The way in which companies reward their employees is expected to change in the future and it won't just be about financial rewards. Karyn Johnson, Tony Faron and Pedro Esteban examine the challenges and likely responses to the issues organisations in the future will face to reward and retain their talent.
It used to be that reward management for organisations was as simple as ensuring the fortnightly payroll went out and once a year most employees got a pay rise. Largely, economic and industrial relation factors dominated decision-making. Then the workplace started to radically change and the profile of how organisations rewarded their employees shifted dramatically. The key changes included:

- **Benefits** increased in usage and variety as a way of rewarding people aside from cash (until fringe benefits tax came along);
- **Bonuses** were introduced for many employees as a way of paying more without locking in fixed costs;
- **Incentive** plans were designed to link ‘pay with performance’ by rewarding those who met their KPIs;
- **Superannuation** added a new dimension to remuneration, promoting the concept of setting aside employee rewards for later;
- **Salary sacrifice** took off as a way of delivering reward flexibility;
- **Share plans** became popular for listed companies as the Australian love affair with share ownership took hold; and
- **‘Meeting the market’** became more and more complicated, as remuneration differences by location, industry and skill set became more pronounced, and skill transportability across sectors and globally increased.

But the biggest change was yet to evolve. Reward was no longer just about money. Rewards for employees needed to include a broader set of deliverables in a more holistic fashion.

And the dynamics are set to keep changing as we look to 2015. The management of reward by organisations will only become more complex and challenging as demographics, lifestyle and the psychological and personality preferences of workers have an impact in the workplace. Hay Group believes that organisations will need to approach reward management in fundamentally different ways to address these issues.
key messages

- Concept of reward is fundamentally shifting
- Increased reliance on non-tangible rewards
- Understanding the demographic forces will become base line
- Personal needs, including lifestyle and values alignment, will rank higher
- Delivering tailored reward in a sustainable way will be critical
- Organisations will have to market their total reward better

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For many organisations, reward moved beyond the traditional pay elements a long time ago. Hay Group’s model of total reward will help organisations understand this complexity and focus on more than just the tangible rewards.

The reward smorgasbord

A total reward approach

**TANGIBLE REWARDS**
- Competitive pay
- Good benefits
- Incentives for higher performance
- Ownership potential
- Recognition awards
- Fairness of reward

**QUALITY OF WORK**
- Perception of the value of work
- Challenge/interest
- Achievement
- Freedom and autonomy
- Workload
- Quality of work relationships

**FUTURE GROWTH/OPTImUNITY**
- Learning and development beyond current job
- Career advancement opportunities
- Performance improvement and feedback

**WORK/LIFE BALANCE**
- Supportive environment
- Recognition of life cycle needs/flexibility
- Security of income
- Social environment

**INSPIRATION/VALUES**
- Quality of leadership
- Organisational values and behaviours
- Reputation of organisation
- Risk sharing
- Recognition
- Communication

**ENABLING ENVIRONMENT**
- Physical environment
- Job training (current position)
- Safety/personal security
- Tools and equipment
- Information and process
What organisations are finding – and will continue to find in the future – is that delivery against these sorts of aspects is becoming harder as the list of what could be provided grows.

Hay Group decided to explore this concept for the future by focusing on the work/life balance component of the total reward model, particularly the ‘Recognition of life cycle needs/flexibility’ element. We canvassed managers from a range of companies from mid-size to large organisations in Australia and asked them about the rewards they provide for employees now, or are considering for the future, to address this element. The results in the table below show that the options are becoming more varied as organisations attempt to cater for more diverse employee needs and wishes. And we have all seen the data – the Baby Boomers are retiring and there are not enough workers to replace them. The competition for talent will become more heated. The employers that are best at providing these options will differentiate themselves and get the best employees.

