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# Designing an Effective Total Rewards Strategy

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## Introduction

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

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# Responding to the Fluctuating Economy: Short Term Responses

## Short Term Responses (2011 Towers Watson)

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- 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

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- 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.



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# Responding to the Fluctuating Economy: Long Term Responses

## Long-Term Total Rewards Strategic Planning

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Reinforce an organizational culture of:

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

## Long-Term Total Rewards Strategic Planning

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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

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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

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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

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- 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.

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## 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

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

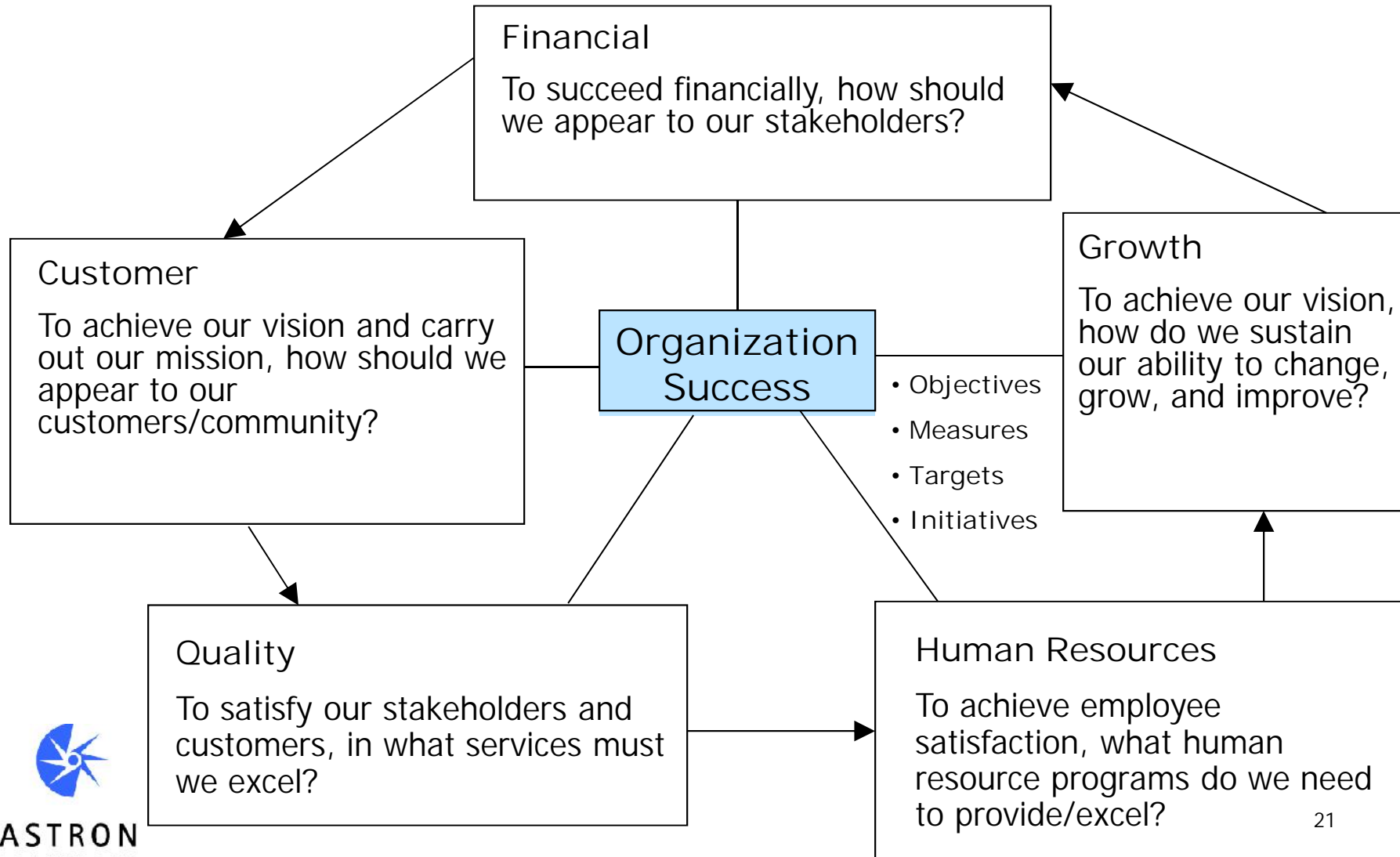
- Performance appraisal improvement (Some will accept this)
- Satisfaction surveys (Managers or employees)
- Engagement surveys
- 360 degree results
- Low turnover rates (It could be because your workers are not desirable)
- Number of applications received

