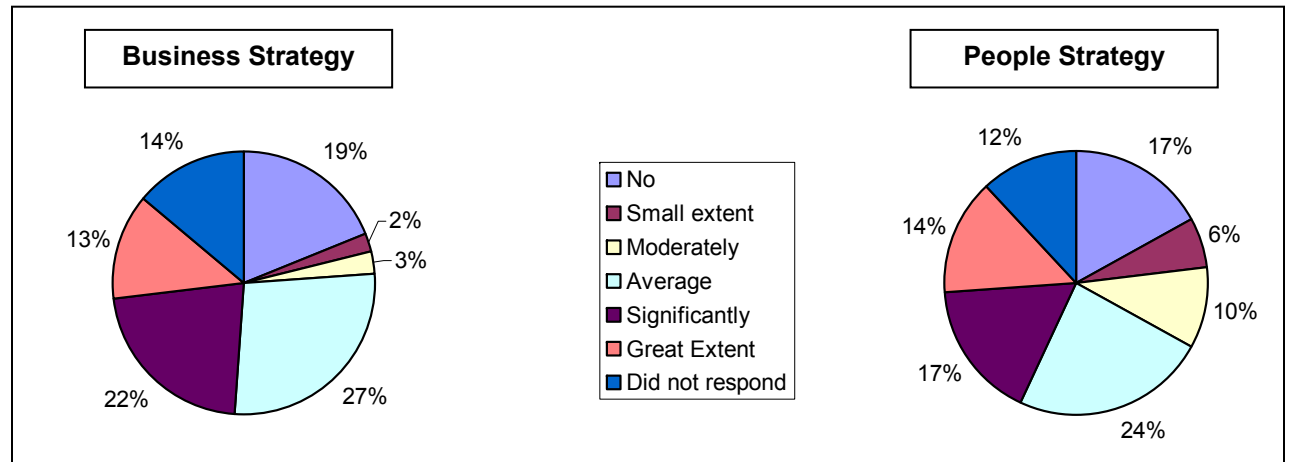
1. There is a disappointingly low level of linkage between reward strategy and business and people strategies due to companies' inability to keep pace with change.

Many of the compensation programs we studied failed to meet organizational objectives. Of the nearly 70 different types of programs tested, few “strongly met,” the majority “met,” while an alarming percentage “did not meet” objectives. Typically, those in the last category are stuck in an antiquated set of rewards programs that are neither structured appropriately nor communicated properly for today’s environment, or the business / people strategies of their firm.

One reason for this high failure rate may be a lack of alignment to organizational change. Successful organizations are often blind to changes in their environment — “If it ain’t broke don’t fix it,” is the oft- heard mantra. But this is a formula for failure, like driving your car looking in the rear-view mirror. The first thing you will hear is the loud noise of a crash. To drive safely, make sure your reward strategy matches changes in your organization. In industries that are experiencing dramatic change — such as energy — organizations are scrambling to “reinvent themselves.” But companies that do not address rewards at the same time they are redesigning their business strategy lag behind the competition, as employees are uncertain about corporate direction.

Successful change oriented-companies use rewards to communicate expectations and key messages. This necessary step is neither difficult nor painstaking but rather purposeful — although it does require the thoughtful sharing and communicating information openly, creating understanding of objectives and how those objectives are accomplished at various organizational levels, and the linkage of metrics to results.

Figure 6. Degree of Total Rewards Linkage to Business / People Strategy



Summary of Key Findings

THE GRAHALL PERSPECTIVE

2. Every firm is impacted by its environment in unique ways and should respond accordingly.

This report examines a wide variety of influential factors on rewards design by illustrating how those same factors impact the sampled group of firms. In this case, it is not important that a firm's organization profile match up well against those of the sampled firms. Instead, it is important to understand how its own external environment and profile will be affected by similar influences, so it may respond by adjusting its business, people, and rewards strategies in a manner that contributes to its success.

