

## **MONEY MAKES THE WORLD GO AROUND**

(Guidelines for understanding and defining your NSO's Total Rewards)

Or so the famous lyrics from the movie Cabaret would suggest, but does money make your employees “go around”?

Ah, the topic of money is a favourite but it is not a simple topic. Quite the contrary. Money is but one aspect of compensation that has many interrelated components and levels and, and, as an added bonus (pun intended), is often fraught with emotions and misguided notions.

To view compensation simply as salaries and wages is a huge mistake and potentially very costly from a financial as well as employee engagement, attraction and retention perspectives. Compensation is a subset of a larger category called Total Rewards. Every organization has a total rewards “program” but many are unable to articulate the components. Defining your organization's Total Rewards is a necessary first step before making any decision regarding compensation programs as it enables you to create an overarching plan for achieving the desired reward system so that all the pieces “fit” properly, including the compensation system.

Total rewards are comprised of three distinct yet equally important components:

**Direct compensation** (“cash”) is the extrinsic piece that receives the most (too much) focus: salaries/wages, bonuses, any money actually paid directly to an employee. Yes, cash compensation typically takes up a significant part of an organization's budget, ranging from 40% to 70% in some cases, making it a large, if not the largest, operating expenditure.

**Indirect compensation** is an important extrinsic piece but often overlooked and underappreciated, despite the cost. Components include group benefits, retirements plans, gifts, pay for time not worked, paid professional development. For many organizations, there is a significant cost to these rewards that is often overlooked until it is too late.

**Intrinsic rewards** are the most overlooked components of total rewards yet they are the most powerful when it comes to employee engagement, attraction and retention while being the least expensive. These include: positive culture and work environment, supportive managers, professional and personal growth opportunities, supportive colleagues/team members, employee recognition, meaningful work, flexible hours, work/life balance, characteristics of the job such as autonomy and authority, etc.

It is well known that once the direct and indirect compensation needs are satisfactorily met, the key to a fully engaged workforce lies in the intrinsic rewards. In other words, money alone does not make employees “go around”.

**Direct comp + Indirect Comp + Intrinsic Rewards = Total Rewards**

A great exercise to undertake is to calculate the aggregate cost of your NSO’s direct and indirect compensation (see Excel tool “Calculating Comp Value”). You may be surprised.

Understanding your organization’s rewards, in all three areas, will help you assess whether each component of your total rewards make sense for your organization, for what you want from employees and for what you are actually getting. “One size fits all” does not apply to total rewards. Every organization’s total rewards offering is unique, whether intentionally developed or not.

A purposely developed total rewards program will:

- Help the organization achieve its objectives
- Reflect the organization’s culture
- Help attract, retain, and engage employees
- Align with the organization’s financial abilities and bring good value
- Address internal and external equity issues
- Promote desired employee behaviour

Organizations with an “unintentional” rewards system will experience such problems as:

- Paying more than necessary in some areas and not enough in others
- Poor value for its investment in wages, salaries, and benefits
- Undesirable employee behavior and results
- Employee dissatisfaction and the manifestation of such (absenteeism, complaints, reduced productivity, turnover, poor customer service, “work to rule”, unionization, etc)

Taking the time to define a total rewards strategy moves the employment relationship from a basic, “work in exchange for money” contract to a meaningful two-way employment relationship where the higher needs of both the organization and the employees are aligned.

Arriving at a total rewards strategy for your organization takes time and thought and requires understanding:

1. your organization's realities, opportunities, and constraints: size, geography, employee demographics and needs, financial, market, competition, legislative, environment;
2. your organization's vision, mission, values, culture;
3. your current total rewards offerings (in all three areas);
4. the impact of your current total rewards on attraction, retention, productivity, engagement;
5. the employee behaviour you need; and
6. whether you have the right "mix" of intrinsic and extrinsic rewards to attract, retain, promote desired behaviors.



In addition, your total rewards framework should be clear, transparent, and perceived as "fair". This requires communications, including getting employee feedback and regularly evaluating the effectiveness, especially as circumstances change. Being able to articulate your NSO's Total Rewards also addresses the "WIIFM" (what's it in for me) question of employees from both the attraction and retention perspectives.

The optimum rewards system is neither the most expensive nor the one with the most "bling" but the one that best balances direct and indirect compensation with intrinsic rewards in relation to your organization's unique culture, direction, values and circumstances. When it comes to total rewards, the whole truly is greater than the sum of the parts.

Coming next: addressing the issues of equity and choices around compensation structures (step, merit, cola, combination, other).

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