



Designing an Effective Total Rewards Strategy

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Introduction

Given the turbulent economic environment, Human Resource Professionals are facing significant challenges and changes within their organizations.

Short-term financial stress may force alternative cost-cutting measures for immediate implementation.

So, how can total rewards be restructured to maintain workforce engagement?

And what should be your long term approach to creating a total rewards system that is adaptable, flexible, and aligned with your strategic business direction?

Total Rewards “Tools”

External Position Equity	Internal Position Equity	Employee Pay and Recognition Equity	Total “Non-Cash” Compensation – Benefits/ Retirement	Ability to Fund all Aspects of the Program
<ul style="list-style-type: none"> • Competitiveness in terms of Geography. • Competitiveness in terms of industry. • Level of competitiveness by organization and position. • Recruitment and Retention Trends. 	<ul style="list-style-type: none"> • Determine organizational value of positions regardless of market value. • Determine value of positions not matched to the market. • Determine the differences among “families” of jobs. 	<ul style="list-style-type: none"> • Determine internal pay levels of employees based on seniority, performance, or other methods. • Determine appropriate methods to recognize employee performance and contributions. • Understanding the impact of “Generations” in compensation decisions. 	<ul style="list-style-type: none"> • Addressing the rising cost of insurance in plan design. • The need to have more employee cost sharing. • Understanding pressures from organized labor. • The need for flexibility in addressing “generational” differences in both benefit and pension design. • Impact of fluctuating stock market on pension design strategies. 	<ul style="list-style-type: none"> • Funding all aspects of the program understanding the impact of current industry trends. • Determining the “ROI” of all programs to demonstrate the impact on effective recruitment and retention of staff required for the organization to succeed. • Proactively developing strategies that reduce cost impacts while remaining effective.

Responding to the Fluctuating Economy: Short Term Responses

Short Term Responses (2011 Towers Watson)

- Freezing or reducing the base pay increase budget;
- Increasing employee contributions for group health coverage and/or increasing deductibles, copayments, or annual out-of-pocket expense maximums;
- Delaying pay increases (i.e., from 12 months to 15 months);
- Eliminating ineligible dependents from the organizations group health plan;
- Reducing discretionary contributions to a defined contribution retirement plan; and
- Replacing current-year increases in base pay with lump sum merit and/or recognition awards.



Questions Generated by Short Term Actions

- How will actions taken impact the organization's ability to attract and retain strategic talent needed to maintain a competitive advantage?
- What are the strategic, financial, and operational issues that management is dealing with?
- What are customer expectations?
- How can total rewards be restructured to maintain workforce engagement?



Alternatives To Be Considered

- Providing rewards to selected individuals in the form of equity, in lieu of a pay increase or bonus;
- Renegotiating the terms of the employment relationship with strategic, high-performing talent (e.g., work schedule, change in job mix);
- Providing for greater participation by selected individuals in the decision-making process of the business, and access to information;
- Restructuring retirement programs to better predict and control annual costs;

Alternatives To Be Considered

- Providing financial incentives to improve employee health and productivity, including participation in health risk assessments, wellness, and condition management programs;
- Delivering lump sum recognition awards (i.e., cash and/or non-cash), particularly for delivering exceptional customer service;
- Providing enhanced professional development opportunities;
- Restructuring incentive plan performance conditions and/or targets to align rewards with new or revised strategic initiatives; and/or
- Linking stay bonuses to accomplishment of new, strategic initiatives.

Responding to the Fluctuating Economy: Long Term Responses

Long-Term Total Rewards Strategic Planning

Reinforce an organizational culture of:

- Continuous change;
- High performance;
- Employee health and well-being; and
- Active employee involvement.

Long-Term Total Rewards Strategic Planning

Allocating rewards resources in a manner that maximizes ROI.

- Viewing rewards as an investment with an expected return.
- Demonstrate the ultimate impact of such rewards on the customer value proposition and financial performance.

Long-Term Total Rewards Strategic Planning

Continuously communicating with employees about:

- Business strategy;
- Customer expectations;
- Strategic initiatives;
- Knowing and addressing their health risk factors;
- Business performance; and
- How individual contributions link to the above.

Long-Term Total Rewards Strategic Planning

Continuously engaging high performing, strategic talent.

- This can be accomplished by keeping strategic, high-performing individuals and groups informed on the current state of the business and actively involving them in strategic and operational planning processes.
- This is a form of reward and recognition that sends a clear signal that the organization values key individuals regardless of their level in the organization.