| Leave                                      | Flexible working hours/days | Mental health day
|--------------------------------------------|-----------------------------|------------------|
| Purchasing of extra annual leave           |                             | Birthday off
| Sabbaticals                                | Paid maternity and paternity leave | Extra sick leave
| Carer’s leave                              | Duvet day                   | Study leave

| Providing/subsidising services             | Yoga classes                | Running clubs
|--------------------------------------------|-----------------------------|------------------|
| Career planning/coaching                   | Shopping delivery, dry cleaning delivery | Lifestyle coaching
| Financial planning                         | At-desk massage             | Employee support services
| Childcare facilities                       | Evening meals                | Dog walking
| Elderly care services                      |                             |                  |
| Setting up a home office                   |                             |                  |
| Concierge services                        |                             |                  |

<table>
<thead>
<tr>
<th>Alternative opportunities</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Opportunity to volunteer time to charity groups</td>
<td>Working on a special project</td>
<td>Serving on a board</td>
</tr>
</tbody>
</table>
To prepare for future changes in reward requires an understanding about why rewards are changing. This will position organisations to better anticipate how to respond to them.

People – and what drives them – are at the heart of why rewards are changing. Organisations need to better understand what motivates employees and the underlying needs and desires that they are seeking, to be able to provide compelling reward offerings. As people become more concerned with personal motivations and fulfilment, this deeper understanding has become more challenging. In the current scarce talent market, a better understanding by organisations of the core motivations of their staff is crucial to attract and retain people.

Iceberg Model of Leadership Competencies

Hay Group has a long-standing research base in understanding people from a performance perspective. Many readers will be familiar with Hay Group’s ‘Iceberg Model of Leadership Competencies’ (see figure 1). As the illustration shows, a person needs to possess more than skills and knowledge to deliver superior performance.

The model illustrates that the characteristics that lead to longer-term success are less visible but they largely direct and control surface behaviour. Most organisations understand the skills and knowledge they require from their employees. However, it is those organisations that target the deeper levels of the competency iceberg that will be more effective. This task is harder to

The driving factors – what will drive changes in reward in the future? Hay Group’s Karyn Johnson and Tony Faron explore the underlying drivers of change organisations will need to understand.

Reward challenges
achieve, but in the long-term will deliver more sustainable performance.

In thinking about reward in the future, Hay Group’s view is that the best organisations of the future will need to approach reward from the same way – understanding the deeper influencing factors of people when determining how to deliver reward. Packaging monetary rewards into units that reflect the combination of skills and knowledge an individual brings to a role will no longer be enough. Instead, understanding the deeper factors at play and designing rewards to fit these underlying motivations will be best practice in the future. Consequently, we have created a ‘Reward Iceberg’ (see figure 2 below).

**Iceberg Model of Reward**

The ‘Reward Iceberg’ reminds organisations that, just as for competencies, they still need to understand the base remuneration value of the skills and knowledge an employee brings to the table – but that is not enough. The organisations that understand what lies below the ‘Reward Iceberg’s’ surface and respond to that understanding will do the best to deliver effective rewards. Some of the factors that organisations will need to take into account...
include: demographics, lifestyle phases, personal values and psychological factors such as personal motives. How each of these factors is assessed and tackled will transcend reward management and influence how rewards are offered in the future. (See figure 2 on the previous page).

Demographics
The different demographic groupings within an organisation will influence reward considerations – what will fulfil and motivate employees will differ by different demographic profiles. As the definitions of these groupings are reasonably clear (when compared with the factors lower on the iceberg), they represent a ‘just below the water line’ influence on reward. As discussed below, organisations will quickly realise that different groups will have unique reward expectations based on the characteristics of each group (also see definitions of these generational differences on page 69).

Just out of university (Generation Y)
Globalisation, positive business cycles, tight labour markets and the internet have dominated the work experience of this group. This group wants fair and direct managers who are highly engaged in their professional development. They truly believe that organisations are lucky to have them on board. They do not stick to traditional agreements between employer and employee.

Some characteristics and implications for reward of Generation Y:
- **Impatient**: need very short-term reinforcement
- **Ambitious**: will have high expectations of reward
- **Image-driven**: ‘packaging’ of reward products is critical

Flexible and adapts easily to continuous changes: variety and regular innovation in the reward program important.

