WHAT TOTAL REWARDS MEANS

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Abstract: There are several definitions for "Total Rewards" and confusions at the same time for this concept. In order to explain the complete formula for a Total Rewards Strategy, there are described the five essential elements that bring satisfaction and engagement for employees and performance and results for organizations: compensation, benefits, work- life balance, performance and recognition, development and career opportunities. Also, for a clearer image, there are illustrated some confusions that may occur in the Marketplace and in Organizations. The conclusions sustain that for organizational improvements in performance and results could be considered a specific Total Rewards Model.

Keywords: compensation, benefits, work- life, performance and recognition, development and career opportunities, confusions, design Total Rewards Models.

JEL Classification: J33, M52, M54.

1. INTRODUCTION

In Human Resource Management, Total Rewards represent an increasingly business performance factor. Microsoft, Johnson & Johnson, IBM , AstraZeneca, Marriott and RBC Financial Group are examples of companies that currently use Total Rewards to attract, motivate and retain their employees (Rumpel and Medcof, 2006, p. 27). Although rewards are high priority for the workforce, many people are confused about this subject (Kantor and Kao, 2004, p. 7).

In order to provide some clarity, in the following lines we explain what "Total Rewards" means by showing a comprehensive view of this concept, by defining its essential elements and exhibit the misconceptions raised. Also, there are illustrated the steps that design a Total Rewards Model. Conclusions suggest the performance key for the aggregation of Total Rewards, which consists in using a total rewarding dynamic model designed to any organization.

2. THEORETICAL BACKGROUND

Rewards can be classified in two categories: financial (have monetary terms and monetary values as well) and non- financial ones (usually include recognition, autonomy, career opportunities, meaningful work, conveniences to develop skills, responsibility and work- life balance) (Syed Tahir Hijazi et. al., 2007, p. 272).

There are two manners through which the meaning of Total Rewards can be explained: narrow definitions and broad ones (Kantor and Kao, 2004, p. 9). While the first category usually includes "compensation" and "benefits" and sometimes tangible elements such as "development"- which consists in how people are given opportunities to learn more skills, the second category considers previous elements and many other that are "rewarding" the employees as a result of their employment. Examples of employment rewards or benefits are: ergonomic workstations, flexible work schedules, even covered parking spaces.

The table below shows a comprehensive view for the elements of Total Rewards:

Table- 1: Total Rewards defined by classification

Source: Kantor and Kao, 2004, p. 9.

Traditional elements of rewards like pay and benefits are no longer satisfactory. Employees need more than a basic two part package to be motivated and retained in

DIRECT FINANCIAL	WORK PLACE	AFFILIATION
Base salary Bonus Cash Profit Sharing Employee Referral Program (Cash) Stock Programs Suggestion Program (Cash for Ideas)	Autonomy Casual Dress Policy Challenging Work Constructive Feedback Covered Parking Ergonomic Workstations Flexible Work Schedules Free Parking Interesting Work Job Skills Training Modern Workspace Open Communication Performance Management Promotion Opportunities Safe Work Environment Suggestion Program (No Cash) Telecommuting Opportunities Uniforms Allowance Workshops	Athletic Leagues Community Involvement Diversity Programs Employee Celebrations Employee Clubs Professional Associations Seminars Spring and Holiday Parties Support Groups Volunteer Connection
INDIRECT FINANCIAL		**OTHER CONVENIENCE**
Adoption Assistance College Savings Plan College Tuition and Fees Commuter Reimbursement Company Cafeteria Company Store Dependent Scholarship Discount Tickets Educational Assistance Fitness Facilities Discounts Health and Welfare Benefits Incremental Dependent Care (Travel) Insurance via Payroll Deduction Long- Term Care Insurance Matching Gifts Relocation Program Retirement Plan(s) Saving Bonds via Payroll Deductions Scholarships Stock Purchase Program Student Loans Tuition Reimbursement	**CAREER** Career Advancement Coaching Lunch and Learn Series Management Development Mentoring Program Open Job Posting Preretirement Counseling Service Awards Skills Assessment Training and Development	ATMs Onsite Car Seat Vouchers (for Newborns) Carpooling/ Van Pooling/ Shuttles Child Care Resources Credit Union Employee Assistance Program Employee Card and Gift Shop Expectant Parent Program Legal Services Medical Center Military Development Support Online Services Onsite Food Services Onsite Flu Shots Onsite Dry Cleaning Pickup Onsite Post Office Personal Travel Agency Wellness Program Worldwide Travel Assistance

companies. That is the reason why broad definitions are more useful to Human Resource Management than the narrow ones. Besides, the exhaustive vision allows to design elaborated strategies regarding wages policies.

