

COURSE: REWARD MANAGEMENT

LECTURE 2: TOTAL REWARDS

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Lecture learning outcomes:

At the end of the lecture, you will be able to:

- i. Understand the concept of total rewards
- ii. Discuss the components of total reward management
- iii. Examine the benefits of total reward management

TOTAL REWARDS

According to Manus and Graham (2003), total reward ‘includes all types of rewards indirect as well as direct, and intrinsic as well as extrinsic’. Each aspect of reward, namely base pay, contingent pay, employee benefits and non-financial rewards, which include intrinsic rewards from the work itself, are linked together and treated as an integrated and coherent whole. Total reward combines the impact of the two major categories of reward namely:

- 1) transactional rewards that is tangible rewards arising from transactions between the employer and employees concerning pay and benefits
- 2) relational rewards that is intangible rewards concerned with learning and development and the work experience.

In other words, total rewards is the combination of benefits, compensation and rewards that employees receive from their organizations. This can include wages and bonuses as well as recognition, workplace flexibility and career opportunities.

Total rewards may also refer to the function or department within HR that handles compensation and benefits, or the combined intrinsic and extrinsic rewards (or value) that an employee perceives.

Total rewards is a term that refers to the total financial and non-financial rewards that an employee receives in exchange for their work. It includes base pay, bonuses, stock options, profit sharing, retirement plans, and health care benefits. The total rewards approach to HR is a comprehensive, strategic, and systematic process that combines all the elements of an organization’s employee value proposition. It takes into account all aspects of employment that have an impact on people’s lives, that is, financial, non-financial, and personal.

Total rewards aim to create an integrated approach to all human capital management activities that align with the organization’s business strategy and generate superior results over time.

Total compensation is the complete annual pay package an employee receives and can include salaries, bonuses, commissions, retirement benefits, merit awards and equity. Total reward

refers to the monetary and non-monetary benefits they receive while working at a company. Non-monetary benefits include flexible working hours, training and education, health insurance packages, career advancement and personal growth opportunities, holiday time and recognition.

At its best, the total reward approach embodies the organizational adoption of a more emotionally intelligent way of working. It requires the use of the key competency levers of self-management, self-awareness, social awareness and relationship management in an organizational context as part of the approach needed to secure leadership excellence in the pursuit of significantly raised performance.

Total Rewards Underpinning concepts

Two concepts underpin total rewards: intrinsic motivation and integration.

Intrinsic motivation -The philosophy of total rewards is strongly influenced by the concept of intrinsic motivation, which arises from the work itself and its impact on the self-generated factors that influence people's behaviour. Motivation theory spells out the difference between extrinsic and intrinsic motivation and indicates that high levels of motivation and performance are achieved by satisfying a variety of needs, only one of which is for money, and this is precisely what total rewards aims to do. Intrinsic motivation takes place when individuals feel that their work is important, interesting and challenging and provides them with a reasonable degree of autonomy (freedom to act), opportunities to achieve and advance, and scope to use and develop their skills and abilities. Deci and Ryan (1985) suggested that intrinsic motivation is based on the needs to be competent and self-determining (that is, to have a choice).

Integration -A total rewards strategy involves the horizontal integration of reward and other HR strategies to achieve greater impact and internal consistency. This is the process of 'bundling' – the development and implementation of several HR practices together so that they are interrelated and therefore complement and reinforce each other (also referred to as configuration or the use of 'complementarities'). MacDuffie (1995) explained the concept of bundling as follows: Implicit in the notion of a 'bundle' is the idea that practices within bundles are interrelated and internally consistent, and that 'more is better' with respect to the impact on performance, because of the overlapping and mutually reinforcing effect of multiple practices

The elements of total rewards

The concept of total rewards combines the impact of the two major categories of reward as:

- Transactional rewards: tangible (financial) rewards arising from transactions between the employer and employees concerning pay and benefits. These are all extrinsic.
- Relational rewards: intangible (non-financial) rewards concerned with the work environment (quality of working life, the work itself, work–life balance), recognition, performance management and learning and development. The work environment provides intrinsic rewards, recognition is extrinsic, performance management is mainly extrinsic and learning and development is primarily intrinsic because it provides opportunities for growth.