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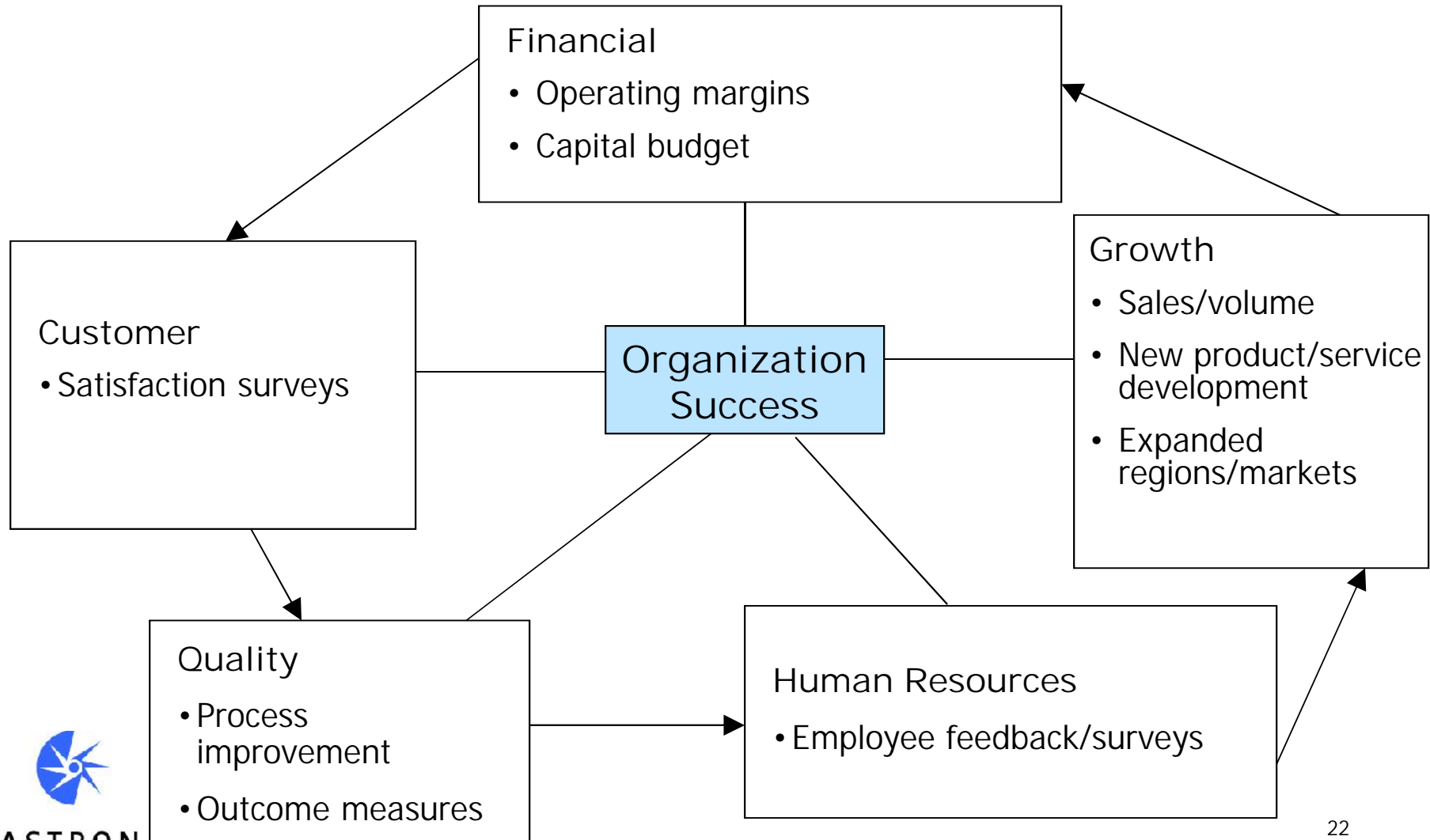
# “Balanced Scorecard” Compensation Strategic Planning

