The WorldatWork Handbook of Compensation, Benefits & Total Rewards

WorldatWork
The WorldatWork Handbook of Compensation, Benefits & Total Rewards

A Comprehensive Guide for HR Professionals

WorldatWork®
Contents

Introduction: Redefining Employee Rewards
Anne C. Ruddy, CCP, CPCU, President, WorldatWork  xx
About the Author  xxii

1. Total Rewards: Everything That Employees Value in the Employment Relationship  1
   • Broadening the Definition of Total Rewards  2
   • Evolution of the WorldatWork Total Rewards Model  5
   • Exploring the Key Areas
     – Compensation  12
     – Benefits  12
     – Work-life  13
     – Performance and Recognition  13
     – Development and Career Opportunities  13

2. Why the Total Rewards Approach Works  14
   • The Top Five Advantages of a Total Rewards Approach  15
     – 1. Increased Flexibility  15
     – 2. Improved Recruitment and Retention  16
     – 3. Reduced Labor Costs/Cost of Turnover  16
     – 4. Heightened Visibility in a Tight Labor Market  16
     – 5. Enhanced Profitability  17

3. Developing a Total Rewards Strategy  18
   • The Total Rewards Blueprint  18
   • Five Common Ways a Total Rewards Strategy Can Go Astray  19
   • Crystallizing the Spirit of Your Total Rewards Plan  20
   • Issues That a Total Rewards Strategy Should Address  24
     – 2. Clear, Compelling Strategies Help Identify Potential Friction Points  26
   • The Bottom Line  27

4. Designing a Total Rewards Program  28
   • Step 1: Analyze and Assess  28
     – Why Conduct an Assessment?  28
     – How to Conduct an Assessment  29
     – What to Consider in an Assessment  30
   • Step 2: Design  31
     – Define the Corporate Mission and Vision  32
     – Define the Business Strategy  32
     – Define the HR Philosophy and Strategy  32
     – Define the Total Rewards Philosophy Statement  33
     – Define Your Total Rewards Strategy  33
• Step 3: Develop
  – Program Purpose/Objectives
  – Eligibility
  – Baseline for Measurement
  – Funding
  – The Concept of Present Value
  – Selection of Rewards Elements and Structure
  – Creating the Rewards Mix
  – Global Considerations
  – Course of Action/Timeline

• Step 4: Implement
  – Obtain Senior Management Approval
  – Form an Implementation Team

• Step 5: Communicate
  – Building a Trusting Relationship
  – Know the Facts
  – Crystal Clear Communication
  – Honesty: The Best Policy
  – Audience
  – Management
  – Front-Line Supervisors
  – Employees
  – External Audiences
  – Key Messages
  – Media
  – Budget
  – Timeline
  – Feedback
  – How to Communicate Bad News

• Step 6: Evaluate and Revise
  – The Review Process
  – Measurements
  – Quantitative Measurements
  – Qualitative Measurements
  – Evaluative Outcomes

5. Communicating Total Rewards
  • A Communications Approach with Oomph
  • The Power of Communication
  • Top Management Buy-In
  • The Bottom Line
  • Communication Fundamentals
  • Models of Communication
  • The Communication Process
    – Step 1: Analyze the Situation
    – Step 2: Define the Objectives
    – Step 3: Conduct Audience Research
• Communicating the Program’s Richness
  – Compensation
  – Benefits
  – Work-Life
  – Performance and Recognition
  – Development and Career Opportunities
• Special Situations
  – Communicating with Various Levels of Employees
  – Mergers and Acquisitions
  – Communicating in a Union Environment
  – Off-Shift, Off-Site, and Remote Location Employees
  – Global Communications
• Media Considerations
  – Branding
  – Employer Branding
• A Case Study: Southern Company
• Total Rewards Branding
• Media Choices
  – Written Communication
  – Technology-Based Communication
  – Content
  – Resources and Priorities
  – User Feedback
  – Adding Information
  – “Three Clicks” Rule
  – Graphics
  – Verbal Communication
  – Audiovisual Communication
• Implementation
• Planning a Campaign
  – Project Management
  – Project Planning
• Managing a Campaign
  – Preintroduce the Communication Campaign
  – Communication during Program Rollout
  – Gathering and Responding to Employee Feedback
  – Evaluation
  – Working with an Internal Communication Department
  – Working with External Specialists
• Measuring Return on Investment
  – Define Measurements
  – Track Statistics
  – Investigate Cost Savings
• Critical Outcomes
6. **Compensation Fundamentals**