Long-Term Total Rewards Strategic Planning

Building a balanced total rewards system that:

- Reinforces shared employee and employer responsibility, particularly in containing healthcare cost increases;
- Includes all employees in some form of variable pay;
- Recognizes and rewards individual talent development;
- Encourages employee involvement; and
- Rewards financial results and performance that aligns with the business strategy.

Challenge for the Future

- In the short term:
 - to make the business case for continued investment in rewards that are strategically allocated and effectively designed to reward performance that drives future economic prosperity and;
- In the long term:
 - to align rewards with other HR systems that create a more adaptable and change oriented culture.

THE "ROI" of Total Reward Programs

Changing the Mind Set in HR Program Design

- Instead of no identified business need for a new program, the proposed program is linked to a specific business need.
- Instead of no assessment of program performance issues, the program is assessed for performance effectiveness.
- Instead of no specific measurable objectives, specific objectives are set for behavior and business impact.
- Instead of no effort being made to prepare program participants to achieve results, specific expectations regarding results are communicated to participants.
- Instead of no efforts to build partnerships with key managers, the establishment of partnerships with key managers helps to create buy-in for the new approach.

Determining "ROI": Simple Approach

- Divide the monetary benefits by the program costs to determine the ROI.
- For example, if a wellness program initiated by your company that cost \$20,000 resulted in 400 fewer physician office visits by employees that year at a total savings of \$30,000, the ROI for cost savings would be 1.5, or 150 percent.

Measures to Avoid

There are “soft” HR measures that you should avoid, if your executives demand ROI level proof. They include:

- Performance appraisal improvement (Some will accept this)
- Satisfaction surveys (Managers or employees)
- Engagement surveys
- 360 degree results
- Low turnover rates (It could be because your workers are not desirable)
- Number of applications received

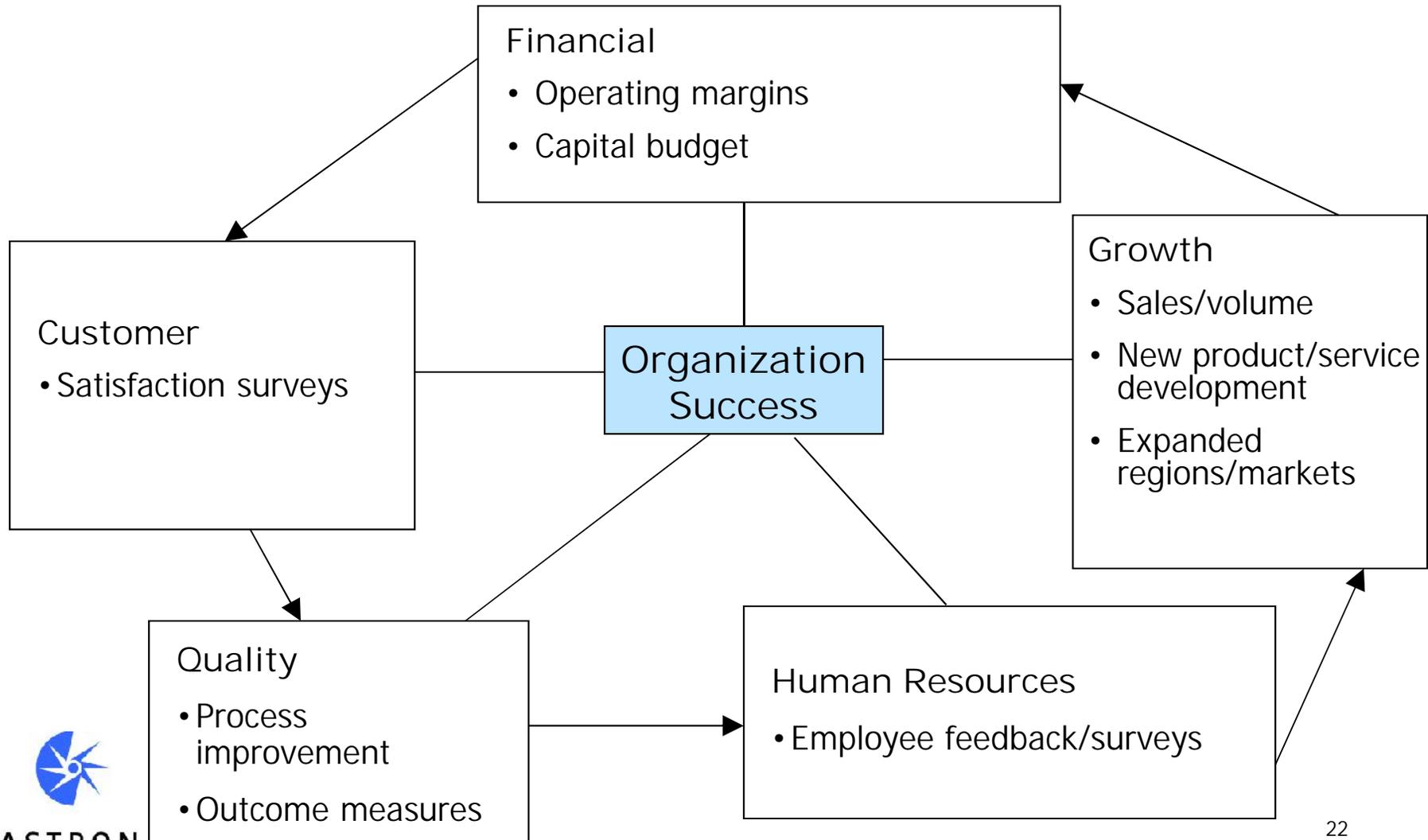
“Balanced Scorecard” Compensation Strategic Planning