Components of total rewards

The components of total rewards include:

- **Pay:** This includes base pay, overtime pay, and commission.
- **Compensation-**the ‘foundational’ rewards that are primarily financial in nature and satisfy financial needs for income.
- **Benefits:** These are any non-cash compensation an employer provides, including health insurance, life insurance, and retirement savings plans.
- **Perks:** These are additional non-cash benefits beyond those usually provided by an employer, such as free parking or subsidized cafeteria meals.
- **Health insurance and retirement plan contributions:** Medical insurance and retirement benefits are often among employees' most valued benefits.
- **The work experience** – these are the relational needs that bind workers to the organization more strongly because they satisfy an individual’s needs such as personal development and fulfilment.

Elements of total reward management system

Benefit packages

Consider providing a variety of benefit packages to meet employees' individual needs. Employers may seek to go beyond the bare minimum legal requirements for employee benefits, such as medical insurance, when adopting a total reward system. Benefits packages can include the addition of holidays and leaves of absence.

Work life balances

An effective total reward system recognizes the importance of balancing personal and work life. It involves the importance of balancing personal and work life and developing a work schedule that gives employees enough time to rest and pursue interest that gives employees enough time to rest and pursue interest outside work. This can help boost their morale and improve productivity.

Recognition

Recognising employees effort and good performance can motivate them to continue working hard. This type of reward can include establishing peer and team recognition awards. To accommodate employees different working styles by setting up individual awards for employees who meet personal goals

Development

Providing professional development opportunities can improve an employees expertise and skills. Development rewards may include running in-service training sessions for staff and also organizing team building and personal advice sessions to help employees grow on a personal level

A total reward approach is holistic: reliance is not placed on one or two reward mechanisms operating in isolation, account is taken of every way in which people can be rewarded and obtain satisfaction through their work. The aim is to maximize the combined impact of a wide range of reward initiatives on motivation, commitment, and job engagement. As Sandra O'Neal (1998) has explained: 'Total reward embraces everything that employees value in the employment relationship'. An equally wide definition of total reward is offered by WorldatWork (2000) who state that total rewards are 'all of the employer's available tools that may be used to attract, retain, motivate and satisfy employees.

Total reward, defined by Thompson (2002) means total reward typically encompass not only traditional, quantifiable elements like salary, variable pay and benefits, but also more intangible non-cash elements such as scope to achieve and exercise responsibility, career opportunities, learning and development, the intrinsic motivation provided by the work itself and the quality of working life provided by the organization'.

The conceptual basis of total rewards is that of configuration or 'bundling', so that different reward processes are interrelated, complementary and mutually reinforcing. Total reward strategies are vertically integrated with business strategies, but they are also horizontally integrated with other HR strategies to achieve internal consistency.

The significance of total reward essentially, the notion of total reward says that there is more to rewarding people than throwing money at them. For O'Neal (1998), a total reward strategy is critical to addressing the issues created by recruitment and retention as well as providing a means of influencing behaviour: 'It can help create a work experience that meets the needs of employees and encourages them to contribute extra effort, by developing a deal that addresses a broad range of issues and by spending reward money where they will be most effective in addressing workers' shifting values.'

The benefits of a total reward approach are:

- Greater impact - the combined effect of the different types of rewards will make a deeper and longer-lasting impact on the motivation and commitment of people.
- Enhancing the employment relationship - the employment relationship created by a total rewards approach makes the maximum use of relational as well as transactional rewards and will therefore appeal more to individuals.

- Flexibility to meet individual needs – as pointed out by Milkovich and Bloom (1998): ‘Relational rewards may bind individuals more strongly to the organization because they can answer those special individual needs’.
- Talent management - relational rewards help to deliver a positive psychological contract and this can serve as a differentiator in the recruitment market which is much more difficult to replicate than individual pay practices. The organization can become an ‘employer of choice’ and ‘a great place to work’ thus attracting and retaining the talented people it needs.
- Top talent recruitment potential-An effective total rewards system that satisfies employees needs can attract a broad demographic of potential candidates. It can help build public perception of work for the company as lucrative and give the organization a competitive advantage in recruiting top talents across various disciplines. It can also facilitate the recruitment process due to many job applications.
- Employee retention-Adopting a total reward system boosts morale, encourages loyalty and creates a strong work environment that caters to employees personal and professional well-being. It can also result in less employee turnover and save costs for recruitment. Employee retention can also improve the corporate culture by giving employees a sense of company ownership and encouraging them to deliver high quality work.
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According to Armstrong (2010),there are steps of Introducing total rewards as follows:

Clarify the concept of total rewards

A programme for developing total rewards should start with a clarification of the meaning of the concept to the organization and a definition of its objectives, taking into account the circumstances and requirements of the business and the views and needs of its employees and other stakeholders. Statements of meaning and purpose provide the basis for further discussions with stakeholders, decisions on the elements of a total rewards programme and the preparation of a business case.