- The Foundation: A Compensation Philosophy 87
- Characteristics of Compensation Programs 90
- Elements of Compensation 91
- The Basics: Base Pay 92
- Job Analysis 92
- Job Evaluation 94
  - Market-Driven Systems 94
  - Job-Worth Systems 94
  - Differences between Market-Driven and Job-Worth Systems 95
  - The Future Is Now 96
- Market Analysis 97
- Salary Ranges 98
- Competencies 101
- Incentive Pay 102
- Design Elements 102
- Reasons for Failure 104
- Management of Pay for Performance 105
  - Designing a Merit Increase Matrix 105
  - Overseeing Salary Management 107
- Effective Compensation Management 107

7. **Regulatory Environment: The FLSA and Other Laws That Affect Compensation Practices**

- Fair Labor Standards Act of 1938 109
  - What Is the FLSA? 112
  - Who Does the FLSA Affect? 113
  - What Is Covered? 113
  - What Is Not Covered? 117
  - Classifications 118
  - Determination Tests for Classifying Exempt Employees 119
  - Rates of Pay 120
  - Overtime 123
  - Commissions in Overtime Calculations 125
  - Overtime Pay and Special Cases 126
  - Common Problems in Computing Overtime 126
  - Exclusions from Overtime Payment 127
  - The FLSA/FMLA Interplay 128
  - The FLSA and FMLA Regulatory Background 128
  - Special Calculations 129
  - Court Rulings 130
  - Safe Harbor 130
  - FLSA Violations and Penalties 131
  - Violation-Related Definitions 131
  - Effect of Improper Deductions from Salary 132
  - What Prompts an Audit? 132
  - Common FLSA Violations 133
- Sherman Antitrust Act of 1890 135
  - Enforcing Antitrust 137
- Davis-Bacon Act of 1931 137
• National Labor Relations Act 137
• Walsh-Healey Act 137
• Service Contract Act 138
• Anti-Discrimination Laws 138
  – Equal Pay Act of 1963 138
  – Title VII of the Civil Rights Act of 1964 139
  – Age Discrimination in Employment Act of 1967 140
  – Executive Order 11246 140
  – Vocational Rehabilitation Act of 1973 141
  – Vietnam Era Veterans Readjustment Act of 1974 141
  – American with Disabilities Act of 1990 141

8. Market Pricing 143
• Where Do You Begin? 144
• Job Analysis 144
• Job Documentation and Job Descriptions 145
• Job Evaluation 145
• Benchmark Jobs 145
• Collecting the Right Data 146
• Decision Factors in Collecting Market Data 146
• Know the Market: Half the Battle 147
• Gathering Valid Data 148
• Data Sources 149
  – Purchase Published Surveys 149
  – Conduct Your Own Survey through a Third Party 150
  – Use Free Sources 151
• Capturing Competitive Market Data for High-Demand Jobs 151
• Crunching Numbers 151
• Options for Measuring Central Tendency 152
• Percentiles 153
• Aging Data to a Common Point in Time 153
• Weighting Market Data across Survey Sources 154
• Developing Market Index of Competitiveness 154
• Market Blips—A Word of Caution 156
• Approaches to Program Costs 157
  – All-at-Once Approach 158
  – Phase-In Approach 158
  – Wait-and-See Approach 158
• How to Keep Employees in the Loop 158
  – Who Should Communicate the Message? 159
  – What Information Should Be Communicated? 159
• Opening the Pay Dialogue 160