3. Greater influences are sure to impact an organization's rewards strategy.

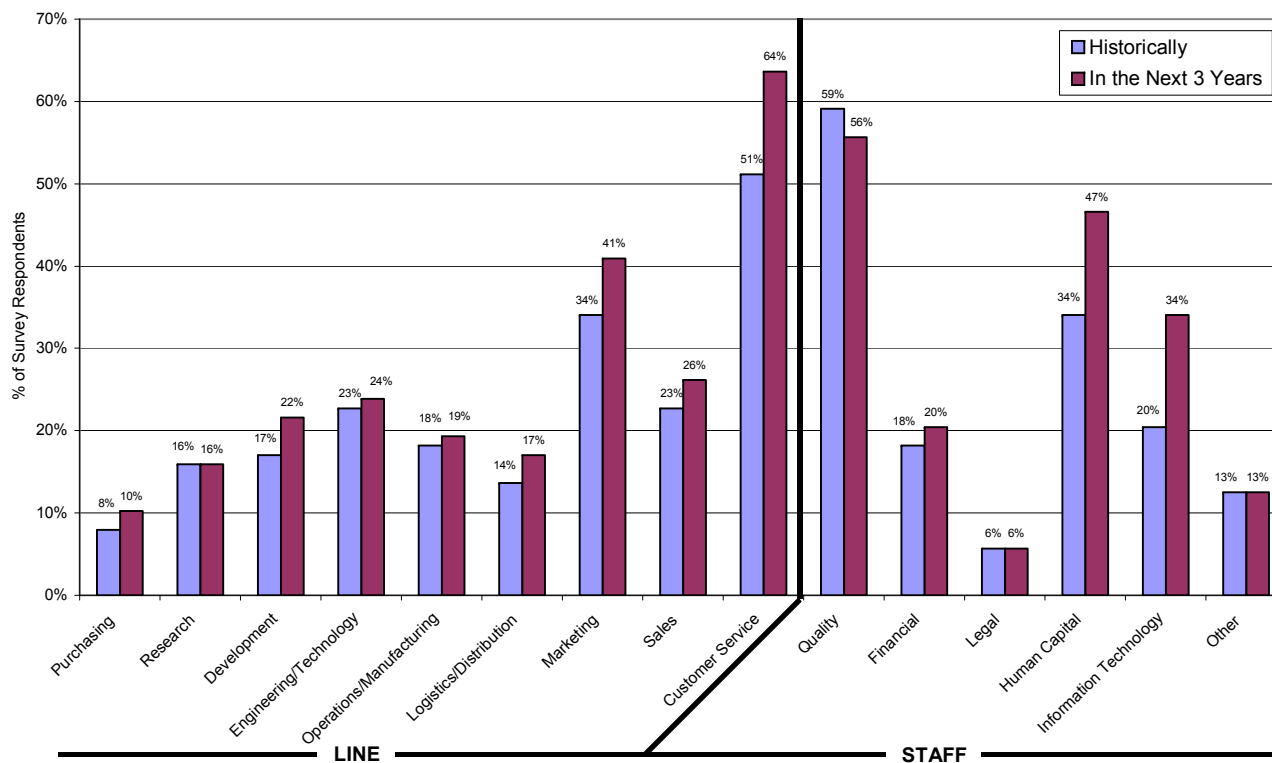
The amount of stakeholder influence over an organization, and thus its Total Rewards Strategy, is directly related to the degree of specialization of its product, service, or customer base. For example, if your product or service originates from a limited number of suppliers, they have a substantial amount of influence over you. If your ownership structure is tightly held, owners have greater influence over you.

4. On the critical positions of the value chain, the emphasis on products and operational functions is shifting toward technology and people.

In addition to increasing the number of points along the value chain where products/services are differentiated is the shift in how this occurs (Figure 7). The historical emphasis on products and operational functions of the value chain is shifting toward a more technology and people orientation. It would appear from this that building a better mousetrap is no longer good enough – you need to have the ideas, knowledge sharing and people to turn those better mousetraps into satisfied customers.

This finding has powerful implications for reward design professionals, as the dynamics of the new economy – people, speed and ideas – influence design more so than processes. Again, it speaks to focus and differentiation as organizations need to balance demographics and objectives.