When it comes to implement Total Rewards in a company, no matter to which industry it belongs, the rewarding elements become materialized in models. Commonly, a model has various categories of rewards, in order to get easily changes for its sub elements included, whenever necessary. WorldatWork proposed the Total Rewards Model with five essential elements (Boswell et. al., 2011, p. 5):

Figure- 1: WorldatWork Total Rewards Model
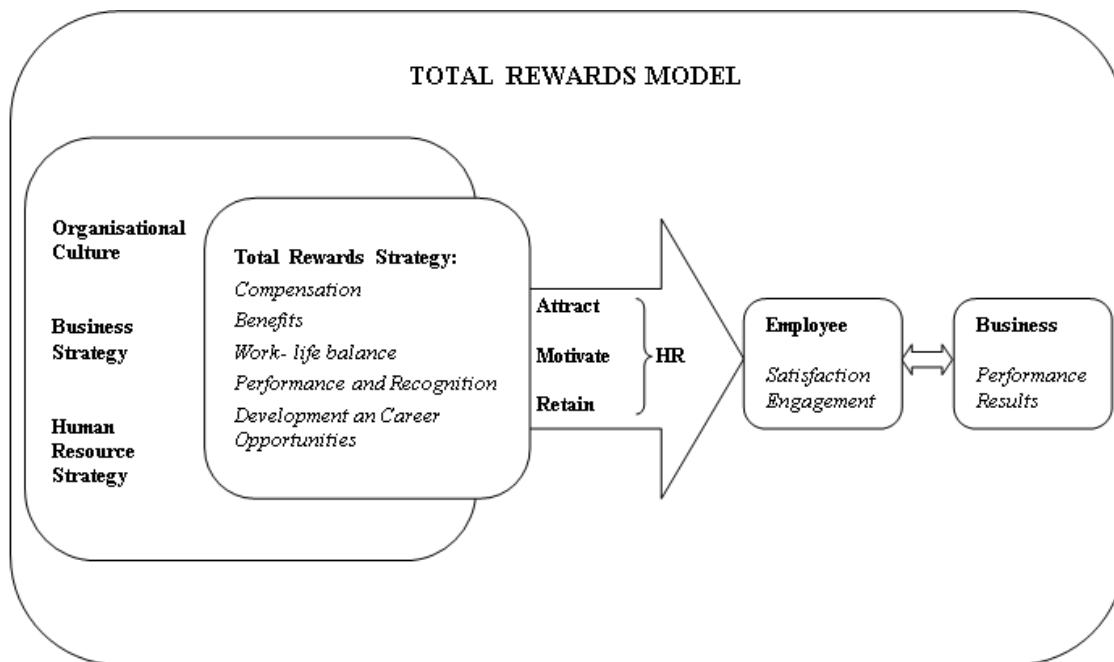
Source: Boswell et. al., 2011, p. 5.

The Total Rewards Model proposed by WorldatWork Organization considers three key behaviors in Human Resource Management: attracting, motivating and retaining the workforce. Total Rewards Strategy is based on five elements: compensation, benefits, work-life balance, performance and recognition and development and career opportunities. The relationship between expected behaviors and Total Rewards Strategy is analyzed in the context of the Organizational culture, the firm's Business Strategy and Human Resource Strategy. The model intend to achieve two aims: satisfaction and commitment for employees, and increased performance and results for companies.

The components of the WorldatWork Model are explained in the next lines:

- *Compensation*- includes base pay, short- term and long- term incentives, and it seems that over time, other rewards elements become just as important if no more important to workers (Gross et. al., 2004. p. 8). Pay also can be defined by direct financial items, such as: base pay, stock and equity sharing programs, and monetary recognition programs (Rumpel and Medcof, 2006, p. 28).
- *Benefits*- according to Gross et. al. (2004, p. 8), benefits include health and group retirement, work/ life and other benefits, and keep the company's benefits programs correlated with the employees needs and preferences. More specific, benefits are based on indirect financial items, like health and welfare benefits, retirement plans, saving plans, vacation and other pay time off (Rumpel and Medcof, 2006, p. 28). Elka Jones (2005, pp. 15- 18) fits benefits into four sections: legally required benefits (such as

social security and medical care), optional benefits (such as healthcare, life and other insurances), paid leave and retirements and other benefits like career- related (e.g., educational assistance, bonuses, stock options).