9. Salary Surveys: A Snapshot 161
• The Big Picture 161
• Definition and Purposes 163
• Benchmark Surveys 164
  – Which Jobs to Survey 164
  – Survey Job Descriptions 165
  – Which Companies to Survey 165
– Data to Be Gathered 166
– More Than Just Salaries 166
– Review the Survey Database 167
– When to Conduct an Ad Hoc or Special Survey 168
• Job Matching 168
• Job Title and Characteristics 170
• Survey Frequency 172
• Stretching the Salary Survey Budget 173
• Behind the Scenes 174
  – Preparation 174
  – Gather Data 174
  – Creating the Master File 174
  – Initial Reports 175
  – Final Results 175
• The Compensation Practitioner’s Role 175
  – Extracting Data 176
  – Synchronizing Surveys with Economic Data 176
  – Communications 177
• Salary Survey Guidelines 177
  – Best Practices in Survey Selection 178
  – Characteristics of Good Salary Surveys 178

10. Job Analysis, Documentation, and Evaluation 180
• Job Documentation 182
• What Is a Job? 184
• Job Analysis: A Step-by-Step Process 185
  – Step 1: Obtain Management Approval 185
  – Step 2: Gain Employee Acceptance 186
  – Step 3: Decide Who Will Conduct the Analysis 187
  – Step 4: Think in Terms of Work Flow 187
  – Step 5: Consult Secondary Sources First 189
  – Step 6: Decide Method and Collect Data 190
  – Step 7: Document the Analysis 199
  – Step 8: Obtain Necessary Approvals 202
  – Step 9: Test for Legal Compliance 202
  – Step 10: Conduct a Reality Test 203
  – Step 11: Formulate Specific Recommendations 203
  – Step 12: Keep Up-to-Date 203
• Job and Work Analysis: Weighing Costs and Benefits 204
• Job Evaluation 205
• Internal Job Evaluation—Nonquantitative Methods 205
• Internal Job Evaluation—Quantitative Methods 208
• Internal Job Evaluation—Point Factor 213

11. Base Pay Structures 223
• Pay Structures 223
• General and Specific Factors Affecting Pay Structures 224
• Anatomy of a Pay Structure 226
• Pay Ranges and Range Spreads 226
  – Some Practical Considerations 227
• Midpoints 229
• Range Penetration 230
• Midpoint Progression 231
  – Three Approaches to Developing Midpoints 231
• Pay Grades 232
  – Segmentation of Pay Grades 232
  – Pay-Grade Overlap 233
  – Multiple Pay Structures 233
• Developing a Pay Structure 233
  – Internal Equity 233
  – External Competitiveness 236
  – Defining Competition 237
• Key Steps in Designing an Effective Pay Structure 237
  – Step 1: Review Overall Point Differentials 238
  – Step 2: Rank Order Jobs by Total Evaluation Points 239
  – Step 3: Develop Job Groupings 240
  – Step 4: Develop Preliminary Point Bands 240
  – Step 5: Check Intrafamily and Supervisory Relationships 242
  – Step 6: Incorporate Market Data 242
  – Step 7: Review Market Inconsistencies 244
  – Step 8: Smooth Out Grade Averages 245
  – Step 9: Review Differences between Midpoints and Market Averages 246
  – Step 10: Resolve Inconsistencies between Internal and External Equity 246
• Pitfalls and Precautions 247
• Broadbanding 248
• Starting Rates of Pay 249
• Increases to Base Rates of Pay 249
• Merit Pay Considerations 252
• Performance Appraisal Considerations 252
• Maintaining and Auditing the Pay Program 253
• Keys to Successful Pay Program Maintenance 254
• Ongoing Administrative Activities 254
• Pay Program Audits 254
  – Five Steps to Prepare for and Conduct Pay Program Audits 254

12. Sales Compensation Fundamentals 257
• Working with the Sales Organization 257
• Six Areas of Sales Compensation Plan Involvement 260
  – 1. Problem Resolution 261
  – 2. Design and Implementation Process 262
  – 3. Sales Compensation Guiding Principles 263
  – 4. Competitive Pay Assessments 264
  – 5. Industry Trends and Practices 264
  – 6. Plan Effectiveness Assessment 265
• Learning a New Language 265
• Compensation Tied to Total Rewards 266
  – Direct and Indirect Financials (Total Pay) 266
13. Executive Compensation: An Introduction