Figure 7. Location of Competitive Advantage Within the Value Chain



Summary of Key Findings

THE GRAHALL PERSPECTIVE

5. Business is becoming more intensified.

The number of points of strategic differentiation, strategic initiatives, and core capabilities, the intensity of our corporate cultures, and the amplitude of our key rewards programs messages are all going up. We see a tremendous number of companies with a patchwork quilt of programs. These companies haven't taken away any rewards, and instead layered new programs on top of existing ones. The result is a confusing set of rewards that aren't focused on driving desired business results.

Figure 8 demonstrates that there is no relief; the strategic objectives, critical capabilities and cultural attributes required for success are becoming both more voluminous and intense. In response, the amplitude of the key messages delivered through rewards – the number and loudness of each – is increasing.

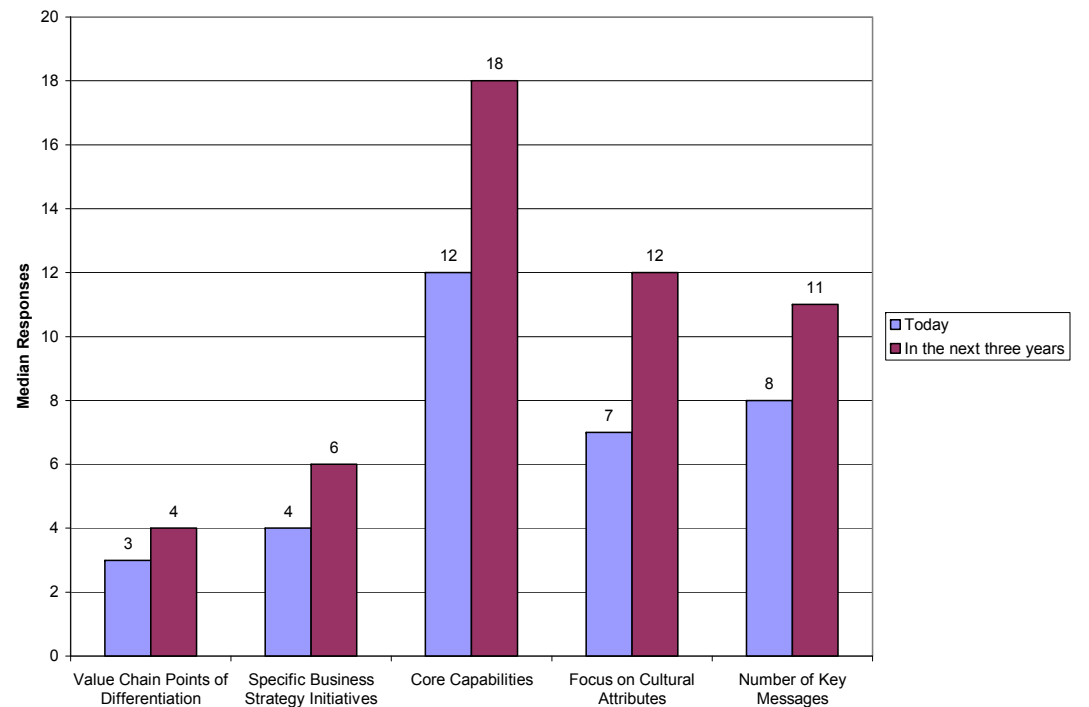
The strategic shifts demonstrates that we will be adding value to our products and services along more functions on the value chain in the future than we do currently. Most respondents currently add value at the back end of their value chain; in the future it will be at both the back end and some combination of staff functions. The specific business strategy describes how we actually go to market, assuming there are only so many things that a company can focus on at one time. The number of strategic initiatives being deployed is also growing. Clearly we are all doing more! These strategic shifts can be seen in the data as organizations indicated that they want to improve on existing capabilities (and/or add new ones) in order to gain competitive advantage over the next three years. It is intuitive that doing more will require that we are better at more things; the pressures that this places on management and people is dramatic. Rewards – it can be argued – are the strongest linkage between what the organization aspires to accomplish and the people who make it so. The lack of focus, and in some cases the disparate direction setting, needs purposeful management.

