

WorldatWork[®] Total Rewards Model



external influences human resources strategy total rewards strategy business results

Dedicated to Knowledge Leadership in Total Rewards

WorldatWork is the premier nonprofit member association for total rewards and human resources professionals. Our mission is to help members and other professionals influence their organizations' success. In addition to providing thought leadership in total rewards disciplines from the world's most respected experts and a community of practitioners, we also achieve our mission through a framework of strategies that attract, retain, motivate and engage employees.

WorldatWork Total Rewards Model



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External Influences

Successful organizations understand that total rewards must be designed and administered in the context of not only an organization's internal environment (for which organizations have direct control), but also influences external to the organization (for which there is little or no control). This requires a seemingly diametric skill set of simultaneous zoom-lens focus and wide-angle view.

The *global economic landscape* has a profound effect on organizations in general, and on total rewards in particular. TR costs are among the highest expenses incurred by the business. Consequently, these costs need to be monitored and, if necessary, adjusted to ensure continued financial viability. Rapidly rising or falling economic conditions, which can occur anywhere from a global to industry level, require timely and measured responses from TR professionals in adjusting programs to meet changing conditions.

Total rewards is the near-universal form of exchange worldwide between an employee's talent, effort and skills and the employer's ability to attract and retain the needed skills to accomplish its

mission. Thus, total rewards becomes the crucial intersection between the supply and demand for labor. TR professionals must understand *labor market* trends and movements to reach the sweet spot of attracting the necessary talent at a cost that is affordable and sustainable.

Cultural norms and social mores are another critical component related to external influences. Rewards that are valued and appreciated in one culture may be less valuable (even offensive) in another. TR professionals must have a firm grasp of the customs and drivers of the diverse makeup and expectations of the workforce to effectively tailor programs for maximum efficacy.

Finally, in the realm of external influences, *regulatory* issues pertaining to total rewards vary widely by country and region. These laws affect the design and implementation of pay, benefits and work rules. Organization-wide programs should be assessed to ensure they can be legally applied at the local level. This may require adaptation or even alternative programs to ensure compliance. Also, legal and regulatory violations can result in sanctions, damaging publicity and potential restrictions that may negatively affect an organization's ability to conduct business.



Business Strategy, Organizational Culture and Human Resources Strategy

HR professionals agree that human resources and employee rewards strategies should be based on the organization's **business strategy**. A business strategy may place its emphasis in one of the following key areas:

- **Operational excellence:** a combination of price, quality, dependability and ease of purchase that competitors cannot match. The corporate culture typically strives to minimize waste and reward efficiency.
- **Product/service leadership:** innovation, product development and market exploitation. The corporate culture encourages imagination and a mindset driven by the prospect of creating the future.
- **Customer intimacy:** creates results for carefully selected customers. The corporate culture encourages deep and lasting relationships with customers.

At the same time, every business has a unique **organizational culture** that is shaped not only by the external influences in the world, but also by senior leadership, geography, employee demographics and even the business strategy itself.

While business strategy and organizational culture are driven by external influences, these are the components that drive the design and execution of the all-inclusive approach an organization takes related to every facet of its human capital, or the **human resources strategy**. In turn, the HR strategy drives the development and administration of total rewards strategy.



Total Rewards Strategy

There are six elements of total rewards, each of which includes programs, practices, elements and dimensions that collectively define an organization's strategy to **attract, motivate, retain and engage** employees:



Compensation

Pay provided by an employer to an employee for services rendered (i.e., time, effort, skill). This includes both fixed and variable pay tied to performance levels.



Benefits

Programs an employer uses to supplement the cash compensation that employees receive. These health, income protection, savings and retirement programs provide security for employees and their families.



Work-Life Effectiveness

A specific set of organizational practices, policies and programs, plus a philosophy that actively supports efforts to help employees achieve success at both work and home.