• Owner-Manager Conflict: Agency Theory 288
• Other Theories That Explain and Influence Executive Compensation 289
• External Influences on the Executive Compensation Package 291
• Sources of Data on Executive Compensation 292
• Components of Executive Compensation 293
  – Salary 293
  – Bonus 293
  – Stock Options 294
  – Stock Grants 294
  – Other Stock-Based Forms of Compensation 295
  – Pensions 295
  – Benefits and Perquisites 296
  – Severance Payments 296
  – Change-in-Control Clauses 297
• Making the Offer Attractive 297
• Providing the Proper Incentives 297
• Designing the Contract to Retain the Executive 299
• Restrictions 299
• Minimizing Costs to the Corporation 300

14. Linking Pay to Performance

• Determining What to Reward 312
• Documenting Performance Standards 313
• Establishing a Merit Budget 315
• Determining Budget Size 316
• Determining Budget Allocation 316
• Setting Merit Pay Policy 317
• Policy Decisions 317
  – Size: Absolute vs. Relative 318
15. Cash Bonus Plans and Recognition Programs 338

- What Is a Sign-on Bonus? 338
- Size of Sign-on Bonus 339
- Claw Back Clause 340
- Aligning the Sign-on Bonus with Total Rewards 341
- Executive Sign-on Bonus 341
  - *Golden Hellos* 341
- Potential Pitfalls 342
  - *Causes Resentment among Existing Employees* 342
  - *Relocation Expenses* 342
  - *Lack of ROI Data* 342
  - *Taking a Risk* 342
- Communicating the Sign-on Bonus 343
- What Is a Referral Bonus? 343
- Eligibility 344
- Timing of Cash Award Distribution 344
- Promoting an Employee Referral Program 345
- What Is a Spot Bonus? 348
- Size of Spot Bonus 349
- Spot Recognition Program Guidelines 349
- How to Effectively Use Spot Recognition 351
- Potential Pitfalls 352
- Conducting the Recognition Event 352
- Documenting Recognition 354
- Communicating the Spot Program 354
  - *Who Does the Recognizing?* 354
Contents

- Legal and Tax Requirements 355
  - Determining Tax Liability 355
  - Legal Compliance 355
- What Is a Retention Bonus? 356
- Building a Business Case 357
  - Instrumental in Meeting Organizational Goals 360
  - Combating Turnover 360
- Retention Bonus Q&A 361
  - ERISA Implications 363
- Potential Pitfalls 363
- Communicating the Retention Plan 364
- Cash Bonuses in the Total Rewards Mix 364

16. Equity-Based Rewards 366

- Business Structures 366
- Compensation Plans Using Equity 367
- Benefits Plans Using Equity 368
- Equity Terminology 368
- Evolution of Equity-Based Rewards 369
- Evolution of Stock Options 369
- Evolution of Benefits Plans Using Equity 370
  - ESPPs 370
  - ESOPs 370
- Why Equity Is Used to Reward Employees 370
- Legal, Tax, and Accounting Issues 371
- Impact of Legislation on Equity-Based Rewards Programs 371
  - Internal Revenue Code 371
- Forms of Taxation—Employee 372
- Forms of Taxation—Employer 374
- Accounting Basics—Financial Statements 374
  - Income Statement 375
- Accounting for Equity-Based Rewards 375
  - APB 25 376
  - FAS 123(R) 376
  - Equity Accounting Continuum 376
  - Impact of Mandatory Expensing 377
  - Shareholder Issues 377
- Overview of Stock Options 378
  - Key Dates 378
  - Stock Option Characteristics 379
  - Advantages of Stock Options 379
  - Disadvantages of Stock Options 380
- Types of Stock Options 380
  - Incentive Stock Option (ISO) 380
  - Nonqualified Stock Option (NQSO) 382
- Types of Stock Awards and Alternatives 382
  - Performance Share Plan (PSP) 383
  - Restricted Stock Award (RSA) 384
  - Restricted Stock Unit (RSU) 386
  - Performance Accelerated Restricted Stock Award Plan (PARSAP) 386
17. Employee Benefits Basics 397

