The Future of Reward Management: From Total Reward Strategies to Smart Rewards

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Abstract

The author argues that the terminology and concept of "total rewards" is become increasingly meaningless and outdated in our postrecessionary economy of austerity and inequality. Its generic and unthinking application in uniform flexible benefits packages risks isolating the rewards profession into an administrative backwater. Instead he argues for a new approach that he provocatively titles "smart rewards," following recent thinking and writing in economic and foreign policy on both sides of the Atlantic. He discerns four components of this emerging reward management approach: a simpler and clearer focus on a few core values and principles, a stronger basis in evidence and measurement, more emphasis on employee engagement through rewards and improved and more open communications and line management of reward. Brown concludes that adapting and tailoring this type of approach is much more likely to create the genuinely business-enhancing and employee-engaging reward practices in our contemporary context that reward professionals and their policies aspire to.

Keywords

total rewards, reward management, flexible benefits, HR profession

Total Rewards? The Rhetoric: Reality Gap

The renowned economist J. K. Galbraith said that there are two kinds of forecasters: those who don't know and those who don't know they don't know.

This journal's recent omnibus article on the future of reward management really got me thinking about where the reward profession has got to and where we are heading. Thirty years' working in the rewards' field makes me very wary of predicting future events and fully cognisant of how bad we are at learning from history. Twenty years ago we were all writing the obituaries of centralised, control-oriented job evaluation systems and pay structures and expensive fixed benefits, with the future in "clean cash" and full total rewards flexibility. Yet all of these features of the rewards landscape are alive and thriving across most of Europe today.

And in mid-2008 we were all writing about total rewards packages and "Best Places to Work," and none of us foresaw the 5 years of real pay cuts that the majority of employees in the United Kingdom and much of Europe have suffered from, and the major growth to over 5 million employees in the United Kingdom who don't earn a Living Wage. The lowest 20% of U.K. earners have seen a 25% decline in their living standards since 2008, and people aged in their 20s more than 10%.

Ever since Ed Lawler's *Strategic Pay*, reward professionals have become increasingly focused on the concept of total reward strategy, seeking influence in the boardroom by integrating all aspects of rewards in alignment with business goals and reinforcing their delivery. Yet in practice we appear to have been becoming increasingly isolated and divorced in our organisations. A recent Institute for Employment Studies study[1] of the HR function refers to "bogged-down HR" "stuck in administrative and cost-reduction-focused, routine processes, seen as inefficient and powerless," out of touch with employees and ignored by managers.

Professor Stephen Bevan at Lancaster University believes this HR "rhetoric–reality" gap is widest in the rewards field.[2] Fewer than half of U.K. employers actually have a defined total rewards strategy according to the annual rewards survey from the CIPD (Chartered Institute of Personnel and Development),[3] and in my experience policies are often based on copying rather than differentiating yourself from competitors. Even if you have a total rewards strategy in theory, 9 out of 10 firms feel their

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rewards are not well implemented and operated in practice.[4] As Bevan puts it, "They simply don't work."

Only one third of employers operate a flexible benefits plan according to Aon Hewitt's U.K. study,[5] and even the majority of these feel that the different aspects of rewards are not well implemented and communicated, with only 15% using total rewards statements, for example.

Employee engagement levels plunged after 2008,[6] and mention "total rewards" in any employee focus group and the response is "what: rewards?!" Ask about performance management and the response is "I can't work any harder!' Indeed organisations such as Microsoft and Flickr are abandoning that cornerstone of HR best practice, the all-singing, all-dancing performance management process. A major charity I work with specifically rejected the "total rewards" nomenclature recently as out of keeping with the times and their work interest–focused employee offer. They refer instead to their employment principles and policies. More traditional or more effective?

Employers in the United Kingdom and United States have witnessed and promoted increasing inequality in their workforces, with a small cadre of "totally rewarded" senior, male and over 40-year-olds with valuable pension plans and executive incentives—the "haves"—contrasting with the declining real rewards of the low-earning/low-saving, struggling-with-debt majority of their female and younger workers.

Employers have clung to the rhetoric of total reward strategies, claiming for the past two decades to be replacing inflexible, paternalistic, fixed-cost–focused rewards with attractive business and employee-driven, flexible packages. In reality, many were simply following market practice and, in the United Kingdom, looking for tax and national insurance contribution savings in areas such as pension contributions and child care provision.

During the post-2008 recessionary period, while the attractive total rewards language has remained on company recruitment sites and intranets, 40% of U.K. employers froze pay in 2009/2010, and many since then have been reducing employee pension benefits and increasing employee contributions, as well as placing increasing numbers of staff on significantly inferior "zero hours" contracts, driven by a cost control and risk, rather than a people-oriented, agenda.

From Total Rewards to Smart Rewards

So what does the future hold for reward management? We seem to have reached a critical "fork in the road," with continuing retreat into a modern version of our historic pay administration backwater quite possible. But in our now heavily knowledge and service– and human capital–driven economies, there is still the potential for major strategic impact. Which way will it turn out and how can we achieve the latter trajectory?