Based on the “Balanced Scorecard” Concept of Strategic Planning

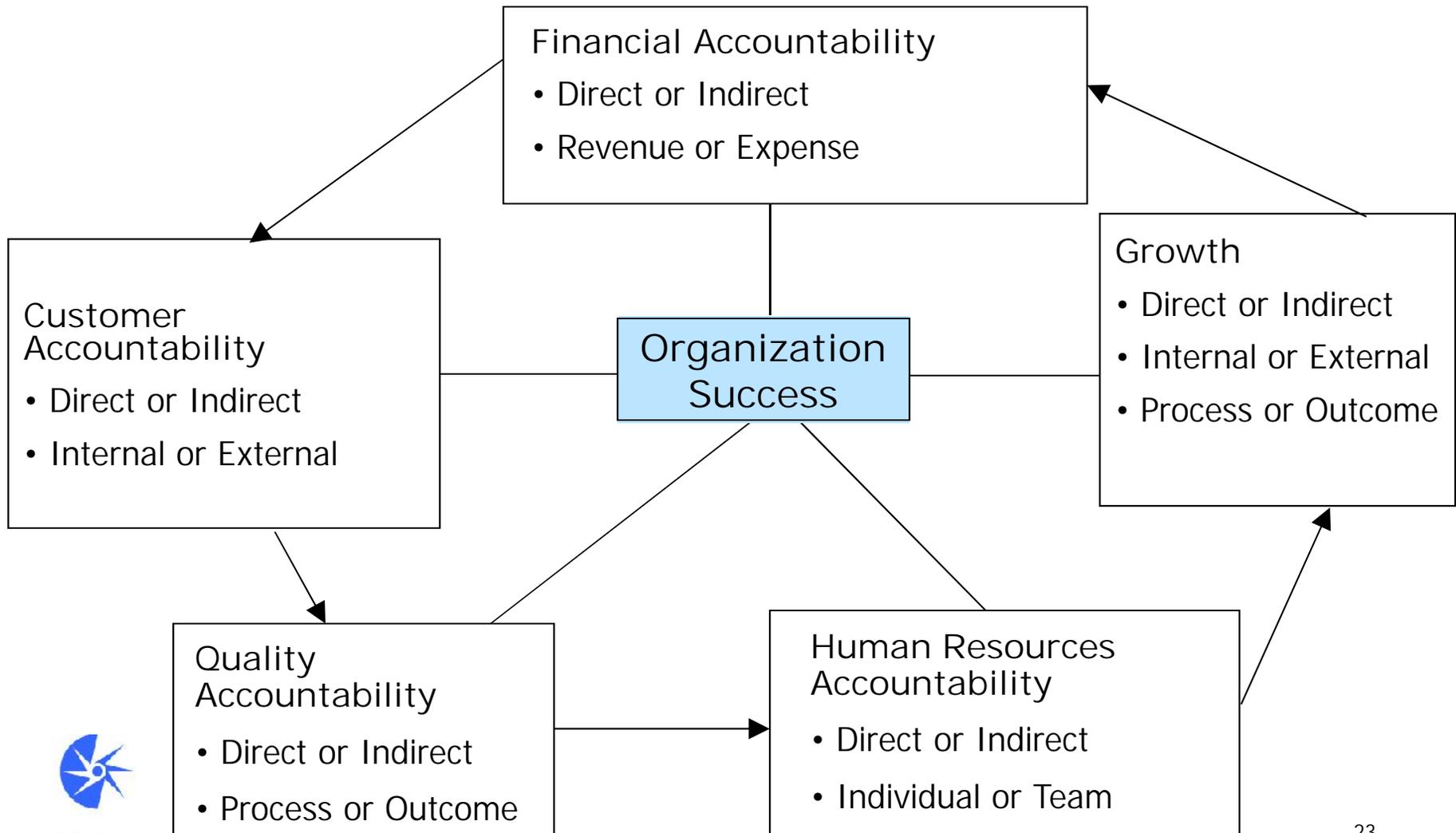
The Balanced Scorecard Translating Strategy Into Action