- Historical Perspective of Benefits 397
- Elements of Benefits 399
  - Income Protection Programs 401
  - Pay for Time Not Worked Programs 401
- Benefits Plan Objectives 401
  - Employer Objectives 402
  - Employee Objectives 402
- Government Regulation of Benefits Plans 403
  - Equal Employment Opportunity Commission (EEOC) 406
  - Department of Labor (DOL) 406
  - Securities and Exchange Commission (SEC) 406
  - Pension Benefit Guaranty Corporation (PBGC) 406
- Statutory Benefits 407
  - Social Security 407
  - Workers’ Compensation 410
  - Unemployment 410
  - Nonoccupational Disability 411
- Health and Welfare Plans 411
  - Health and Welfare: A Brief History 411
  - Health and Welfare Plan Elements 412
- Health Care 412
  - Health Maintenance Organization (HMO) 412
  - Preferred Provider Organization (PPO) 412
  - Point of Service (POS) 413
  - Point of Service (POS) Key Characteristics 413
  - Indemnity Plans 414
  - Prescription Drugs 415
  - Behavioral Health 415
  - Dental Plans 415
  - Vision 416
  - Long-Term Care 416
• Disability Income 416
  – Sick Leave 416
  – Short-Term Disability (STD) 416
  – Long-Term Disability (LTD) 416
• Survivor Benefits 417
  – Term Life Insurance 417
  – Accidental Death and Dismemberment (AD&D) 417
  – Supplemental Life Insurance 417
  – Dependent Life Insurance 417
• Flexible Benefits 418
• Retirement Plans 418
  – Defined Benefit (DB) Plans 418
  – Defined Contribution (DC) Plans 420
• Pay for Time Not Worked Benefits 422
  – Vacation 422
  – Sick Leave 422
  – Legal Holidays 422
  – Bereavement Leave 423
  – Military Leaves 423
  – Jury Duty 423
  – Personal Holidays 423
  – PTO (Personal Time Off) Banks 423
• Other Benefits 423
• The Importance of Effective Communication 424
  – Legal Requirements 425
  – Cobraize Employees 425
  – Creating and Building Awareness of Benefits 426
  – Enhancing Confidence and Trust 426
  – Involve Employees in Benefit Changes 426
• Projected Benefits Trends 427

18. Benefits Compliance: An Overview for the HR Professional 428

  • The Employee Retirement Income Security Act of 1974 (ERISA) 428
    – The Nature of the Pension Promise: Defined Benefit vs. Defined Contribution 429
    – The Scope of ERISA 430
    – Regulatory Exemptions 432
    – Reporting and Disclosure 433
    – The “Written Plan” and Claims Procedure Requirements 434
    – The Summary Plan Description 436
    – Plan Assets and the ERISA Trust Requirement 436
    – Minimum Participation Standards 437
    – Minimum Vesting Standards 437
    – Benefits Accrual Requirements 439
    – Form of Payment of Benefits Requirements 439
    – Minimum Funding Standards 440
    – Fiduciary Duties 440
    – COBRA Group Health Plan Continuation Coverage Requirements 441
19. Worker Privacy, Unpaid Leave, and Other Benefit-Related Laws That Protect the Individual

- The Health Insurance Portability and Accountability Act of 1996 (HIPAA)
  - Title I: Group Health Plan Portability
  - Title II, Subpart F: Administrative Simplification
- The Newborns’ and Mothers’ Health Protection Act
- The Mental Health Parity Act of 1996
- The Women’s Health and Cancer Rights Act of 1998
- Family and Medical Leave Act of 1993 (FMLA)
  - Employer Coverage, Employee Eligibility and Leave Entitlement
  - Intermittent Leave
  - Substitution of Paid Leave
  - Health Care Providers
  - Maintenance of Health Benefits
  - Job Restoration
  - Employee Notice and Certification
  - Employer Notice and Certification
- Nondiscrimination Laws
  - Title VII of the Civil Rights Act of 1964
  - Age Discrimination in Employment Act of 1967 (ADEA)
  - Americans with Disabilities Act of 1990 (ADA)
- Uniformed Services Employment and Re-employment Rights Act of 1994 (USERRA)
  - Profit-Sharing Contributions Required
  - 401(k) Contributions
  - Re-employment Rights
  - Benefits Entitlement
  - Military COBRA Rights Required
• Worker Adjustment and Retraining Notification Act of 1988 (WARNA)
  – Plant Closing
  – Mass Layoff
  – Impact on Employee Benefits
• In Closing

