



Total rewards: the key to retention and attraction

In this tight labour market, the retention of current employees and the attraction of key talent are major challenges. A comprehensive approach to 'total rewards' is a primary lever to assist in achieving a sustainable pipeline of human resources, say Kira Schäffler and Una Diver.

A study conducted by Watson Wyatt Worldwide in 2005 revealed that seven out of ten employers in the US had comprehensive 'total rewards' strategies in place. A further 17 percent were planning to develop one at that stage. But the research also unveiled an issue faced by many New Zealand organisations today—difficulty with implementation and delivery.

WorldatWork (previously the American Compensation Association) defines total rewards as "the deliberate integration of key elements

that attract, motivate and retain the talent required to achieve organisational results".

Alignment with organisational strategies and the ability to differentiate (in a simple and practical way) between top and poor performers are just two of the fundamental tenets of a successful total rewards strategy.

This article outlines are six steps that organisations can take to ensure a practical, effective approach.

1. Use total rewards to underpin the employee value proposition

The employee value proposition (EVP) represents the holistic way in which an organisation differentiates its employment offering from its competitors.

It is communicated through every interaction with current and prospective employees. In effect, the organisation's actions build a picture of what it is like to work there and how the organisation is perceived—both internally and externally. These perceptions, in turn, are reinforced by the fulfilment of promises made during employment.

A total rewards strategy is an integral component of the employee value proposition.

Total rewards involves a holistic alignment between remuneration, benefits, recognition, work-life balance, career opportunities and organisational culture. The benefits include maximising the organisation's 'bang for its buck', optimum employee engagement and leveraging of the X-factor—'discretionary effort'.



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A well-planned, integrated approach to total rewards and clarification of the EVP carry with them a momentum well beyond their individual benefits.

2. Ask employees what they want

Identifying what employees value is a key step in defining an effective total rewards strategy. The 'smorgasbord' of possible offerings goes on and on—fruit bowls, incentive schemes, on-site massage, work-life balance, childcare facilities, competitive remuneration, superannuation, career opportunities, social events, flexi-time, health insurance, EAP programmes, upgrades to business class, Christmas hams, and much more.

It's not possible to be all things to all people—and at the end of the day there are probably ten things that your employee population values above all else. Find out what they are and focus your total rewards dollars on delivering these few things superbly.

Clarify the employee demographics—different things will 'spin their wheels' depending on factors like age, gender, location, profession, education and culture. Apply the 80/20 principle and accept that some generalisations will need to be made.

For example, where the workforce is predominantly young, a 'cash is king' approach is often a winner. However, employee groups dominated by females may tend to favour flexibility over higher pay. Others might find stability, superannuation and health insurance more important than a highly active social club and Friday-night drinks.

Whatever the case, researching the most valued aspects of total rewards is a vital step in the process—bearing in mind that an attractive remuneration and benefits structure provides a very powerful platform for negotiation in a tight labour market.

3. Monitor remuneration relative to the market

The remuneration market for any organisation is defined as those organisations that you potentially will lose staff to, or recruit from. Bear in mind that this 'pool' is typically wider than your direct business competitors.

Most organisations will have multiple 'markets'—employees should be segmented by the nature of their roles into logical groups with different competitor markets.

Remuneration market data for these sub-groups will not always be readily available—sometimes tailored surveys are required. At other times generic, benchmark-type market information will suffice. As a general trend, the more specialised the industry, or types of roles, the less appropriate it will be to access generic 'off the shelf' salary survey data.

Having accessed the most relevant market data, the next step is to review the organisation's policy in terms of where to pitch remuneration relative to this market. Affordability is a key issue. In some cases a trade-off is required—it may be necessary to offer career opportunities, a great organisational culture or even long-term incentives if short-term remuneration can't keep pace with market rates.

Many organisations adopt policies of ‘paying to the median’ for fixed remuneration while using variable (performance-based) remuneration to enable employees to achieve upper quartile earnings. While this is sound policy, it’s important to remember that not all employees are ‘upper quartile’ performers—so a balancing act is required to ensure that the performance targets represent sufficient ‘stretch’.

4. Implement fair and defensible remuneration practices

Trust is paramount in a successful total rewards strategy. If employees don’t understand the rationale behind pay-related decisions, cynicism is inevitable. Transparency of process is relatively easy to achieve and builds significant ‘buy-in’ and understanding.

Remuneration systems should be simple, logical and defensible. Ideally they should support consistent decision-making while providing sufficient flexibility to tailor decisions to premium-type roles or unusual circumstances.

5. Forge a strong link between performance and rewards

Organisations that develop a clear link between key result areas, individual performance and remuneration typically deliver superior shareholder value.

One of the most common issues raised by employees in internal surveys is the organisation’s inability to “deal with poor performance”. Similarly, many companies are regularly rated low on the scale for not “recognising top performers”.

This reluctance to differentiate between employees and ‘put our money where our mouths are’ manifests most often in the annual salary review process where mediocre performers receive increases that are not much different (in percentage terms) to their high-performing colleagues.

Many managers also seem to have difficulty giving employees the “sorry, no bonus” message—even when performance has been assessed as being below competent.

These actions undermine the principles of driving high-performance cultures and are at odds with effective total rewards strategies. Being open and transparent with employees with regard to performance-based remuneration is an integral part of an effective total rewards strategy.

6. Communicate in a holistic, integrated way

A co-ordinated approach to communicating total rewards encompasses more than remuneration. It spans broader recognition programmes and other components of the employee value proposition.

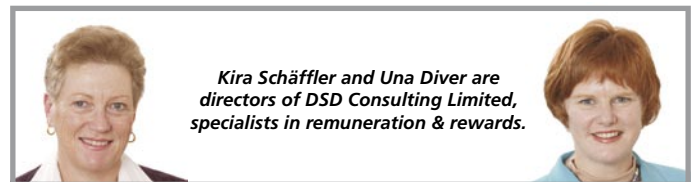
Clear, consistent and regular communication will reinforce key messages and ensure a sense of a planned approach—thereby building credibility and maximising impact.

It’s important that the ‘look and feel’ of all communication elements including graphics, colours, logos and style align directly with the employment brand and any other internal and external marketing tools and collateral.

Work with the marketing and internal communications department to ensure consistent themes and to maximise the power of branding and marketing the total rewards offer.

In summary

Successful organisations understand and deliver the types of rewards that high-impact, critical employees most want. In addition, they offer these in a way that encourages better performance, greater productivity and higher levels of employee engagement. In short, these organisations develop and implement a motivating total rewards strategy. **et**



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