Based on the “Balanced Scorecard” Concept of Strategic Planning

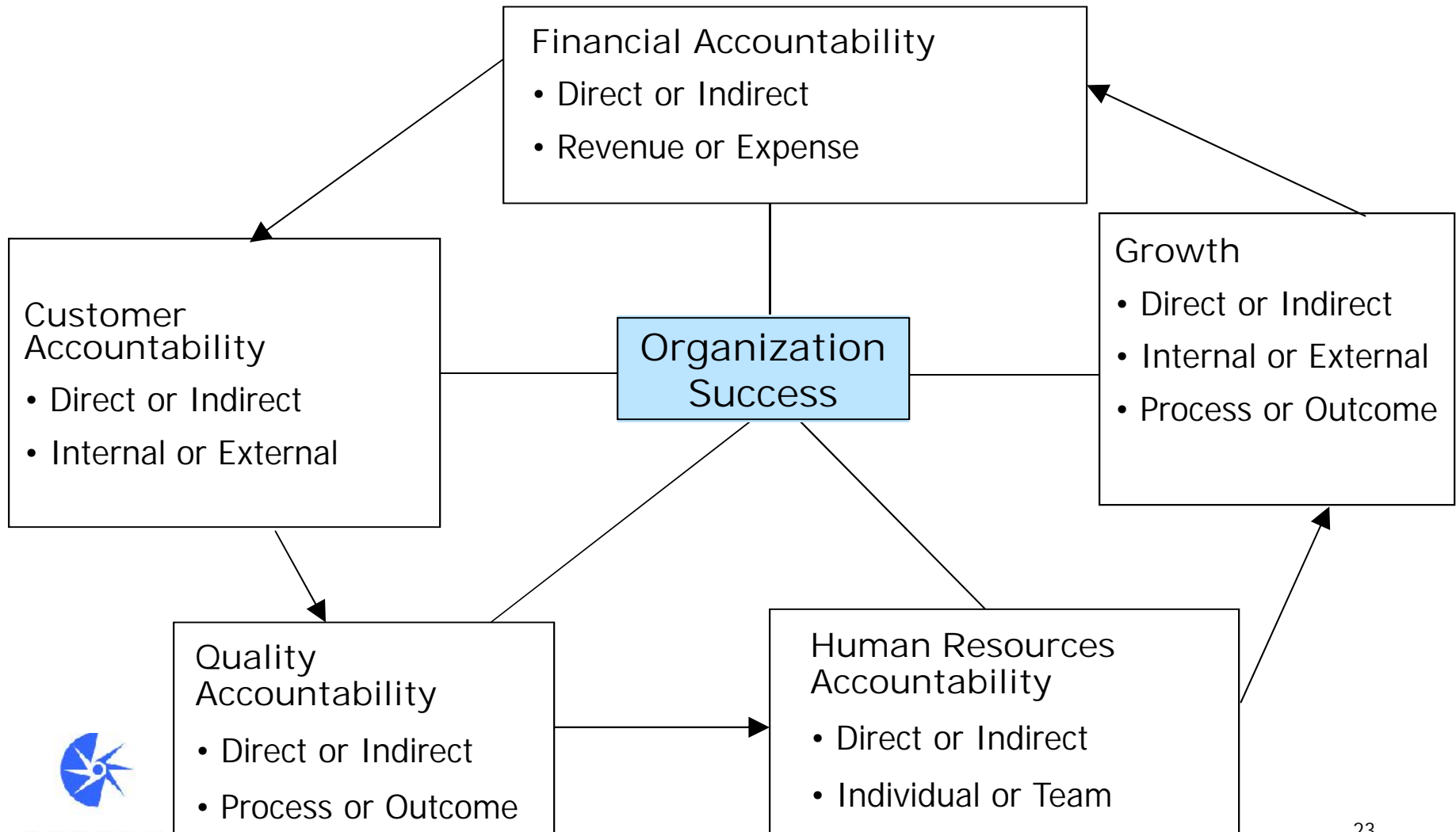
# The Balanced Scorecard Translating Strategy Into Action