20. Planning Benefits Strategically
  • Internal and External Influences on Strategy
  • The Strategic Planning Process
  • Approaches to Strategic Benefits Planning
    – Top-Down Approach
    – Backing-in Approach
  • Who’s Managing the Strategic Benefits Planning Process?
  • Design and Implementation
    – Step 1: Developing a General Philosophy
    – Step 2: Understanding the Environment
    – Step 3: Creating the Design Blueprint
    – Justifying Costs
    – Step 4: Testing and Finalizing the Design
    – Financial Management
    – Administration and Systems Support
    – Step 5: Implementing the Rollout
  • Outcomes of Strategic Benefits Planning
  • Evaluation
    – The Role of Evaluation
  • Beyond the Strategic Plan

21. Implementing Flexible Benefits
  • Types of Flexible Benefits Plans
    – Pretax Premium Plans
    – Flexible Spending Accounts
    – Simple Choice Plans
    – Full Flexible Benefits Plans
  • Flexible Benefits Plan Design
    – Eligibility
    – Enrollment Choices
    – Family and Employment Status Changes
    – Special Classes of Employees
  • Pricing Flexible Benefits Options
    – Market-Based Pricing and Credits
    – Incentive-Based Pricing and Credits
    – Net Cost Pricing without Credits
  • Tax Issues and Employer Objectives
    – Pretax Benefits
    – Pretax or After-Tax Benefits
    – After-Tax Benefits
    – “Freezing” Pay for Pricing Purposes
    – Adjusting Prices from Insured Rates
• Communication Approaches
  – Communication Timing
• Annual Enrollment Process
  – Phase I: Data Setup
  – Phase II: Individualized Worksheets
  – Phase III: Distribution of Information
  – Phase IV: Confirmation
  – Phase V: Integration of Information
  – Phase VI: Review
• Ongoing Enrollment
• Annual Re-enrollment
• Spending Account Administration
• Legal Issues
  – Summary Plan Description
  – Form 5500
  – Nondiscrimination Rules
22. Work-Life Effectiveness
  • Changing Demographics
  • The Evolution of Work-Life Initiatives
  • Work-Life Effectiveness: A Definition
  • Why Companies Address Work-Life Issues
    – To Attract and Retain Talent
    – To Raise Morale and Job Satisfaction
    – To Increase Productivity
    – To Increase Commitment and Engagement
    – To Reduce Health Care Costs
    – To Combat Burnout
    – To Attract Investors
    – To Be a Good Corporate Citizen
  • Ways to Address Work-Life Issues
    – Programs
    – Policies and Benefits
    – Practices
  • Supportive Work Environment
  • Company Culture
  • Work-Life Strategy
    – Developing a Work-Life Vision
    – Marketing Work-Life Initiatives
  • How to Begin
  • Source of Commitment
  • Anticipating Problems
  • Developing and Appropriate Marketing Strategy
  • Putting it All Together: Checklist
  • Calculating the Return on Investment
    – Cost and Value
  • The Future of Work-Life Effectiveness
23. Caring for Dependents
  • Child-Care Issues
• Direct Child-Care Services 543
• Assessing Child-Care Needs 548
• On-Site and Near-Site Child-Care Centers 549
• Consortium Child-Care Centers 550
• Back-Up (Emergency) Child Care 551
• Care for Sick Children 552
• School-Age Child Care 553
• 24-Hour (Odd-Hour) Care 553
• Other Child-Care Options 554
  – Providing Information and Support 554
  – Policies and Customized Work Arrangements 554
  – Providing Financial Assistance 554
• Elder-Care Issues 555
• Description of Elder Care 557
• Cost of Elder Care and the Needs of Working Caregivers 557
• Employers’ Responses to Employees’ Elder-Care Needs 558
• Information and Support 559
  – Elder-Case Consultation and Referral 560
  – Elder-Care Workshops/Support Groups 561
  – Elder-Care Resource Expo 561
  – Work-Life Resource Area 561
  – End-of-Life Supports 562
• Policies 562
• Financial Assistance/Financial Planning 563
  – Subsidized Emergency or Respite In-Home Elder-Care Services 563
• Direct Elder-Care Services 563
  – Geriatric Care Managers 563
  – Supports for Community-Based Services 563
  – Adult Care Centers 564
  – Intergenerational Care Programs 564
• Implementing a New Elder-Care Program 564
• Evaluating an Elder-Care Program 565
• The Future of Corporate Elder Care 565

