

refocusing total rewards when the economy is a blur

By Juan Pablo González, Axiom Consulting Partners

according to the Congressional Budget Office, investors lost \$2 trillion in the value of their retirement accounts between the months of July 2007 and September 2008, and this was *before* the stock market hit bottom. Unemployment surged to a 14-year high of 6.5 percent nationally, and most employers and their employees found themselves between a rock and hard place, trying to remain engaged and productive in the face of economic uncertainty.

QUICK LOOK

- ⇒ Through the last fiscal quarter of 2008, many line leaders and the HR professionals who support them scrambled to understand and respond to the workforce implications of economic turbulence.
- ⇒ As context changes, rewards also need to change in order to remain relevant and attract, retain and motivate key talent.
- ⇒ Opportunities for learning and development, work-life balance and competitive pay have become “table stakes.”



While your organization may have been more fortunate, chances are that you either deferred or reduced salary increases, froze hiring or cut your training budget. You may also be planning to pay out smaller bonuses than in recent years (if you pay bonuses). These are common responses to an economic downturn and consistent with the approaches taken in the late 1980s, early 1990s and again when the “tech bubble” burst. Their effect is likely to be as expected — a gritting of teeth by most employees who realize that these measures are preferable to unemployment and some flight among top performers who are enticed by more lucrative opportunities offered by a smaller, yet successful, group of employers.

How Can You Leverage Total Rewards to Drive Performance in 2009?

A safe prediction for 2009 is that it will be a year of substantial change for employers and employees across the United States. Expect volatile economic conditions throughout the country and significant shifts across several industries including financial services, manufacturing and the service providers who support companies in these sectors. Through the last fiscal quarter of 2008, many line leaders and the HR professionals who support them scrambled to understand and respond to the workforce implications of economic turbulence. Many organizations reacted tactically — reducing spending and delivering messages of belt-tightening and concern to their employees. However, most employers fell prey to some combination of inertia, confusion, overstimulation and fear, and they ended the year wondering what to do.

Despite the challenges this year, there will be opportunities for more agile employers to improve their ability

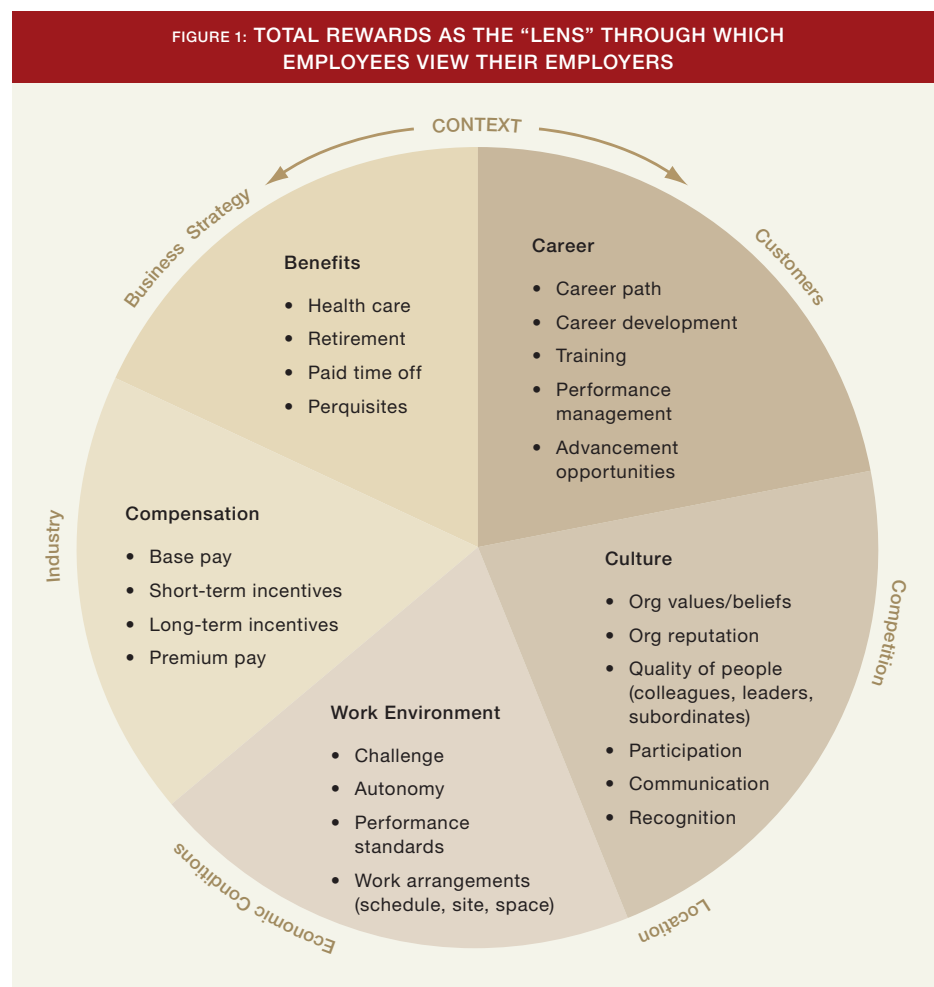
to attract, retain and motivate top talent. They can do so by making it a priority to assess the implications of economic change on their organizations and by implementing deliberate actions in response to these changes.