Similarly, there is a direct and corresponding intensification of our corporate cultures. We tested culture among 15 key attributes. While

we previously believed there is a cultural shift (which would have been demonstrated by some attributes gaining in significance while others diminish), it appears from our data that there is a cultural intensification – each of the key attributes of culture is becoming more significant to success. The need to manage the conflicting messages is key.

These findings manifest themselves in the amplitude of the messages being delivered through rewards. It suggests that there is a requirement for more varied reward tactics. As we need to do more with rewards, we need to have more specific reward plans to maintain that focus. This does not mean we have to pay more or deliver more rewards in total – it means we need to focus the tools we use to deliver those rewards. Managers need to have a command of all of the reward tactics required to run their business.

Figure 8. The Increasing Dimensions of Business Strategy, Core Capabilities, and Cultural Intensity



Summary of Key Findings

THE GRAHALL PERSPECTIVE

6. As company size increases, its structure becomes more complex.

The majority of firms in our study have between 3 and 5 layers to their organizational structure. As a general rule, as company size increases, the structure becomes more complex. Similarly, staff positions are an increasing sign of organization complexity and is usually a reflection of a complex product, strategy, or environment. The predominant theme at management levels is based on function, especially for executives. Middle managers, professionals, and hourly employees are assigned via function, product, or service area equally.

7. Organizations that need to change, need to plan ahead.

59% of the sampled firms indicate a plan for reorganization in the next three years. Most will do so to reduce employees, reduce the layers of management, outsource major functions, divisionalize, or centralize. Note that only one-third of sampled firms indicated a need to achieve the capacity for change as an organization critical capability, but here, almost two-thirds indicated a need to reorganize. If employers don't help employees prepare for change, their reorganizations will be more difficult.

8. An organization's key attributes are the roadmap for its messaging system.

As a key attribute, individual performance will remain critical. Team performance will become more important as will long term performance (which will become part of twice as many plans (43% to 72%)). Attracting highly qualified employees will become critical and can be messaged by what we call 'window dressing' such as hire bonuses, recruiting bonuses, entry stock and flex rewards. And, finally reward programs that build ownership mentality will become commonplace. In short, management is going to ask the reward program on balance to rightfully carry more messages to employees

The incentives and other non-equity rewards send a message about what attributes are most desired in the firm. Organizations that have cultures that maintain a high sense of urgency, capitalize on opportunities, and maximize customer satisfaction will meet the future more successfully than those that do not.

9. Total Rewards design requires stakeholder input from start to finish.

Of those organizations that did go through a formal process, most involved top management and Human Resources; however, there was no seat at the table for a lot of key stakeholders. We wonder how successful reward strategy redesigns will be when nearly 80% of employees, and close to 50% of middle/line management and even finance didn't sit in on the deliberations. Mark us as doubtful if these organization's reward strategies will be fully successful as solely efforts of management and human resources.

In addition, over half of the firms in our study indicated that their new set of programs were understood by Human Resources and All Employees. What about the other half? If employees who understand the linkage between their rewards programs and business strategy are motivated to contribute, how can an organization expect those who don't to contribute equally? The answer is – they won't...

10. Most firms play checkers — not chess.

Of course with all these "Great Expectations" we would certainly expect the organizations to review their overall rewards programs, but 64% haven't been through a formal review! Of the sampled firms that have been through a formal review, the most prominent impetus for change was outdated programs, but unfortunately, most played checkers and not chess by reviewing and adjusting individual rewards components instead of their Total Rewards programs, leaving many linkages and messaging on the table.