New leaders (Generation X)
This group has experienced good and bad times across the business cycle, and they know that finding a job can be difficult, although they are unwilling to compromise by having a job for life. They have grown along with the more rapid period of the globalisation phenomenon.

This group is more independent than older generations and likely to be aligned towards their own careers. They are more flexible and embrace change. They will leave if there are no career opportunities, if they receive poor treatment from their manager, if they feel a lack of recognition or if they perceive that they are underpaid. This group sees their bosses as colleagues and are more comfortable with gender and cultural diversity in their managers. However, they do not like hierarchy, are likely to question decisions and do not always respect formal authority.

Some characteristics and implications for reward of Generation X:
- **Self-reliant**: want personal choice rather than generic approach
- **Risk-takers**: prepared to look at non-traditional approaches
- **Sceptical**: need to see what’s in it for them rather than the organisation
- **Work-life balance is important**: needs to be included in the ‘reward smorgasbord’
... a better understanding by organisations of the core motivations of their staff is crucial to attract and retain people.
Results oriented: focus on the job, not on work hours; want to be rewarded accordingly.

Senior leaders (Baby Boomers)
This generation of leaders was born just after World War II. They have experienced severe crises in business cycles and many significant changes in the world. During their professional careers they had to learn how to use a computer and were probably the ones to make a decision about whether to implement an ERP or to give internet access to employees.

The senior leaders’ generation is more likely to be aligned towards the organisation’s goals and wants, than younger generations. They are often women and men of one job. They are more likely to trust in the organisation’s decision without asking for a rationale, and they are most willing to run the extra mile. They value stability.

Some characteristics and implications for reward of Baby Boomers:
• Loyalty towards the employer/job for life
Achievement and effort: recognise and reward both

Optimistic: more easy to please through recognition than younger demographic

Conservative: prefer to improve existing benefits than changing to new benefits

Value teamwork: social rewards as well as financial rewards important.

An example of how the characteristics of these demographic groups may impact reward delivery is set out on page 38.

**Lifestyle phases**

Delving deeper than demographics for reward strategy would need an understanding of the lifestyle phase an employee enjoys, and what impact that might have on reward. Unlike demographics, lifestyle phases are not limited by generational definitions, making defining the population of the different phases harder. There could clearly be many such phases, but Hay Group suggests a couple worth thinking about.

**Balance/Winding down/Family focused**

This group is interested in balance in their lives. They are striving for the balance that enables them to have a life outside of work while maintaining a connection to an organisation. This group includes individuals at the end of their careers, with a desire to wind down their work and create more opportunities outside a formal workplace. These individuals don't want to completely leave the workforce but, rather, have immense experience to offer an organisation to help develop junior people or to leverage relationships they may have established in industry. They may in fact be choosy in their assignments at work, engaging in activities that give them most satisfaction and shunning those that aren't particularly interesting to them. This group also includes parents raising a family, with a desire to spend more time with the family, as well as those with responsibility to care for an elderly family member. In these situations, individuals need more time at home. This group is still committed to work and to the organisation, and have a lot to give. However, they have a desire to limit their work hours to meet this lifestyle phase.

Characteristics include:
- Flexibility and balance
- Detached commitment to the organisation
- Choose opportunities that fit their personal situation and interest
- Value the opportunities to use their expertise.

**Work to live**

As suggested by the title, this group ‘works to live’ rather than ‘lives to work’. The key emphasis for people in this group is on life outside of the workplace, including their family, hobbies and interests. As such, a traditional career may not necessarily be important to them. Instead, they are interested in a job that pays well enough to
finance their life outside of the workplace, including providing enough to take care of their needs and family as well as hobbies and interests. A key difference between this and the previous group is that this group is less interested in the organisation, seeing it as a provider of a job rather than helping them fulfil their personal objectives. For example, this group may include more casual workers, individuals with families, and individuals who may be living ‘for the moment’ – taking frequent breaks, for example, to undertake travel, study or personal fulfilment. This mindset doesn’t necessarily translate to minimal effort for the job. However, it may result in less continuity in the workforce and less commitment to a single organisation.