24. Culture at Work 566

• Defining Culture 567
  – Tips for Contending with Resistance 570
  – Beliefs and Rituals 572
  – Diversity 574
  – Formality and Innovation 575
• Importance of Culture 576
• Matching Culture with Strategic Goals 577
• Impact of Culture on Total Rewards Programs 578

Notes 585
Total Rewards Glossary 589
Handbook References 821
WorldatWork Bibliography 823
Index 827
Introduction:
Redefining Employee Rewards

Anne C. Ruddy, CCP, CPCU
President, WorldatWork

Not long ago, human resources professionals seemed to have that “pay thing” down to a science. Reward employees with decent dollars for compensation, add top-notch health care and retirement benefits, and voila! People came, people stayed, and people worked. Employers had their pick from a seemingly endless talent pool. And, with any luck, employees matched their career aspirations and enjoyed lifelong service with a company.

So much for yesterday.

The birth of new industries and emerging markets have sprouted mergers and acquisitions, downsizings, globalization, corporate restructurings, and technological advances. All of this has occurred in a rapidly changing economy with a tight labor market. With every dollar at stake, nothing remains sacred as employers increasingly look for ways to work smarter, faster, and more efficiently.

At the same time, the sea of faces in the workforce has changed. Today’s labor pool is more diverse and mobile, with a rapidly growing group of older workers and retirees. More women, working parents, dual-income households, single parents, Gen X-ers, and Gen Y-ers crowd the market. And baby boomers—tired of toiling long hours—are questioning their prior commitment levels.

Indeed, job-related attitudes, expectations, and priorities are changing on both sides of the desk. As employers retool, HR professionals must rethink their directions and realign their focus. The question becomes: Does your current structure of HR investments help ensure the success of your organization’s business strategy?

If not, it’s time to abandon the tried-and-true ways of thinking and redefine employee rewards against the new employee deal.

Strangely enough, the new employee deal isn’t about just pay increases or offering employees more money. That’s not to say that the almighty dollar has lost its power or punch, but the way money talks requires an updated translation. It requires focusing on more than pay. It requires focusing on total rewards.

The process of addressing total rewards begins by balancing the organization’s business strategy, capabilities, and values with employees’ needs, abilities, and values. It ends with assembling and marketing a compelling rewards package that will attract, motivate, and retain the people you need for organizational success. With the right rewards strategy and programs in place, the organization can reasonably expect two interrelated outcomes: improved business results and a positive shift in employee behavior and contributions.
THE EVOLUTION OF REWARDS

Step back in time to the early 1900s. The owner or operator usually bore the responsibility for people’s pay, and little was offered outside of cash compensation. Only a handful of companies offered pensions, profit sharing, and guaranteed wages to skilled workers. There was minimal government regulation, and, consequently, few safety nets such as medical insurance, unemployment compensation, overtime pay, or Social Security.

Early in the twentieth century, benefits were practically nonexistent for the common worker. Benefits became popular as an acceptable way to evade wage and price controls during World War II because benefits were not counted as wages. Labor unions likewise increased their focus on benefits in the mid-1900s.

After World War II, the industrial boom introduced increased competition, but many industries were still unregulated. The majority of companies competed only domestically. Manufacturing was the order of the day. Few staff functions existed. Salary structures were just that—rigid and highly controlled—and benefits programs were based largely on formulas that served the entire employee population, which was far more homogeneous than it is today.

By the 1970s and 1980s, organizations recognized that strategically designed compensation and benefits programs could give them the edge in a rapidly changing environment. Suddenly, the relatively simple compensation and benefits programs of the past were requiring consideration of their strategic impact and relationship to one another. Integration became key, and compensation and benefits professionals emerged as critical strategic partners in their organizations’ leadership—a position still occupied by leaders in the field today.