In her new autobiography *Hard Choice*,[7] Hilary Clinton talks about the need in our increasingly complex, fast-changing and unpredictable world to abandon the Manichean, inflexible and ideology-driven policies of her predecessors. We need to adopt what she calls "smart power": an approach rooted in clear and concise core values and strong personal relationships, but multifaceted, data-rich and evidence-based, combining skills, knowledge and information from "economic, military, political, legal and cultural" spheres to craft flexible and adaptable, realistic and effective foreign policy.

In economic policy, academics Mazzucato and Perez[8] lambast politicians for their lack of ambition and excessive cost focus. They call for government "policy direction that is smart and inclusive," promoting an innovation-focused collaboration and sharing-based economy with major proactive state investments in people and education.

And so in rewards management, we need to move from the generic, long-winded and inflexible, low-investment, total rewards strategic rhetoric, with its plain vanilla, "chocolate box" flexible benefits plans to what I term *smart rewards*. I would characterise this approach as comprising four key components.

A Simpler, Clearer and More Flexible Focus on a Few Core Values and Reward Principles

Any decent reward strategy should be able to display a clear "pathway" from business goals, through people needs and strategy to reward policies and practices.

Alessandro di Fiore's[9] claim that "all great strategies can be summarised in a 15 word headline" may be an extreme one. But Jeff Bezos's famous employment strategy at Amazon that people were there to "have fun, work hard and make history" is surely the aspirational benchmark in terms of brevity, clarity and employee engagement that we should all be aiming for with our rewards. And rooting the approach in values is critical, to put both corporate values and reward management strategies into practice.

One employer I have been working with has done a great job in integrating their employee recognition programmes and focus them on their five core values, so that outstanding customer service for example really is recognised and rewarded. Correspondingly, in another retailer, one employee who won an employee of the year customer service award was awarded only a mid-level "satisfactory" performance rating in her annual appraisal review.

More fundamentally, a technology company with a workforce with an average age of 36 years and average earnings of £28,000 now clearly states in its employment principles: "All our employees matter—their lives with us and after working with us." The principle is practiced with generous and common core benefits' provision for all employees, irrespective of status, including private medical and life insurance cover and income protection for all. Benefits and choices in them have to be valued and valuable to employees, as well as efficient for the employer.

With a clear foundation in values and principles, employers can be more flexible and responsive in how they deliver those principles into practice. An educational institution I worked with adopted a principle of rewarding contribution but found that many staff distrusted their underdeveloped performance management process. Rather than push on regardless with a merit pay proposal, they focused instead on improving the quality of the performance dialogue and designed an all-staff bonus to reinforce the delivery of the institution's key strategic goals.

Less Leap of Faith and More Evidence-Based With Clear Measures of Success

Our research project on this issue[10] found most companies claiming to do some evaluation of reward effectiveness, but by far the commonest method used was external market benchmarking, that is, copying. Less than a third had clear assessment metrics in place, and even fewer undertook any systematic cost: benefit or risk analysis when changing their reward practices. The reported reasons for failing to do so included lack of time, lack of senior management interest and lack of the requisite skills in HR and reward functions.

But the tide does appear to be turning on this, at least if my consulting workload is anything to go by. The publicity surrounding "big data" has highlighted that whereas in the past the problems with reward evaluation may have been lack of data, now the problem may be too much and sitting in different places—pay information with an outsourced payroll supplier, cost information in finance, customer information in marketing, engagement data in communications and so on. Now HR functions are recognising the need to integrate this data and produce meaningful information from it in support of improved performance and rewards management.

A company I was working with had a reward principle of pay for performance. Yet fewer than half of their employees had any opportunity to increase their pay based on their personal or collective performance. A leading U.K. bank on the other hand has specified the measures of delivering on that principle, which their board is regularly updated on, including the following: the level of differentiation in rewards for top, effective and below-par employees; the proportion of pay linked to customer service ratings; employee perceptions of these linkages and so on.

We also need to be much effective using financial data, showing the costs and benefits of reward changes, the major risks and how they are being managed. In a recent equal pay audit for one client, I was able to highlight the legislative and substantial financial risks resulting from the gender pay gap that our analysis highlighted, with potential claims running into many millions of pounds. An increasing movement of senior personnel from an accounting and finance background into senior compensation and reward roles may be helping to address the historic skills gap in this area.

A Stronger Emphasis on Engaging All Employees

Meeting employee needs with rewards, not just being "top-down" business- and costs-driven and boardroom/executive-focused, seems a fairly obvious requirement, yet one that has been seriously underrepresented in many employers and cost- and board-focused reward functions in recent years.

Engagement data and what employees think of their rewards should be a key performance metric for any employer. Just a third of European employees, for example, currently feel that their pay is fair, a major driver of employee disengagement.[11]

The best employers are mining their engagement data to identify the various generational and motivational groupings in their workforce. This is helping ensure that employees can easily select a package from the wide choice available that best meets their personal needs and stage in their lives, ensuring maximum take-up combined with efficient flex plan operation and running costs.