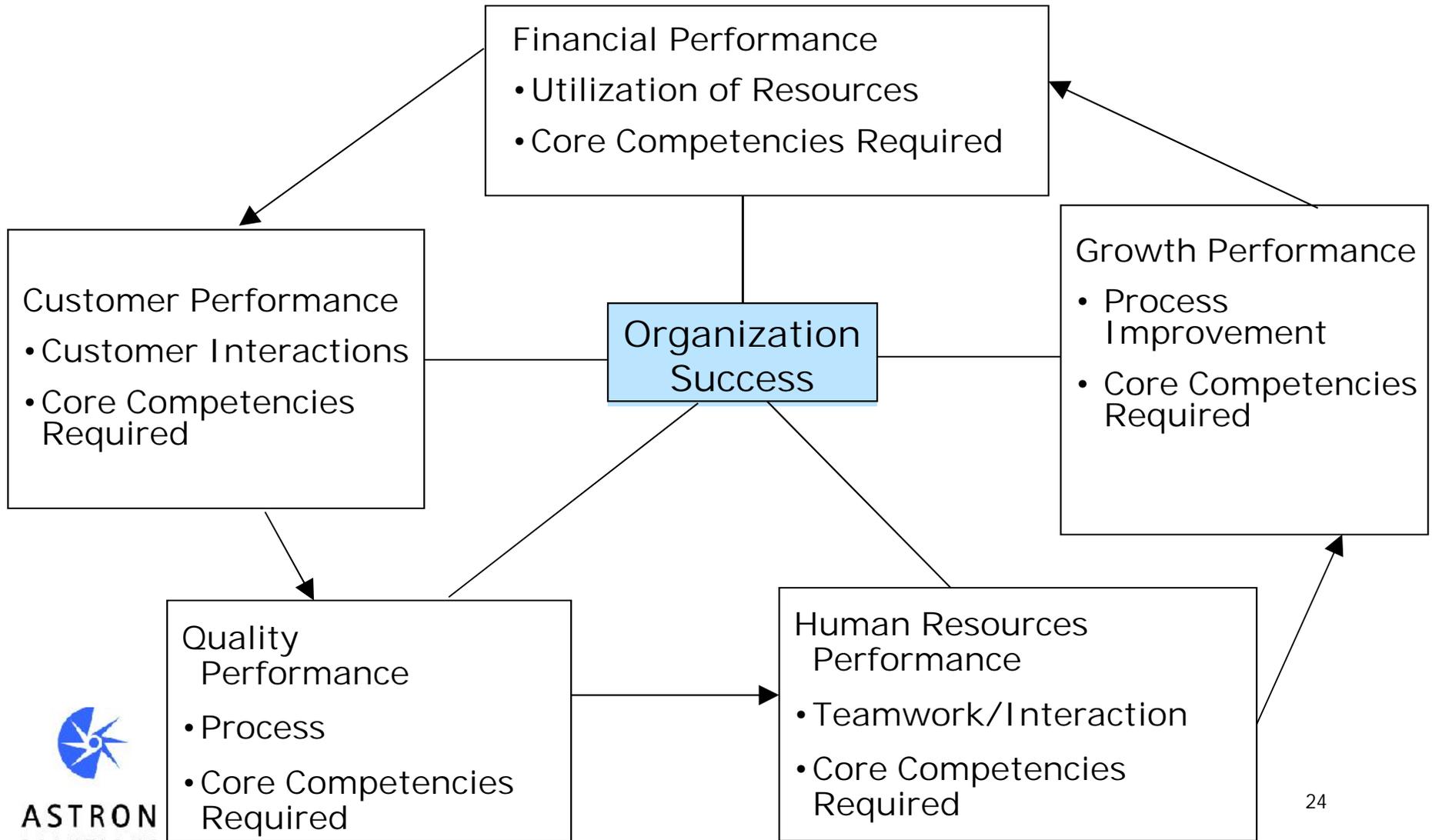
The Balanced Scorecard Setting Targets/Measuring Performance



The Balanced Scorecard Job Content Evaluation Model (For Both Traditional Job Analysis or New "One Job per Person" Model)



The Balanced Scorecard Competency Based Performance Management Model



The Balanced Scorecard Individual Incentive Model