Summary of Key Findings

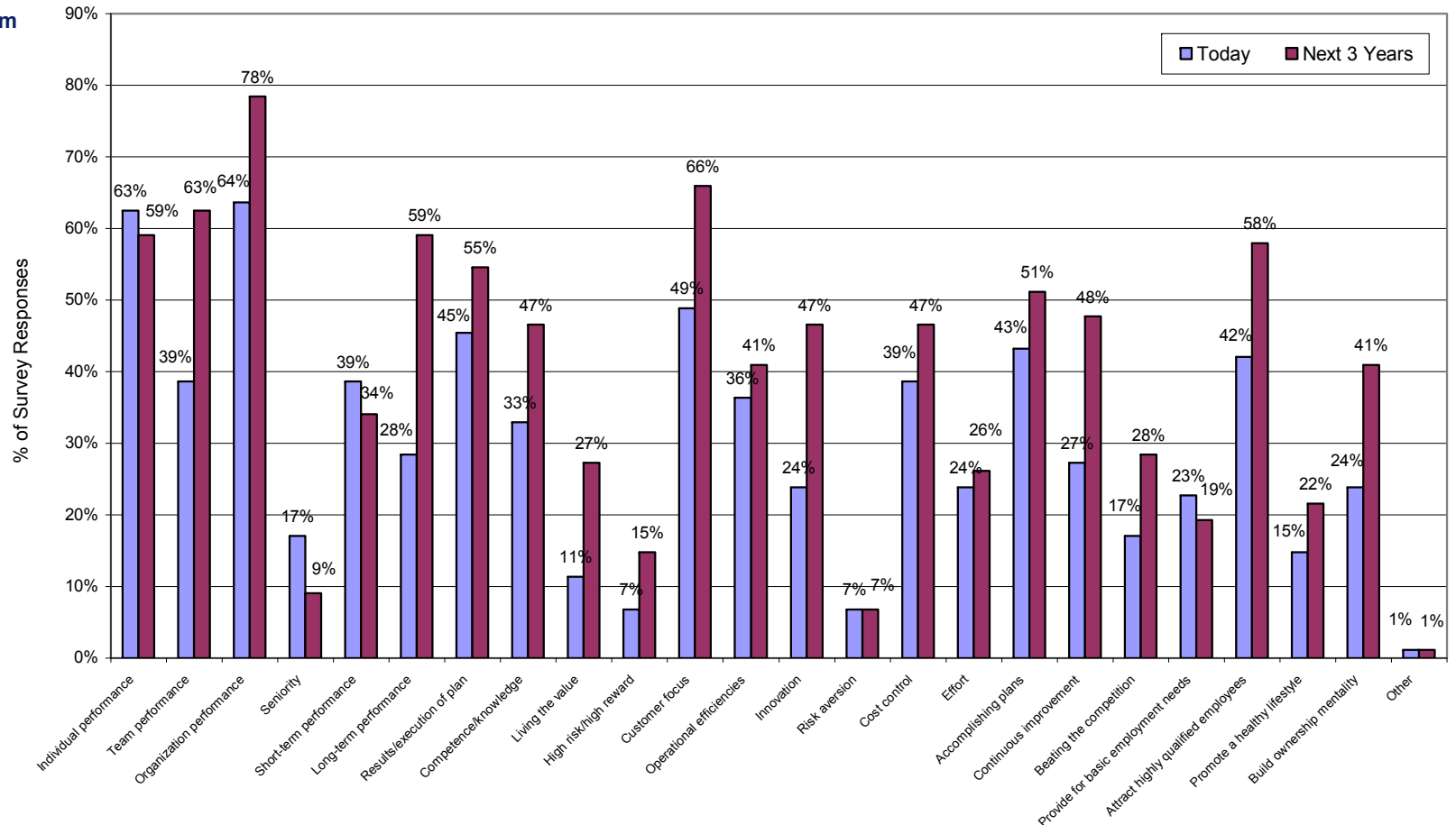
THE GRAHALL PERSPECTIVE

11. The variety of rewards programs and their customization needs to increase.

Consistent with the earlier finding that suggested an increase in the amplitude of the key messages, it appears that we are using rewards to say more to our employees (Figure 9). This suggests that the variety of plans (not the total offerings of their payouts) and their customization needs to increase. Two consistent themes are evident; there is a general shift in organizational level of measure from individual towards organization and from short to long-term. The clear message is that we are in this together for the long haul.

