# THE EVOLUTION OF TOTAL REWARDS

**A CAHRS White Paper | January 2022 | prepared by Geoffrey Gautier and Kim Gordon**

**Executive Summary**

The past two years have brought new challenges to employers due to the COVID-19 pandemic. In response, Total Rewards offerings have changed to meet the new needs of employees. With the increase in remote and hybrid environments, employees have seen many new ways of working, but also increased demands on their time. This has led to a decrease in engagement, and an increase in attrition. Our research study and the following white paper address the following three questions:

1. How have employee expectations evolved in the past two years?
2. How have organizations adjusted their Total Rewards strategies focusing on compensation and benefits in the past two years and what were the drivers of those changes?
3. To what extent have the effects of the "Great Resignation" impacted changes in Total Rewards strategies?

During our research six key themes emerged: (1) changes in Total Rewards offerings, (2) a renewed focus on Environmental, Social and Corporate Governance (ESG) goals, (3) inflation concerns, (4) increased communication around Total Rewards, (5) additional work flexibility, and (6) increased attrition.

We also created a framework tool to help our CAHRS partners assess their current Total Rewards strategies based on two key factors: transparency and flexibility. In this framework, companies are classified as established, evolving, or differentiated based on their existing Total Rewards strategy.

Our findings and the framework establish three key opportunities for companies moving forward: (1) integrate ESG into the business, (2) be proactive in Total Rewards strategy, and (3) focus on simplicity and consistency in communication.

After evaluating the latest trends in Total Rewards, we looked towards the future and assessed the most pressing issues for additional research. Below are four main questions on the horizon:

1. What new data points should inform compensation decisions when a highly evolving market makes benchmarking data less valuable?
2. How can various ESG principles be integrated into management decisions beyond executive compensation?
3. How practical are fully customized benefits given loss of economies of scale?
4. How can healthcare inflation be effectively managed in a volatile environment?

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## Background & Research Objectives

Since the start of the COVID-19 pandemic, the work landscape has evolved rapidly and companies have faced unprecedented obstacles. Some of these obstacles include managing and retaining talent in newly remote and hybrid environments. A record number of people leaving their jobs since the start of the pandemic has marked the phenomenon known as the "Great Resignation."

Total Rewards strategies, which encompass compensation, benefits, and other practices, reflect the investments companies make in their employees. Total Rewards can be an important factor that influences an employee's decision to stay or leave a company.[1] However, a Gallup analysis suggests that disengagement may be a better predictor of loyalty than notable Total Rewards factors such as pay. Gallup found that it takes more than a 20% raise to lure engaged employees away and almost no difference in salary to poach more disengaged workers.[2]

Moreover, work flexibility has become increasingly important to employees in the past two years. One survey of 1,000 adults in the United States reported that 39% would consider quitting if their employers were not flexible about remote work.[3] There were also observed generational differences in the data: among Millennials and Gen Z, the figure was 49%.

With this context in mind, our research objectives were targeted to answer the following three questions:

1. How have employee expectations evolved in the past two years?
2. How have organizations adjusted their Total Rewards strategies focusing on compensation and benefits in the past two years and what were the drivers of those changes?
3. To what extent have the effects of the "Great Resignation" impacted changes in Total Rewards strategies?

## Research Methodology

In this benchmarking study, we interviewed 28 Total Rewards leaders representing both compensation and benefits teams from 18 CAHRS partner companies. These companies spanned nine industries across the public, private, and nonprofit sectors. The company sizes ranged from 1,000 to 200,000 employees per company.

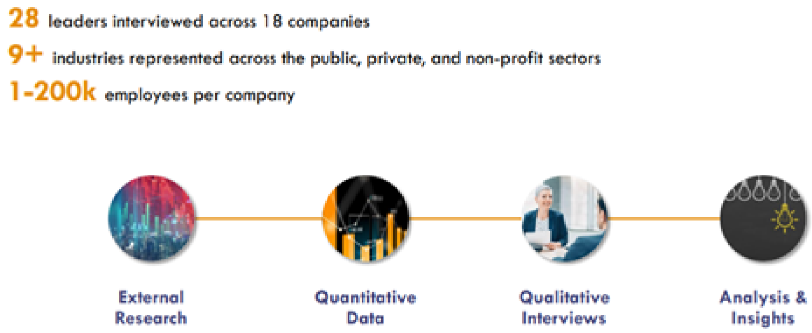
Our general approach was to consider external research, and then combine quantitative survey data with qualitative interview data. We analyzed the data to present key themes and takeaways for CAHRS partner companies.