Characteristics include:
- Flexibility
- Minimal commitment to one organisation
- Optimistic
- Seeks personal gratification.

Identifying which individuals fall into which lifestyle phases and tailoring rewards to fit will be challenging for organisations. To take a sneak peek at how reward might be tailored to these lifestyle segments, refer to the table on page 38.

Values
As we descend further down the ‘Reward Iceberg’, the factors we need to consider for reward become deeper too. Personal values become increasingly important to each of us, and the effectiveness of rewards will need to reflect such an understanding.

Employees will want to work for organisations that align with their own personal values, which often transcend typical demographic definitions. Corporate social responsibility is an increasing pressure on organisations and must also be considered in relation to employee reward. For example, organisations that do not focus on the size of their carbon footprint and minimising their environmental impact, may not be attractive places for those who subscribe highly to green values. The opportunity to contribute to community and charity work during work hours, donations and social-partnering are organisational values that some employees see as necessary. For others, teamwork and a lack of title-based hierarchy are essential to align with their personal values of equality for all contributions.

Such values and principles as part of the reward equation will continue as technology and the information super-highway support an increasing awareness about the inter-connectivity and broader impact of all of our actions.

Motives
Probably the most challenging part of Hay Group’s ‘Reward Iceberg’ hypothesis is the role that motives play in effective reward. Since celebrated psychologist Carl Jung’s theory of personality, it has been understood that diverse traits play out in different people.

The late Harvard psychologist, David McClelland’s research into the three social motives has progressed the thinking into the factors that energise people. You naturally engage in the kinds of behaviour – both actions and decisions – that you find intrinsically satisfying or energising. McClelland identified three social motives that account for the widest range of social behaviour in the workplace. Everyone has some need for these three motives but we vary in the extent to which we are satisfied and energised by each:

Achievement: primarily concerned with meeting or exceeding a standard of excellence and/or improving one’s performance.
Affiliation: primarily concerned with maintaining or avoiding disruption of close, friendly relationships with people.

Power (Influence): primarily concerned with having an influence or making an impact on others. Socialised power represents working through other people. Expanding these theories to reward seems only logical because different traits and motives have the potential to influence people’s behaviour. That must mean that rewards will need to be approached to target these underlying characteristics to ensure they are satisfying and energising. Set out below is a table of the three motives, outlining what it might mean for reward delivery.

Providing rewards in a way that do not align with the underlying motive profile of a person could result in lost opportunity for the company. Organisations should ensure reward tools and strategies they use reflect each of the three motive needs. However, as motives represent the deepest point of the iceberg, it will require the most effort by organisations to better understand their key employees and what motivates them on an individual basis.

<table>
<thead>
<tr>
<th>Motive</th>
<th>When the motive is aroused, the person is concerned with:</th>
<th>Implications for reward:</th>
</tr>
</thead>
</table>
| Achievement | • Outperforming previous excellence  
• Meeting or surpassing a self-imposed standard of excellence  
• Accomplishing something new, unique or innovative  
• Being involved in long-term planning or career advancement | • Special projects and assignments involving unique challenges as a reward  
• Career and personal development opportunities |
| Affiliation | • Establishing, restoring or maintaining close relationships  
• Group activities primarily as social | • Rewards that include partner or family  
• Team recognition for achievements  
• Team-based incentive plans  
• Work group rewards of a social nature |
| Power | • Status, recognition and reputation  
• Association with high profile people and activities  
• Having an influence or making an impact on others | • Public recognition of achievements  
• Opportunities to meet with top executives to present work  
• Promotion  
• Opportunities to lead special project teams |
Organisations can prepare now to alter their reward strategy implementation for the future.