On average, only 10% to 15% of firms indicated that their rewards programs are strongly meeting their objectives. Congratulations to those firms. Another 10% or so indicated that their rewards programs did not meet their objectives at all. The vast majority indicated average rewards program performance. Just imagine what could happen if their rewards programs were designed well, aligned with all rewards components, and with the firm's business and people strategy as well – you'd be reading about them in the Wall Street Journal instead of the back of this report!

Figure 9. Key Reward Program Messages



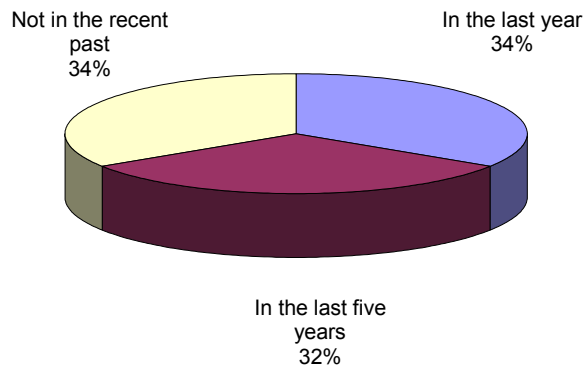
Summary of Key Findings

THE GRAHALL PERSPECTIVE

12. The pace of change and the general level of dissatisfaction suggest the need for more frequent strategy refreshers.

Without longitudinal data it is not possible to tell whether organizations are reevaluating reward strategies with any greater frequency than in the past. However, it is roughly an even split. When asked when was the last time you changed your rewards strategy one-third said recently; one-third said not in the last five years and one-third said between one and five years (Figure 10). The pace of change and general level of dissatisfaction suggest the need for more frequent strategy refreshers. Here, some old tools can be effectively deployed to update, adjust, or abandon old design.

Figure 10. When was the last time you changed your Rewards Strategy?



13. Never before have organizations been required to change, innovate, and execute with such voracity.

In the face of such change, many organizations are leaving compensation policies untouched because they require significant effort to change, are not well understood, or are considered secondary.

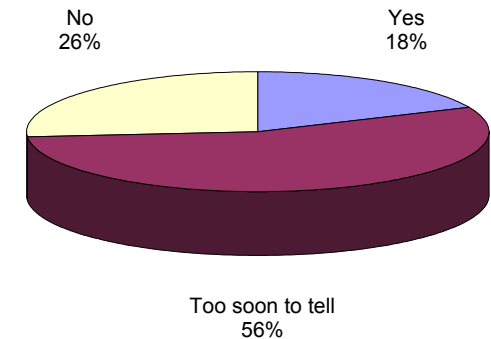
Reward plans can be like a tool rusting on a shelf. It is time now to take down this tool, refit it, and use it. Developing an effective reward program takes imagination and thought – it should not be painstakingly difficult. Compensation is more an art than a science. Each factor influences an organization with such individuality that a “single algorithm” is not feasible.

Nonetheless, there is a simple formula for success. By aligning business, people, and reward strategies, organizations can compete in even the most difficult environment.

14. Companies need to be faster and more nimble to respond to plan design inefficiencies.

It appears that companies need to be faster and more nimble to respond to plan design inefficiencies. While more than a quarter are just operating purely ineffective plans (Figure 11), it is equally as alarming that half indicate success is “too soon to tell”. Reward plans need to have mechanisms built into their design that measure their effectiveness.

Figure 11. Has your Rewards Strategy met its objectives?



Interview with the Author

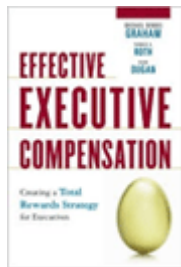
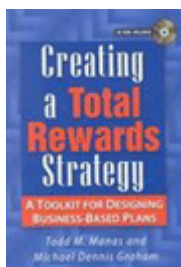
TAKING A HOLISTIC APPROACH TO REWARDS

A Total Rewards approach means leveraging all the ways an organization has to reward its executives and employees. When you implement a Total Rewards Strategy, you answer employees' most burning question, "What's in it for me?" by aligning the success of the company with that of the employee.