- *Work- life balance*- usually, the balance for the time spent at work/ home is included in work environment, as Rumpel and Medcof illustrate (2006, p. 29). For instance, flexible working is one of the most important aspect for a balanced life.
- *Performance and recognition*- meaningful reward and recognition is one of the essentials aspects for the practice of Total Quality Management (TQM) that influence customers' satisfaction (Hatice, 2012, p. 29). By becoming part of highly regarded company, staff expect to be able to perform well and achieve success. Moreover, the fact that workers receive recognition for their work, it can be viewed like an act of support for the employees, and will increase organizational performance. (Boswell et. al., 2011, p. 8).
- *Development and career opportunities*- include build/ buy strategy for training and career development and it is very important because represent the future value of retaining workers into a company (Gross et. al., 2004. p. 8).

The table below illustrates a synthesis for the fundamental elements of a Total Rewards Model:

Table- 2: General Total Rewards Models synthesis

PAY	BENEFITS
Base salary Monetary recognition Stock and equity sharing Variable pay	Health care Retirement Savings Time off
LEARNING & DEVELOPMENT	**WORKING ENVIRONMENT**
Career development Learning experiences Performance management Succession planning Training	Challenge of the work Leadership Organization climate Organizational reputation Performance support Relationships with colleagues Work/ life balance

Source: Rumpel and Medcof, 2006, p. 29.

The previous model illustrated is not entirely mandatory for a Total Rewards Model. Each company can have its own model, adapted to the organizational culture and employees' needs. Even the industry where the firm operates in has a major impact on the total rewarding system. For instance, tech workers will definitely have different options for their reward system compared to employees from business consulting companies. Thus, "adjustment" is the key term for choosing to deploy Total Rewards.

Further, the Table- 3 illustrates benefits, career and pay, detailed on their categories:

Table- 3: Benefits, career and pay classification

CAREER	PAY
Buy/ built strategy	Base pay
Career opportunities	Cash profit sharing
Employment stability	Long- term incentives: performance

Nature of work
Skills enhancement training/ development
	plans and equity
	    Other lump sums
	    Overtime pay
	    Short- term incentives

BENEFITS	
LEGALLY REQUIRED BENEFITS	**OPTIONAL BENEFITS (INSURANCES)**

Medicare
 	
    Social security
	Health: medical care, dental care, vision care
	
	    Life and other: life, short- term disability, long- term disability, long-term care

PAID LEAVE AND RETIREMENT	**OTHER BENEFITS**

Holidays, vacations, jury duty leave, funeral leave, sick leave, military leave, personal leave, family leave
 	
    All retirement plans: defined benefit and defined contribution
	Career related: education assistance (work related, non- work related), nonproduction bonus (end- of- year, holiday, referral, employee recognition, cash profit sharing), stock options, subsidized commuting
	
	    Family friendly (childcare assistance, adoption assistance, flexible workplace, employer- provided PC)
	
	    Health promotion (employee assistance programs, wellness programs, fitness centers)

Source: Jones, Elka, 2005, p. 7 and Gross et. al., 2004. p. 9.

The "2013 Voluntary Benefits and Services Survey" by Towers Watson &Co.'s, shows that the percentage of employers that expect voluntary benefits to be very important to their total rewards strategy will more than double over the next five years, jumping to 48% in 2018 from 21% this year. In addition, according to a Mercer L.L.C. research, the most scattered voluntary benefit offerings are: disability, life, vision and accident care (Wojcik, 2013, p. 1). Compulsory or not, benefits are gaining ground against base pay, and firms have to take into account this aspect when establish a Total Rewards Strategy.

3. POSSIBLE CONFUSIONS

Based on the answers from a special forum created to investigate possible confusions for what Total Rewards means, Kantor and Kao (2004, pp. 8- 14) explain that *misconceptions appear in two different contexts- in the marketplace and in organizations as well.* The analyzed and aggregated answers led to some conclusions that seem to be objective over the collected subjective answers.

Thus, in the marketplace there are three primary sources of confusing Total Rewards: how we define it, how we envision it and how we call it. However, according to the same source, in organizations there are other three additional sources of chaos with regard to defining Total Rewards: disagreement on the usefulness of total rewards, vague total rewards strategies and poor and ineffective communication.

First, for a proper definition of the term, it can be taken into consideration the broad definitions (for example, Table- 1 represents a good exhibit).