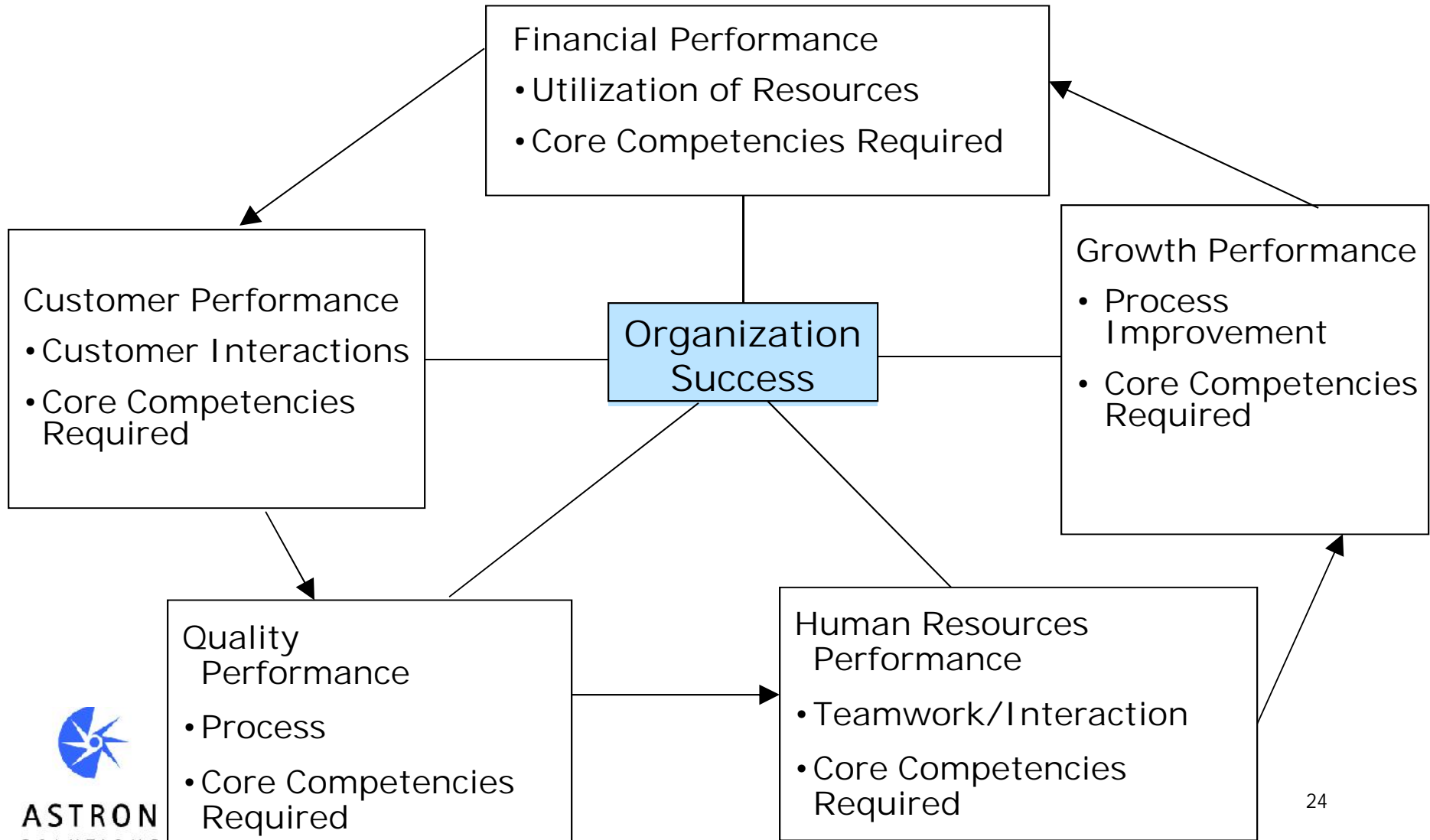
# The Balanced Scorecard Setting Targets/Measuring Performance



# 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