Recognition

Acknowledges or gives special attention to employee actions, efforts, behavior or performance and support business strategy by reinforcing certain behaviors (e.g., extraordinary accomplishments) that contribute to organizational success. These programs can be either formal or informal.



Performance Management

The alignment of organizational, team and individual efforts toward the achievement of business goals and organizational success. It includes establishing expectations, skill demonstration, assessment, feedback and continuous improvement.

Total Rewards Strategy (cont.)



Talent Development

Provides the opportunity and tools for employees to advance their skills and competencies in both their short- and long-term careers. Organizations support career opportunities to effectively deploy talented employees, enabling them to deliver their greatest value to the organization.



These elements represent the tool kit from which an organization chooses to offer and align a value proposition that results in satisfied, engaged and productive employees who, in turn, create desired business performance and results.

The elements, as WorldatWork has defined them, are not mutually exclusive and are not intended to represent the ways that companies organize or deploy programs and elements within them. For example, performance management may be driven by the compensation, or it may be decentralized in line organizations. Likewise, recognition could be considered an element of compensation, benefits or work-life.



The Result

An organization's reflection of the external influences, business strategy, organizational culture, HR strategy and, ultimately, its own total rewards strategy culminates in a workforce that has the right people in the right jobs who are motivated and engaged to do the right things — and feel loyal to the organization and its success.

The WorldatWork Total Rewards Model demonstrates the dynamic relationship between employers and employees. For organizations, the desired outcome is business performance and results through the work of engaged employees who contribute their time, talent and efforts.



Originally introduced in 2000, the WorldatWork Total Rewards Model has evolved to depict the strategic elements of the employer-employee exchange as well as to reflect how external influences and an increasingly global business environment affect the goals of attraction, motivation, retention and engagement.

Business Impact

Employees who said that recognition practices are fair, direct supervisors provide recognition effectively, and they value the recognition they receive, reported a variety of positive outcomes: a greater likelihood to work harder, stronger motivation to do their best, and a greater sense of feeling valued. Employees who received recognition more recently also reported higher levels of satisfaction, motivation and work effort.

Source: American Psychological Association. August 2014. "Employee Recognition Survey."

Companies with higher engagement levels also have better talent, operational, customer and financial outcomes.

Source: Morewitz, A.C., K. Oehler, S. Parker, D. Roberts, D. Rubin, and R. Smith. April 2013. "Employee engagement linkage to business performance: Best practices and implications." Presented at the Society for Industrial and Organizational Psychology Annual Conference. Houston, Texas.

Companies recognized for outstanding approaches to health and safety by the American College of Occupational Medicine's Corporate Health Achievement Award outperformed the S&P 500 for the 15-year period between 1997-2012, and the 13-year period between 1999-2012.

Source: Fabius, R., R. Dixon Thayer, D.L. Konicki, C.M. Yarborough, K.W., Peterson, F. Isaac, R.R. Loeppke, B.S. Eisenberg, and M. Dreger. September 2013. "The Link Between Workforce Health and Safety and the Health of the Bottom Line." Journal of Occupational and Environmental Medicine. 55(9): 993-1000.

Companies in the top quartile of engagement scores had 50% higher total shareholder return than the average company.

Source: Aon Hewitt. 2012. "Making Employee Engagement Happen: Best Practices from Best Employers."

Employees who feel most able to benefit from pay for performance tend to be attracted to organizations that offer it.

Source: Fang, M. and B. Gerhart. June 2012. "Pay for Performance has Positive Effect on Intrinsic Motivation." International Journal of Human Resource Management. 23(6): 1176-1196.

There is a link between better benefits and a company's ability to attract and retain employees. While retirement and health-care plans generally have similar attraction and retention effects, more generous and secure retirement programs can create a stronger employer-employee bond.

Source: Towers Watson. May 2014. "Attracting and Keeping Employees: The Strategic Value of Employee Benefits. Results from Towers Watson's 2013/2014 Global Benefit Attitudes Survey."

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