Second, Total Rewards may be described according to 2 levels, and by whether the rewards are direct or indirect and transactional or relational. Framing Total Rewards will help

to differentiate the companies in the market in what concerns employment terms. Table- 4 shows examples for all categories of rewards: long- term incentives, retirement, fixed pay, quality of life, culture and climate. Transactional rewards at top and relational at lower portion where direct are on the left and indirect on the right, producing 4 quadrants:

Table- 4: The Vision of Total Rewards

	Transactional rewards		
Direct	Compensation	Benefits	**Indirect**
	• Bonus plans; • Fixed pay; • Long- term incentives.	• Health and welfare; • Paid time off; • Retirement.	
	Development	Environment	
	• Career opportunities; • Learning and development; • Performance management.	• Culture and climate; • Quality of life; • Work design and flexibility.	
	Relational Rewards		

Source: Kantor and Kao, 2004, p. 10.

Though Table- 4 shows the relationship between rewards and their sources, it does not account to clearing up misconceptions or partly defined concepts. Different terms that do not express the same concept- "Total Rewards" one are not used properly, such as "total compensation and remuneration" and "employer value proposition", "employer brand" and therefore, cloud the issue. The definitions below are given to help provide better clarity:
- "Total compensation" and "total remuneration" refer to the combination of base salary, annual incentives, long- term incentives (including equity awards), benefits and perquisites;
- The "employer value proposition" refers to a compelling reason why talented employees should choose to work for a company, and "Total Rewards" should answer to this question;
- "Employer brand" is identified by the total package of functional, economic and psychological benefits provided by employment and identified with the employing company.

Concerning the chaos coming from the organizations, some employers believe that Total Rewards helps attract and retain the workforce, and others are convinced that workers and staff care only about cash rewards.

Many qualified applicants avoid firms when Total Rewards Strategies are vague. In general, the reward's elements are named too generic so that become meaningless and unfocused. A Total Rewards Strategy should accomplish two goals: to distinct a value proposition that attracts and retains the right workforce and to provide for the business the base from which the firm designs, administers and evaluates the effectiveness of the rewards program.

Finally, poor and ineffective communication can bring failure to most well- planned programs, if the workforce does not perceive any value, or, worse, is confused.

From professional experience in law studies it can be said that the "root" cause of misunderstanding the "Total Rewards" concept in the marketplace and inside the organizations consists in *a gap of the judicial international system.* So, it can be appointed a new cause related to the ones already announced by the authors.

There are a few well- based arguments in order to sustain this major cause. It is known that when it comes to law, there are no two ways about it, and given how quickly innovation

and technology develop, labor legislation adaptation should appear as well. Further, people's opinions and literature can be compared with judicial statements from labor legislation. Therefore, the judicial system could choose between putting new specifications into the jurisdictional system- which has mandatory laws, and an international standard- that would provide recommendations. Compulsory or not, a legal international image of Total Rewards should be considered.

4. HOW TO DESIGN TOTAL REWARDS MODELS

A well crafted Total Rewards Model leads to highest return of investment (ROI) and provides integrated solutions that involve individual elements of the rewards package (Petruniak et. al., 2003, p. 2). In order to conceive this type of models, we need a holistic approach to Human Resources Management, as figure below illustrates:

Figure- 2: Holistic approach for Total Rewards Models
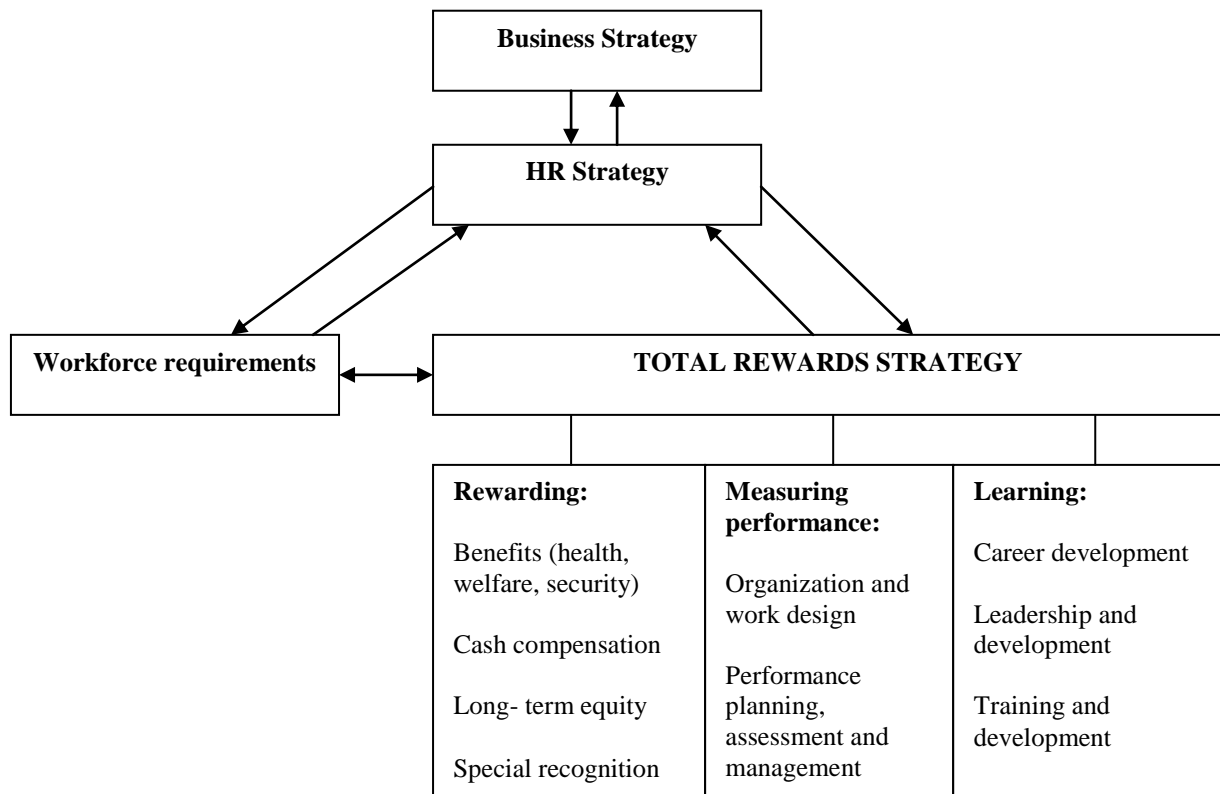
Source: Lyons and Ben- Ora, 2002, p. 3.

Lyons and Ben- Ora explain that holistic approach in Human Resources Management is essential: first, Human Resources Strategy fallows the entire Business Strategy; second, politics and practices from Human Resources Strategy are set according to workers requirements; last, but not least, Total Rewards Strategy develops three directions: rewarding elements, measuring performance (for both- employees and organization) and learning- which keeps employees fresh in the organizational environment.

When it comes to design a Total Rewards Model, there are a few "Dos and Don'ts" that employers can regard for (Lyons and Ben- Ora, 2002, p. 6):

- The fewer measures has a plan, the easier it is focused on employees' behavior and get results. Usually, five areas of focus are enough;

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- Less than 2% weekly incentive pay does not change any behavior;
- There are necessary some administrative guidelines in order to provide references, or processes when employees ask questions to resolve problems.

Moreover, there are *three design stages for a Total Rewards Model* (Petruniak et. al., 2003, p. 5): *the discovering stage* (builds a fact base for decisions and specifies areas for change), *the invent period* (develops plan designs and changes strategy) and *the deliver one* (executes the implementation, changes management strategy and communication).

The finality of a Total Rewards Model consists in performance and results for companies and satisfaction and engagement for employees:

Table- 5: Total Rewards Balancing Act

THE BALANCING ACT	
EMPLOYER	**EMPLOYEE**
Value creation through people: Attract Build commitment, ownership and loyalty Develop Focus and engage Productivity	**A meaningful work experience:** Competitive pay Personal fulfillment Security Wealth accumulation

Source: Petruniak et. al., 2003, p. 3.

A Total Rewards Model need to balance many elements, otherwise is not efficient and effective. The employment deal is gained by blending the essential ingredients as long as it takes at different moments and workers as well. Companies that align their benefits to business strategy and individual characteristics of the employees increase their return in human capital and become more profitable.

5. CONCLUSIONS

Traditional elements of rewards like pay and benefits are no longer satisfactory. *Employees need more than a basic package to be motivated and engaged in organizations.* That is the reason why Human Resource Management have recourse to Total Reward Models, which should consist in no more than five areas of focus. For instance, WorldatWork Total Rewards Model is based on compensation, benefits, work- life balance, performance and recognition and development and career opportunities.

There are many causes for misunderstanding Total Rewards in the marketplace and in organizations. From the point of view of Kantor and Kao (2004), these mistakes occur at two levels. However, when analyzing the levels, it is found that these could represent a surface point, because, in fact, the manifestations can have deeper causes than those presented. Thus, we talk about a new cause related to the ones already announced by the authors: a gap of the judicial international system. *Labor legislation adaptation does not appear constantly, in order to provide clear views about Total Rewards.*

All in all, *Total Rewards means everything an employee gets from a company* whether it is tangible or not and named or not in the labor legislation, and its implementation in companies takes the form of Total Rewards Models.

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