You start with the traditional monetary rewards – base salary, short-term incentives, long-term incentives, benefits and perquisites – then factor in nonfinancial rewards, such as culture, training, recognition, casual dress, flexible work schedules, elder care and such — you get the idea. It's a holistic approach aligned with the company's business strategy.

Because treating reward elements holistically improves your efficiency and effectiveness, it sends a much stronger message about what is expected of employees.

Other Publications by Michael Dennis Graham



1. What's the downside to not taking a holistic approach?

The alternative to a Total Rewards Strategy is a scattered approach – dealing with one benefit plan at a time, which happens a lot because compensation and benefits disciplines are often separate areas of the company. There are several downsides. First, individual programs aren't integrated into the overall compensation package and you can end up with elements that are out of balance. Second, costs can spiral out of control when you don't look at each program in terms of its costs over the program's life. Third, you run the risk of offering and paying for rewards employees no longer value.

We see a tremendous number of companies with a patchwork quilt of programs. These companies haven't taken away any rewards, and instead layered new programs on top of existing ones. The result is a confusing set of rewards that aren't focused on driving desired business results.

2. What drives a company to move to a Total Rewards approach?

More often than not, companies realize their compensation and rewards programs are not effective in motivating employees to accomplish the business strategy. It's typically a question of impact; they're not looking for a cost-saving measure.

3. Rewards strategy and design have typically been the province of HR. Why should C-suite executives be involved in the Total Rewards program?

A Total Rewards Strategy is the largest and one of the most manageable items on a company's expense sheet. You can't control the marketplace or the competitive landscape, but you have virtually 100 percent control over your rewards program.

CEOs often complain that their new business strategy doesn't have any "traction" with employees. But the key is, you get what you pay for. If you value customer satisfaction, for example, then your rewards strategy needs to be designed around rewarding those behaviors that drive customer satisfaction and loyalty.

Just as important, CEOs bring a different perspective to rewards decisions than HR executives. CEOs focus on driving business results. HR often has to focus on making things equitable among employees. But if Total Rewards are designed to communicate business outcomes, being equitable isn't a main driver.

Interview with the Author

TAKING A HOLISTIC APPROACH TO REWARDS

4. How valuable are non-cash rewards to today's employees?

Actually, pay is No. 8 on the list of employee motivators! While it's true that most people work for a paycheck, base pay isn't the biggest motivator. And think about it this way: Cash is a commodity, so it can't differentiate one company from another: It is the intangibles that distinguish. Besides, when it comes to money, someone will always pay more. The opportunity lies in differentiating your company with additional programs that employees value. Those programs send messages that retain and engage employees, as well as get them to leave when it's time to move on.

For example, we had a client that started out as a fast-growth company and was transitioning to an operationally focused company. We worked to change their compensation programs because their messages and corporate objectives changed. For them, the relative value of stock options decreased because executives were less interested in company stock and more interested in building wealth and diversification. So we devised a supplemental retirement plan that acted like a defined benefit plan, but was tied to long-term company performance metrics. We rotated them away from stock options and toward wealth building, which communicated that they were in it for the long haul and offered the diversification that executives wanted.

5. What metrics show whether or not a Total Rewards Strategy is having the desired effect?

There's not a single measure, but in general, companies that use a Total Reward Strategy have a higher return on investment. They get continual improvement in their stated objectives. It's not solely because of the Total Reward Strategy, but because they are focusing on essential business strategies and the rewards strategy reinforces that behavior. You also see results in employee attitude surveys: Employees tend to view their leadership team as being well-organized and well-deployed. Without a good Total Rewards Strategy, leaders tend to be more individually focused.