For a U.K. local authority. for example, we analysed variations in the drivers of engagement for different staff groups and found some significant differences in the emphasis on, for example, financial and nonfinancial rewards between males and females and in different grades. No wonder that their fixed rewards package with almost no choice was failing to address the needs of significant parts of their workforce. Another financial services client now varies the timing and contents of their flexible benefits communications to suit the age and interests of various key categories of their workforce.

We also need to be working harder to invest so as to improve those employee perceptions and thereby corporate performance. The research record on skills and competency-based pay progression is a good one, for example, with the business returns exceeding the progression costs. Shaw, Gupta, Mitra, and Ledford's[12] review of *The Success and Survival of Skills-Based Pay Plans* finds such plans are associated with higher work flexibility and productivity, though realising these benefits depends, crucially, on the design and implementation processes adopted by HR and reward professionals.

A research study by Atkinson, Crozier, and Lucas[13] at Manchester Metropolitan University showed that social and elderly care establishments offering skills development and higher pay provided better quality care. So even in this very cost-competitive sector, employers do have a choice over their pay and employment policies. Yet for many reward professionals pay freezes or minimal increases are still seen to be their career-enhancing strategy, despite the often catastrophic effects on employee engagement.

TSB, a new "challenger" bank in the United Kingdom that has just been spun out from Lloyds Banking Group, "promises modest bonuses" and "a John Lewis approach," one newspaper declared, with all-staff bonuses of up to 15% based on customer service performance. The bank's chief executive Paul Pester will admittedly be surviving on a package of up to £1.68 million. But his earnings will be no more than 65 times that of the staff who serve us in the bank's branches, well below the U.K. average, and his bonus will be capped at 100% of pay, half the level of some of his rivals.

Less Focus on Desire and Design, More Emphasis on Communications and Delivery

Our pay and rewards methods have been getting more and more complex over the past two decades, yet there are fewer HR and middle managers in our leaner organisations to help communicate them and ensure they are implemented and operated effectively. Despite the explosion in cheaper and more effective communications technology, in many organisations pay has become more opaque and pay processes less well understood and trusted, with more firms consulting with external advisers in developing reward changes than actually speaking to their employees.[14]

There is therefore a widening gap of almost 30% in positive perceptions of pay and benefits between those employers with the highest levels of employee engagement and the European average.[15] The majority of the organisations that Aon Hewitt surveyed communicate with their employees about reward only once a year and just one third regard this as part of their wider engagement and talent management strategies. This is despite the fact that employee perceptions of the quality and openness of internal communications has a very high .92 correlation with overall employee engagement levels.

This also hardly suggests a wholehearted commitment to openness. The Equality and Human Rights Commission's research[16] suggests that U.K. employers have become less open in recent years on reward communications, fostering ignorance and potential perceptions of unfairness. The Equality and Human Rights Commission believes that greater openness on rewards is associated with a stronger employer brand and improved staff engagement.

The smart organisations are fully engaging their line managers with their rewards and any changes to them, rather than using technology to try and bypass them. In one drinks company, for example, any revisions to pay and benefits practices are presented to a representative management panel before they even get off the drawing board, to ensure that the proposed benefits will exceed the costs and to receive advice on the best means of implementation.

In a fast-food company, the senior management team try out personally any changes planned that will affect the stores, for anything ranging from a new piece of kitchen equipment to a new appraisal process. The appraisal process by the way has been massively simplified as a result.

The smart reward functions also recognise that transparency is inescapable in our modern society. They map out their reward plans as a change management exercise and have detailed marketing communications strategies, defining the media and core messages for each stakeholder audience and phasing implementation appropriately. They are even embracing the HR-feared social media to get their message across. The traditional overwhelming emphasis on education in reward communications ("We know what's good for you") is now being replaced with a more balanced approach that aims to make it easy for employees to engage with and understand their rewards and facilitate them to take action, so as to maximise the value of the package for their own needs.

The technology company referenced above, for example, offers personal financial modelling and financial advice for all employees, not just executives. As well as face-to-face employee presentations, still the preferred reward communications vehicle of choice for employees of all ages, the company also uses gaming and social media to promote awareness and effective flexible benefits decisions and choices by its employees.

Moving to Smarter Reward Management

While I was researching for my last book on strategic reward effectiveness, an HR director told me, "The reward strategies I like are the ones that work."

Whatever we call it, I have argued that the unthinking overuse of the concept of total rewards in our contemporary context can be damaging to the employment and reward brand of employers and reward professionals. What I have termed a *smart rewards* approach needs to be applied. It is simpler and clearer, evidence-based, more practical, more realistic and more engaging and open than the total reward strategies of old. I am sure readers will have their own ideas on other reward elements it might comprise that they are seeing emerging in our postrecessionary but still cost-constrained contemporary environment.

But this I would argue is a more genuinely strategic and viable route to influence and effectiveness for reward professionals and one that is more likely to differentiate your organisation and enable you to practice your policy objectives of genuinely business-enhancing and employee-engaging rewards.

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Notes

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