Reward solutions

Listing the challenges and building a better understanding of the forces that may be changing reward motivation are both relatively easy. However, the key for organisations is to prepare to respond to this change. In an ideal world, remuneration packages would be individually tailored to each person, taking into account the deeper understanding we will now have about personal preferences and values. Realistically, however, for most organisations this does not make much sense, given the cost and administrative burden needed to maintain such individually tailored programs. Just imagine the complexity in managing a basket of remuneration elements, each one very different in design and cost. But there will be some more tools to help organisations better listen and interact with what individuals want when it comes to reward – led by technology and marketing.

Technology

We have seen how technology has revolutionised work over the past 10-15 years. When you think of HR specifically, the concept of e-HR comes to mind. More than ever, systems are interconnected and linked. Increasingly, employees have been given direct control over much of the administrative burden of their working lives that was previously part of HR’s function. Employees can now look up their own superannuation balance, make administrative changes on-line, and apply for internal positions at their desk. With the availability of such technology, the organisation is able to capture much information about employees and their preferences. This information is not just demographic data but also highlights personal patterns and employee attitudes about the workplace. It will give many insights, helping the
organisation to identify the key elements below the iceberg’s water line for their organisations. This can provide new ways of offering tailored and flexible reward options direct to individual employees.

**Marketing**

Organisations can look to marketing approaches to respond to reward hot buttons – making HR the new marketing department! HR will need to think of current and future employees as customers. As such, HR will need to pay greater attention to them in the same way marketing focuses on attracting and retaining customers – listening to their needs, asking them what they currently have and what they want. This is where marketing techniques come into play. HR can look to the four Ps of marketing as a start (product, price, place and promotion). Take ‘product’ for example – one might say the reward system is a ‘product’ to be marketed to current and future employees, although given the importance of, say, values in the future, no one reward ‘product’ can be sold to multiple ‘values driven’ buyers – especially where there is a scarcity of customers.

That means those organisations with the best ‘reward products’ to offer potential
employees/customers are going to be in a much better position in the retention and attraction battle. The notion of the ‘employer brand’ will be fundamental to this approach. HR will need to be more effective in listening to and understanding employee needs, and tailoring its reward offering to employee groups. (And of course this won’t be successful without proper communication strategies!)

How organisations choose to package their ‘reward products’ will vary – from the easier demographic-based approaches to the more detailed motive-based segments. An example of how an organisation may think about reward design on a demographic and lifestyle segmentation approach is set out in the accompanying table below.

<table>
<thead>
<tr>
<th>Segment</th>
<th>What defines them</th>
<th>Interests</th>
<th>Remuneration elements</th>
</tr>
</thead>
</table>
| Just out of university (Generation Y) | Establishing a career  
Travel before family ties/career  
Experimenting with career  
Want opportunities across the business | Career  
Change and innovation  
Teamwork  
Mission  
Values | Time off/flexibility  
Job sharing  
Opportunity with interesting projects/exposure  
Mentoring |
| New leaders (Generation X)       | Want to be future leaders  
Career focused | Upward mobility  
Leadership development opportunity | Mentoring  
MBA  
Leadership development |
| Senior leaders (Baby Boomers)    | Status/title  
Networking with other executives  
Experience  
Investing wisely  
Invest in children’s uni funds | Wealth accumulation  
Luxury  
Time off/extended holidays | Minimum tax  
Equity  
Super |
| Career changes                   | Want more meaning in their career  
Looking for career options  
Could include employees with injuries/disabilities forced to change jobs | Varied | Secondments  
Coaching/mentoring/ career counselling  
Pro rata KPIs to ease career transition |
| Winding down/family focused      | Have a lot to give to an organisation  
Work/life balance  
Raising a family, caring for elderly or winding down career | Wellness  
Mission and values  
Involvement | Flexibility  
Purchase leave  
Medical coverage  
Child/elderly care  
Projects that utilise their expertise |
HR will need to be more effective in listening to and understanding employee needs, and tailoring its reward offering to employee groups.
Value judgements

New measures will be necessary to benchmark reward in the future

With the introduction of more segmented packages of rewards, the whole idea of how to ‘value’ reward packages comes into question. In an environment where a variety of reward offerings and approaches are being made available, how can different reward offerings and approaches be compared? Hay Group believes this challenge will have a number of facets:

- valuing the tangible;
- valuing the intangible;
- employee engagement and return on investment; and
- implications for databases.