In the February 2008 *workspan* article, “Maximizing Return on Investment in Total Rewards: A Three-Pronged Approach,” the graphic as shown in Figure 1 depicted total rewards as a camera lens because total rewards often serves as the “lens” through which employees view their relationship with their employer. It has as its foundation two core concepts: First, that total rewards is a unique combination of compensation, benefits, culture, career and work environment provided by employers to their employees in

exchange for their contributions to organizational success. Second, these elements of rewards interact with one another holistically, within a dynamic context. Context includes internal elements like business strategy and external influences like customers, competition, industry and economic conditions. Company mission, culture, location and growth may all play a role. These factors together define how employees experience their relationship with their employers.

Successful organizations realize that they do not exist in a vacuum and strike a mutually beneficial “deal” with employees by taking context into account when they develop their total rewards offerings.

As you can imagine, these factors are subject to change — lots of change — and



Source: Axiom Consulting Partners. For a side-by-side comparison with the WorldatWork total rewards model, see the Feb. 2008 issue of *workspan*.

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when context changes, the deal that has been struck between employers and employees changes as well. As context changes, rewards also need to change in order to remain relevant and attract, retain and motivate key talent.

For example:

- Changes in economic conditions may place more stress on compensation. Not only do pay dollars not go as far as they used to, they are harder to come by as customers reduce spending to offset costs, leading employers to limit their investments in cash compensation.
- The continuing trend toward outsourcing has changed the culture of organizations so that many employees may find themselves working more closely with contractors than with their own co-workers or reaching out to a benefits call center to ask questions previously fielded by their HR colleagues.
- Increased competition may affect career opportunities as organizations implement hiring freezes in an effort to become leaner. (Interestingly, some organizations argue that this is the time to take a contrarian approach and invest to attract top talent that may be feeling the pinch in their current jobs.)
- The pursuit of new customers around the globe may require changes in work location, schedules and employee autonomy.

Déjà Vu?

Employers have faced these challenges across economic cycles. Some, including big U.S. automakers, have clung to decades-old total rewards models and suffered the results. Others have adapted to their context and held their own in the competition for talent.

For years, employers in demanding industries, such as mining and oil exploration, have recognized that the dangerous nature of their work makes them less appealing to employees and may offer premium compensation and benefits as an offset. Companies whose business strategy calls for them to be the “low-cost leader” minimize their cash investments, while those who trumpet a talent advantage may be willing to spend more to attract their ideal hires through a combination of competitive compensation and benefits, an appealing culture and work environment, and opportunities for career development.

The passage of the Sarbanes-Oxley Act of 2002 increased demand for accounting professionals, as public accounting firms and their clients scrambled to meet new standards. Years later, firms still struggle to meet their needs for great accounting talent, and constantly calibrate their total rewards programs, seeking to optimize the balance between competitiveness and profitability. Because of their industry’s continuing demand for entry-level and midcareer talent, these employers

are challenged to deliver an employment experience that appeals to multiple audiences with varied priorities. Opportunities for learning and development, work-life balance and competitive pay have become “table stakes,” so it’s no wonder that all of the “Big Four” accounting firms work hard to make sure they are listed on Fortune’s 100 Best Companies to Work For.

Finally, defense contracting, one of high tech’s favorite places to hunt for talent during the 1990s, has become more attractive to many employees since 9/11. Many employees responded to recruiting pitches that offered them the opportunity to contribute to national security, while others continue to be attracted by multiyear contracts that offer job security during uncertain times. In fact, as federal spending increased at the beginning of this century, these organizations grew to replace Internet and telecommunications firms as the most desirable employers in areas like Washington, D.C.

Avoiding the Pitfalls

When context changes, the deal changes, and employers who want the benefits of a sustainable, motivated workforce look for opportunities to renew the value of the rewards they offer their employees. These changes may include temporary and permanent changes in what is provided to create value for employees.

Analysis and Response in Action

The case examples that follow illustrate deliberate analysis and responses to significant changes in the context of rewards.

Case No. 1 | Product Telesales Organization

National salesforce of outbound telesales representatives

Distinctive elements of “the deal”	<ul style="list-style-type: none">• Compensation: Highly leveraged — low base, high incentive potential• Work environment: Large call centers; younger staff; “college dorm” work environment• Career: Few promotions; little time allocated to career development as focus is on production
Context changes	<ul style="list-style-type: none">• Economic downturn• Hiring freeze• Increased turnover of high performers who change industry to protect income• Quickly spreading morale decline in large, open floor plan work locations
Implications	<ul style="list-style-type: none">• Customers reduce/delay spending• Company responds by reducing overhead• Best people quit because they are earning less (and doing more paperwork due to reduced staffing)
Refocusing	<ul style="list-style-type: none">• Match top talent to top accounts.• Offer reduced workweeks to those who meet performance standards (some may value time off).• Increase participation/visibility in community events.• Identify high-potential employees and communicate to them the opportunity to try “stretch” assignments in preparation for future leadership roles.• Engage the workforce in identifying opportunities to increase revenue and reduce cost.