Involve stakeholders

Stakeholders should be involved as much as possible in developing total rewards. These include line managers,employees and employee representatives. Their commitment to the programme will be enhanced if they can contribute their ideas at the stages when the broad aims and features of the concept are defined and when the elements of total rewards are selected

and their introduction prioritized. As described by McCormick (2009), the method of involvement used by Camden Council in developing total rewards was to conduct focus groups with a cross-section of employees, carry out an employee total rewards attitude survey online and re-analyse a recent general staff survey.

Identify total rewards elements

In its basic form, a total rewards approach means simply getting the financial reward elements right and consciously doing whatever is possible progressively to enhance the elements that contribute to non-financial rewards. These include HR practices such as learning and development, career management, reward practices such as recognition schemes and flexible benefits, and HR policies such as work–life balance, leadership development programmes, job and work design and anything else that will improve the working environment. The only problem with this approach is that it could be unfocused. Something more specific based on one of the total rewards models may be better. The core of any model will be pay and benefits, but there is a choice on what other non-financial elements should be included. The choice is made more difficult because while some elements such as recognition, performance management, work–life balance and, to a degree, learning and development are clear-cut, others such as the work environment and organizational culture are more diffuse. It is relatively easy to plan programmes for developing clear-cut elements. It is more difficult to deal with the diffuse elements. For example, culture change is a long-haul activity that is not susceptible to precise programming in order to achieve quick-fix results although, there are a number of ways in which a reward system can reinforce and in the longer term help to change a culture.

There are three basic approaches that can be adopted:

- A deductive approach, as described by Peter Reilly of the Institute for Employment Studies (2009), which means taking one of the models and seeing how well it applies and then using the management perspective to see how well employees fit. It may involve selecting the most appealing consultant's model on the grounds that it contains a more attractive portfolio of elements and/or because of the reputation of the consultancy.
- An inductive approach, as described by Reilly, which means first collecting the views of employees and making sense of them, then interactively fitting these views with a model and finally establishing and dealing with any gap between the positions of employees and management.
- Distil the existing models, benchmark the total rewards experiences of other organizations and produce an individualized approach: for example pay, benefits, recognition, career development, work–life balance, performance management and work environment. These could all be defined and programmes produced for their development. Add recognition or another element to pay and benefits as a starting point, and bring in other elements as part of a longer-term strategic HR plan.

There is plenty of choice, and decisions on what elements should be included should be based on an assessment by all the stakeholders of the context and the requirements of the organization and its employees. Current arrangements should be analysed to determine the extent to which any element can be included or the amount of work required to introduce it as part of the model. The criteria for choice would be the extent to which the element is appropriate, will benefit the

organization and its employees in specific ways, and can be implemented without too much difficulty.

Prioritize

It is best not to be too ambitious in introducing total rewards. Start by identifying 'win-win' initiatives – those that are likely to have a notable effect on employee engagement and can be developed without too much difficulty. If a comprehensive approach is envisaged, priorities will need to be established and the introduction of the less immediate elements phased. In a recent example of a local authority introducing total rewards, it was decided that some aspects of financial rewards, namely job evaluation and the pay structure, needed to be changed, while for non-financial rewards priority should be given to introducing a recognition scheme. Initiatives in other areas such as job design, leadership development and improvements in the performance management system were scheduled to follow.

Examples of possible developments are given below:

- Revise grade and pay structure, possibly instituting a career-family structure that defines career paths.
- Revise contingent pay scheme or develop new one. Include leadership and upholding core values as important factors in a contribution-related pay scheme. • Introduce flexible benefits scheme.
- Issue total rewards statements that spell out to employees the value of all the benefits they receive in addition to pay.
- Introduce a non-financial recognition scheme.
- Improve performance management system, including leadership and upholding core values as important factors.
- Enhance learning and development, talent management and career development programmes.
- Focus management development programmes on improving the ability of line managers to play a major part in providing relational rewards.
- Take steps to improve work-life balance.
- Educate line managers in the principles of job design and provide guidance to them on developing roles that provide for intrinsic motivation.