In the 1990s, the profession continued to mature. Increasingly, it became clear that the battle for talent involved much more than highly effective, strategically designed compensation and benefits programs. While these programs remain critical, the most successful companies have realized that they must take a much broader look at the factors involved in attraction, motivation, and retention.

As a result of rewards that traditionally were slotted into single-silo solutions of pay, benefits, training, or labor—and having companies manage these solutions separately—the programs tended to be disconnected from one another and from the broader business strategy. When questions arose, problems were dealt with piecemeal. In some cases, they even undercut one another or sent conflicting messages.

Increasingly, organizations have demanded interdisciplinary solutions to complicated problems. Bundling HR disciplines to address these complexities is what has emerged as total rewards.

Total rewards can be defined as all of the employer’s available tools that may be used to attract, motivate, and retain employees. This encompasses every single investment that a company makes in its people and everything its employees value in the employment relationship. Why do employees choose to remain with a particular employer? Why do they leave? What factors motivate performance and commitment? These questions are answered with a total rewards perspective.

The objective of a well-designed total rewards program is to drive desired behaviors in the workforce, reinforce overall business strategy, and ensure organizational success. The solution is to find the proper mix of rewards that satisfies the personal and financial needs of a current and potential workforce given existing business conditions and cost constraints.
Total rewards integrates several classic HR disciplines and innovative business strategies. Designing a total rewards program can’t be done with a cookie cutter. What’s right for one organization may be wrong for another. But while the optimum mix differs from company to company—and even within the same company over time—the goal is the same: to produce desired, measurable results that send the right signals to employees and deliver an excellent return on your organization’s investment.

WorldatWork hopes you find this book helpful in performing your job requirements but, more importantly, we hope you find this book instrumental in taking your job to the next level and developing your skills as a future human resources leader and total rewards professional.
About the Author

This book is the collaborative effort of a team of WorldatWork faculty, staff, and consulting experts. WorldatWork (www.worldatwork.org) is the association for human resources professionals focused on attracting, motivating, and retaining employees. Founded in 1955, WorldatWork provides practitioners with knowledge leadership to effectively implement total rewards—compensation, benefits, work-life, performance and recognition, development and career opportunities—by connecting employee engagement to business performance. WorldatWork supports its 30,000 members and customers in 30 countries with thought leadership, education, publications, research, and certification.

For more information, see www.worldatwork.org.
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 “rewarding” 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
FIGURE 1.1 Total rewards: different things to different employers.

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

Total Reward

Broadening the Definition of Total Rewards
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.

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 WORLDATWORK 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 the field to create an enhanced view of total rewards. The result: a comprehensive model that demonstrates the context, components, and contributions of total rewards as part of an integrated business strategy. (See Figure 1.3.)

There are five elements of total rewards, each of which includes programs, practices, elements, and dimensions that collectively define an organization’s strategy to attract, motivate, and retain employees. These elements are:

- Compensation.
- Benefits.
- Work-Life.
- Performance and Recognition.
- Development and Career Opportunities.
The elements represent the toolkit from which an organization chooses to offer and align a value proposition that creates value for both the organization and the employee. An effective total rewards strategy results in satisfied, engaged, and productive employees who, in turn, create desired business performance and results.

As defined here, the elements are neither mutually exclusive nor intended to represent the ways that companies organize or deploy programs and elements within them. For instance, performance management may be a compensation-function-driven activity, or decentralized in line organizations; it can be managed formally or informally. Likewise, recognition could be considered an element of compensation, benefits, and work-life.

The WorldatWork model recognizes that total rewards operates in the context of overall business strategy, organizational culture, and HR strategy. Indeed, a company’s exceptional culture or external brand value may be considered a critical component of the total employment value proposition. The backdrop of the model is a globe, representing the external influences on business, such as legal/regulatory issues, cultural influences and practices, and competition.

Finally, an important dimension of the model is the “exchange relationship” between the employer and employee. Successful companies realize that productive employees create value for their organizations in return for tangible and intangible value that enriches their lives.

**EXPLORING THE KEY AREAS**

Following is a brief description of the five elements of the WorldatWork total rewards model. (See Figure 1.4 and Figure 1.5.)