Case No. 2 | Large Not-for-Profit Organization

Advocacy organization with well-established social mission

Distinctive elements of “the deal”	<ul style="list-style-type: none">• Benefits: Premium packages• Culture: Excellent reputation resulting from the organization’s mission• Career: High cache value in the local labor market, with great promotional opportunities• Work environment: High participation required, very collegial• Compensation: Not a prominent element of rewards
Context changes	<ul style="list-style-type: none">• The economic downturn is expected to reduce funding.• As funding declines, so will programs and promotional opportunities.• Increased commuting costs (fuel and time) are putting pressure on a modestly paid workforce.
Implications	<ul style="list-style-type: none">• Turnover has increased in a few key positions that are in high demand.• Top talent is becoming receptive to new employment opportunities.• Productivity has declined as people work shorter days to reduce commuting time.• There is increased absenteeism.
Refocusing	<ul style="list-style-type: none">• Review career ladders and lattices and recommunicate advancement opportunities to employees.• Create flex-time schedules to reduce commuting time.• Conduct talent segmentation analysis to identify strategic, core, support and surplus roles and manage accordingly.• Assess whether compensation should increase in prominence as part of “the deal.”• Leverage recognition programs and career opportunities to reward high performers.

The key to success is to realize that employees experience their relationship with employers holistically, so changes in one area may have consequences in others. Avoiding knee-jerk reactions is critical in maintaining the integrity and sustainability of the deal, and employers are well-advised to be deliberate as they consider changes. During 2008 we saw organizations ride the roller coaster of economic events, offering gas cards during the summer and then, in the fall, freezing hiring, considering layoffs and raising employee contributions to health-care premiums. Mixed messages like these can confuse and disenfranchise

employees, diluting the value rewards even if they remain unchanged.

Employers can avoid these pitfalls by applying disciplined analysis of their environment (context), asking themselves tough questions about their intent and making deliberate adjustments in their rewards offerings (elements of the deal) as shown in Table 1.

Getting Off to the Right Start

As we begin 2009, executives throughout the country continue to voice caution and concern. Many worry about either being too slow or too quick to change and, as a result, may find themselves at the mercy of their surroundings.

But times of great challenge are also times of great opportunity, and the best path forward requires being:

- **Deliberate** in analyzing changes in the context of rewards
- **Decisive** in determining what to change
- **Direct** in communicating changes (and their intent).


Now is the perfect time for line leaders and HR professionals to partner in helping their organizations succeed. Rather than planning for 2009 to be a year in which to do more with less, think of it as a year that presents the opportunity to do things differently. By working together to understand the dynamics that surround their organizations and adjusting their total rewards offerings accordingly, smart employers will position themselves to attract, retain and motivate the talent they require to succeed. 

TABLE 1: HOW TO AVOID PITFALLS

Step	Considerations
1. Understand change(s) in context	<ul style="list-style-type: none"> • What is the nature of the change? Is it driven by internal factors (business strategy) or external factors (industry, the economy, competitors)? • Are changes expected to persist for a long period of time? • Does the change in context affect you differently than your competitors? • How does the change affect different demographics in your workforce?
2. Analyze how changes in context affect the deal	<ul style="list-style-type: none"> • Which elements of the deal are impacted most by change, and how are these elements valued by your most key employees? • Do changes negatively impact multiple elements of the deal (e.g., economic conditions concurrently reducing compensation budgets and increasing employee benefits costs)?
3. Determine which (if any) elements of the deal should change	<ul style="list-style-type: none"> • Have you prioritized elements that are most critical to the deal in attracting, retaining and motivating top talent in key roles? • If lesser elements have been prioritized, do they have greater real or perceived value to your employee population? • How do the changes affect employees in key roles? For example, will front-line call center employees balk at the prospect of reduced tuition reimbursement and on-site child care?
4. Prepare to execute the change (refocus)	<ul style="list-style-type: none"> • Have you rigorously assessed the risk of unintended consequences? • Can you afford to substantially offset the reduction in financial value of the deal? If refocusing requires a “take away,” be prepared to say so. • Is the cumulative effect of changes great enough in terms of perceived value? If not, then reconsider changes or decide not to change. • Does the change in context (and content) of rewards present an opportunity to rethink how work is done? Virtual workforce? Hoteling? Outsourcing noncore functions?
5. Communicate the change	<ul style="list-style-type: none"> • Who are the most critical audiences with whom to communicate? • What is the new deal, and why is it valuable? • What are the key messages? What is changing, why and for how long?

ABOUT THE AUTHOR

Juan Pablo González is a principal of Axiom Consulting Partners (www.axiomcp.com) and is based in Tysons Corner, Va. He can be reached at 703-245-6726 or jgonzalez@axiomcp.com.

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