Make the business case for total rewards

The business case for total rewards aims to demonstrate that an investment of time, effort and money in introducing total rewards will produce a return in the form of performance improvements resulting from higher levels of engagement. But this is not easy to do. As Giancola (2008) remarked: 'Total rewards is a very challenging concept when it includes the intrinsic work-environment' factors. He noted that in these circumstances a total rewards strategy can seem to equate to HR strategy. This is fine if it means that reward strategy is integrated with HR strategy but a lot of practitioners – and senior managers – may feel that there is nothing new in the concept. If the HR strategy of a company is to create a learning culture, implement leadership development programmes, pursue talent management initiatives,

develop work–life balance policies, encourage and train line managers to pay attention to job design, and improve employee voice arrangements, it will probably seem that the notion of total rewards is superfluous. Not many companies do all these things all at once. Even if they only do some of them, it may be difficult to persuade management that a total rewards approach offers new insights, although it can provide impetus to developments on a broader HR front. But there are a number of compelling points that can be made in a business case for total rewards.

It can be argued that it can help to achieve one or more of the following:

- promote a culture that values, recognizes and rewards outstanding performance;
- achieve competitive advantage by offering levels of choice and personalization not provided by other employers competing for the same type of people;
- meet varied and changing employee needs by introducing more value, choice and flexibility;
- help to make the company an ‘employer of choice’ for people already employed there, as well as for potential recruits;
- enhance employees’ engagement and therefore performance;
- ensure that the best use is made of all the possible ways of rewarding people, in combination as well as individually;
- avoid dependence on dubious and expensive financial incentives.

The arguments need to be supported by explanations related to the specific circumstances and needs of the organization of how any of these desirable results will be obtained with the help of total rewards.

Plan the development programme

Introducing total rewards in its fullest sense is not easy. WorldatWork (2000) commented that total rewards are ‘simple in concept and, at best, complex in execution’. The transactional and tangible elements of total rewards (financial rewards) are quite clear-cut. It may not be easy to make them work well but, as explained in later chapters of this book, it is not too difficult to decide on what needs to be done. There are plenty of guidelines available to help in selecting the approach and to indicate the means available for the design and implementation of tangible reward processes. Recognition schemes, which may be financial or non-financial (or a combination of the two), can be included in this category. Relational or non-financial rewards are more difficult. It is not a matter of implementing quick-fix programmes. The organization can contribute by communicating the values, giving employees a voice, setting up performance management processes, instituting formal recognition schemes and taking steps to improve work–life balance. A conscious effort can be made to ‘bundle’ reward and HR practices together, for example developing career-family structures where the emphasis is on mapping career paths rather than providing a pay structure. Importantly, the organization can ensure that line managers appreciate the importance of using relational rewards – exercising effective leadership, giving feedback, recognizing achievement and providing meaningful work. Ultimately, relational rewards are in the hands of line managers, and what the organization must do is to ensure as far as possible that they understand the significance of this aspect of their work and are given the training and guidance needed to acquire the skills to do it well.

Communicate

The nature of the total rewards concept – how it will be introduced and managed and how people will benefit – needs to be communicated. Models such as those used in the examples given later in this chapter can help. It is particularly important to communicate to line managers the importance of their role in implementing total rewards. Total rewards statements should communicate to employees the value of the employee benefits such as pensions, holidays, company cars, free car parking and subsidized meals they receive in addition to their pay. They also describe any other rewards they get such as learning and development opportunities. The aim is to ensure that they appreciate the total value of their reward package.

Involve line managers

Line managers contribute to the management of total rewards in six important ways:

- They have considerable influence over the management of financial rewards, agreeing starting salaries and proposing pay increases and bonuses.
- The effectiveness of performance management as a reward process involving feedback and the initiation of individual learning and development programmes is mainly up to them.
- They are the most important elements in a recognition scheme – giving praise where praise is due, publicly acknowledging high performance and making recognition awards as provided for by the scheme.
- They strongly influence how jobs are designed and therefore the degree to which people are provided with intrinsic rewards from the work itself.
- They control the degree of work flexibility that can take place, and therefore work–life balance.
- It is their qualities of leadership that largely contribute to the creation of a rewarding work environment. This is why their involvement in the development of total rewards is vital. Management development and training programmes that define their role and increase their total rewards management skills are also important

Implement

The successful introduction of total rewards is well worthwhile. But while planning a total rewards programme may be hard, implementing it can be even more difficult. It is an exercise in change management, for employees generally when new reward practices are being introduced and for line managers in particular if they are expected to change their behaviour. Continuing communications and involvement of stakeholders are essential. Monitor and evaluate the implantation of total rewards carefully and then to evaluate how well each element has worked against the objectives set for it. This can lead to a re-clarification of the concept and amendments to reward practices as required.

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