Valuing the tangible
Hay Group believes that most companies are missing an enormous opportunity to communicate a clear picture of their total reward to employees. Many companies are not yet valuing or benchmarking their entire tangible package on offer to employees. Obviously some of these factors are easy to place a value on – for example, salary and bonus and items included in the fixed package. Others are a little more tricky but not impossible – such as the valuation of long-term incentives. You can also place a value on benefit items such as maternity, health, income replacement, extra holidays. This goes for other benefits such as employee discounts.

It is important to see the whole picture. In order to ensure they are communicating this whole package, companies are turning to...
‘total reward statements’. These statements will allow an employee to truly appreciate the full value of what they have and can ensure a significant return on investment for the benefits and perks offered. ‘Total reward statements’ become a retention tool as the employee can now ensure they consider all the elements they are giving up when looking at another offer. This is again another way that HR can act more like a marketing department. These statements are literally ‘advertisements’ to employees and add to the ‘brand’.

The perceived value of the remuneration program is only as good as the communication to employees. If employees don’t know what they are getting as part of their package, they certainly won’t understand what they lose should they leave the organisation. With an increased emphasis on marketing in the human resources function, it’s only natural that this aspect would increase in importance. That means having a complete communications strategy, including elements like a ‘total reward statement’, to convey the components of the remuneration package, will be critical.

Valuing the intangible
It is clear that intangibles are becoming an increasingly important and central part of the whole reward package. As the reward environment becomes more competitive in the future as the war for talent grows,
companies might choose to add more money to the package, but this will become less sustainable and costs will make it prohibitive. In addition, there is a reducing return on investment in the employee by just adding monetary items. Consequently, to be competitive, companies will need to get better leverage from the intangible rewards on offer.

The big question is how does one include them in the valuation of the total reward package? For example, how do you put a value on dry cleaning services or flexible starting times? The intangibles which make up a critical and still unaccounted part of ‘total reward’ are of intrinsic value to the employee.

One way of leveraging these intangible items is to make employees more aware of the intrinsic value they are receiving – understand what motivates them and better communicate how the company is working to fulfil these needs. Another is to measure their value in terms of improved employee engagement.

**Employee engagement and return on investment**

A further challenge for organisations of the future to determine if reward is more than just tangible items: how do we know we are getting a good return on employee investment for the intangible elements being offered? Working out this riddle is even more difficult when organisations try to evaluate whether their programs designed to satisfy the underlying value-based reward needs for employees are working.

A word of warning – the traditional measures of remuneration ROI (top-line business operating results, revenues, controlled or lowered labour costs and employee productivity) while informative, may give organisations a sense of
false hope. Given the importance of values going forward, things like employee engagement, retention, employee satisfaction or organisational attractiveness (and other qualitative measures) will have more relevance in measuring ROI. One way to put a value on these programs and measure if they are giving a return on investment is to evaluate employee current engagement with their work. If the employee is truly working for more than ‘just money’, then surely the engagement of the employee will tell if you are getting return on investment.

The organisational survivors in the ‘war for talent’ will be the ones that make the most efficient allocation of payroll dollars to maximise employee engagement and retention. The value of these rewards is only as good as the impact on employee engagement. This is not to discount the value of fixed pay – this is still important and needs to be competitive in the market. However, organisations of the future will need to offer and track the performance of many more measures of reward.

**Implications for databases**

Given that remuneration databases currently only focus on collecting and reporting on the monetary and tangible rewards, will they become less relevant?

All of this suggests a balanced approach to benchmarking and a new way of measuring true reward. Measuring the value of fixed-reward programs is easy – it is in monetary terms. Employee-engagement measures may be a way to incorporate a value for the impact of non-traditional reward elements. It is a way of showing how much employees value the organisation and what it does for them. Ultimately, any measurement system needs to incorporate both – with an equal emphasis on quantitative and qualitative measures.