6. How important is communication to a strong Total Rewards Strategy?

Communication is key. You can't stop delivering the message until every last man and woman is engaged. And as companies strive to be recognized as employers of choice, they need their employees to really understand the value of all the benefits they offer. Communication of compensation and benefits programs has to be directly linked to the accomplishment of business strategies – to the sustainability of the organization – and to the development of employees' skills and competencies. Communications fall on deaf ears when they only contain the facts about the plan, that it's good or that it's competitive. Those aren't "impact" messages. If you don't design all the programs together to support the business strategy, and you don't communicate them all together in the context of the business strategy, there's no sizzle in the steak, no icing on the cake!

Eight Major Reasons for Employee Turnover

- > Opportunity to learn new skills (e.g., on-the-job training)
- > Coaching and feedback from manager
- > Nature of work
- > Ability of top management to lead the company successfully in the future
- > Recognition for a job well done
- > Respectful treatment by supervisors
- > Training and development opportunities (e.g., formal training)
- > Pay -- both direct and indirect

Source: Creating a Total Rewards Strategy: A Toolkit for Designing Business-Based Plans

Interview with the Author

TAKING A HOLISTIC APPROACH TO REWARDS

7. How critical is process to the overall success of a Total Rewards Strategy?

It's not about the end of the journey; it's about the journey itself. Process is extremely critical because the management team has to be in consensus about the rewards program and it has to build consensus among all the critical stakeholders. These can include the board, key customers, partners, rank-and-file employees. The process should involve their input. If it reflects the input of an outside consultant, it's probably doomed to failure.

8. Should rewards be tailored within an organization?

Absolutely. What motivates a 30-year-old is different than what motivates a 50- or 60-year-old. Also, retention plans for highly sought after employees should be very different than those for the general population. This is really the heart of the issue. Within a company, no two organizations deliver value in the exact same way – some may be focused on the back end of the value chain, others may be more customer-focused. They are each striving to accomplish different things. That's why you need a "surgical" approach, vs. a one-size-fits-all approach, when you design a rewards strategy.

9. How does a Total Rewards approach differ from a one-off decision about compensation?

Say a company needs to change its deferred compensation plan to comply with 409A regulations. You can make fixes to the program to solve that issue. But a Total Rewards approach would look at what the deferred comp plan is designed to provide in terms of the business strategy; how it is part of the overall compensation strategy and if it would be better to look at how you're paying your executives overall.

10. What's the typical shelf life for a rewards program?

There's probably a rule of thumb that says if you go more than three to five years without looking at your company's strategies, results, environment and how well your rewards are working, you're probably on the edge of insanity.

The greater the pace of change, the greater the need to change your reward plan. And change takes many forms: What legislation is being enacted? Is the company going to move from growth to value? Has the company recently become profitable, or will they have losses to carry forward for some time? Are they acquisitive or divesting unproductive business units? The bottom line is that you change the rewards program when the company's goals, strategy and financial positions change.

11. What are the latest trends in Total Rewards programs?

Trends can be dangerous because the vast majority of companies aren't doing what the high-performing companies are doing. We believe the important trends to interpret are the ones outside the areas of HR and comp and benefits.

Take a trend like mass customization, which focuses on delivering personalization and customized solutions to a broad population at a mass production price. We're realizing that one set of comp and benefits resources are not effective to meet the needs for an entire employee population. What's important for someone who's single is different than what's important for someone with a family, so you need to have programs that people can easily customize for their needs.

Branding is another example. That's a trend that started in the marketing world, but has huge implications for HR, because branding your rewards strategy is an effective way to communicate what your company stands for and its position in the marketplace.

12. Why should our readers consider implementing a Total Rewards Strategy?

If companies build their benefit plans in silos, they'll do a great job on individual programs, but to maximize all the tools they have to play with, they need an integrated approach. Think of a sailboat race. As the skipper, you can trim only one sail, and still make headway, but by trimming all the sails together, you are maximizing your speed. All companies are in a race against their competitors, market trends, the business cycle and so on. It should stand to reason that in order to ensure the most cost effective, tax efficient, suite of compensation and benefit plans, all stakeholders benefit from a comprehensive and coordinated review.

We believe that Total Rewards are going to be the differentiator of great organizations vs. the good ones. It's the most powerful way to motivate employees to accomplish business results.