[1] Five Factors That Entice Workers To Stay (Or Go) During The Great Resignation (https://www.forbes.com/sites/irabedzow/2021/09/05/five-factors-that-entice-workers-to-stay-or-go-during-the-great-resignation/?sh=5cabcecd544c)

[2] The 'Great Resignation' Is Really the 'Great Discontent' (https://www.gallup.com/workplace/351545/great-resignation-really-great-discontent.aspx)

[3] Employees Are Quitting Instead of Giving Up Working From Home (https://www.bloomberg.com/news/articles/2021-06-01/return-to-office-employees-are-quitting-instead-of-giving-up-work-from-home)

**Figure 1:** *Methodology Overview*



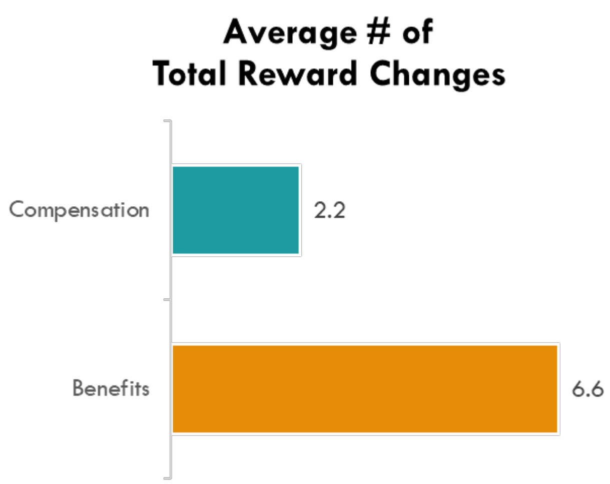

**Key Themes**

Six key themes emerged in the data: Total Rewards changes, ESG evolution, inflation, communication, work flexibility, and attrition.

Theme One: Total Rewards Changes

In our quantitative survey, we asked companies if they made changes in specific compensation and benefits categories in the last two years. We found that on average they made 2.2 changes on the compensation side and 6.6 changes on the benefits side.

**Figure 2:** *Average Number of Changes in Benefits and Compensation*




This finding was in line with what we learned in our qualitative interviews where we saw an increased reactivity in benefits. We also were surprised to learn in our conversations that there was little change in fundamental compensation frameworks despite the rise in remote work.

With respect to compensation, companies reported increases in short- and long-term incentives, and home offices expenses. For example, one company reported making changes to short-term incentives for their sales employees based on a shift in sales from one channel to another as they adjusted to the COVID-19 pandemic.

With respect to benefits, companies reported adding more options in family support, mental health, and alternative work arrangements. One company used an application to build a gamified approach to wellbeing that encouraged engagement among employees.

**Figure 3:** *Most common changes in Compensation and Benefits*

| | Compensation | | Benefits |
|---|---|---|---|
| 1 | Short-term incentives | 1 | Family support |
| 2 | Long-term incentives | 2 | Mental health |
| 3 | Home office expenses | 3 | Alternative work arrangements |

Theme Two: ESG Evolution

During our conversations about compensation specifically, 72% of participating companies mentioned that they either had ESG metrics in place or were having conversations to introduce metrics in the near future. ESG decisions and reporting mostly impact public companies. Participating companies working towards ESG goals largely fell into one of the following three categories:

- Companies having regular conversations about ESG principles with their Board of Directors and looking to quantify them in the near future
- Companies with ESG metrics in place serving as secondary to financial goals
- Companies with ESG metrics integrated into compensation practices for a smaller scope of employees, primarily applying to executive leadership

Three key priorities emerged in our conversations:

1. **Aligning ESG scorecards to business stategray and operating model**. Companies shared that ESG metrics will only drive impact if they make sense for the business. Moreover, a reporting scorecard with competing factors across the ESG pillars can fill up quickly. A saturation of metrics will water down each individual metric. To remedy this, companies are prioritizing metrics that are core to their business models. For example, one manufacturing company identified safety as mission critical. This company emphasizes safety metrics and holds leaders to injury and fatality counts in both annual performance and compensation. Another company shared that it recently incorporated more localized metrics to incentivize employees and leaders alike. In this case, compensation is tied to productivity, quality, and safety measures that apply to specific plants.
2. **Deciding the right time frame for ESG goals.** One company shared that it sets ESG goals over three years; the goals are expanded only if they are fully met at the end of the three year period. This aligns with the notion that ESG encourages longer-term thinking and impact as opposed to short-term profits for shareholders. As such, ESG metrics should align to long-term goals tied to a broad base of stakeholders.
3. **Expanding the impact of ESG from executives to the broader employee base.** While companies may tie ESG metrics to executive compensation, they are also thinking about ways to incorporate diversity and social metrics into performance management to impact behavior of employees at all levels. One healthcare company shared that it implemented diversity metrics in

performance management for all employee groups. These metrics are weighted based on thenumber of people employees manage. Accordingly, the more employees a person manages, the more the diversity metrics will influence his or her annual performance and compensation outcomes.

Theme Three: Inflation

During our conversations about compensation specifically, 62% of participating companies reported that inflation is a concern and may impact compensation budgets in the future. Generally, most companies shared that they are monitoring inflation but not yet acting on it in a meaningful way. Companies shared that inflation has a higher impact on their minimum wage employees. Companies compare the cost of living with the cost of labor to understand where they are trending in the market. It has become more important to do this on a regular basis to stay competitive in light of the national labor shortages.

Employers shared that they are worried about inflation specifically with respect to healthcare costs. Some companies are wondering if they should pass along increased costs or absorb them into their benefits spend. A few international companies shared they have already created processes to adjust for inflation in countries that experience big changes frequently. However, the participating companies shared they are taking a more conservative approach in the United States thus far and are monitoring the landscape before making any drastic changes.

**Figure 4:** *ESG Priorities and Inflation Challenges*

### ESG EVOLUTION

**72%** of participating companies are thinking about ways to tie **Environmental, Social, and Governance (ESG) metrics** to compensation.

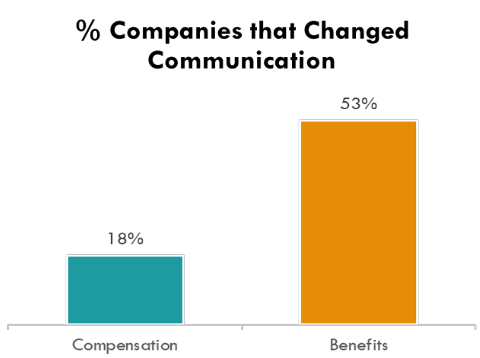
**Key Priorities**
- Aligning ESG scorecard to business strategy and operating model
- Deciding the right timeframe for goals
- Expanding *who* is impacted - from executives to employee base

### MONITORING INFLATION

**62%** of participating companies reported that **US inflation** is a concern and might impact compensation budgets.

**Key Challenges**
- Higher impact on minimum-wage employees
- Healthcare inflation has an outsized impact on benefits budgets
- Some consider US inflation as transitory and are choosing to be conservative

**Figure 5:** *Change in Total Rewards Communication*




Theme Four: Communication

We found that in the last two years and driven by the COVID-19 pandemic, companies stepped up their communication efforts. Overall, 82% of companies changed the mechanisms they used to track employee sentiment over the past two years.This included, for example, transitioning from quarterly or yearly surveys to monthly pulse checks. In another example, a company set up forums and focus groups to address employee questions in public forums. While companies updated their tracking mechanisms, they also changed how they communicated with employees with 53% of companies changing the way they communicate about benefits. Again, we saw a more pronounced change around benefits, which was also apparent in our qualitative interviews.

Theme Five: Work Flexibility

With respect to flexibility, we found that most companies still operate in a hybrid or fully remote model. However, manufacturing remains in person mostly out of necessity. While companies were not able to be location-flexible in this area, we found that they were looking at ways to provide other flexibilities to bring a more equitable environment for onsite employees as compared to office employees.

Some manufacturing examples tied to flexibility included:

- Maximizing virtual training where possible
- Investing in new technologies for shift management, such as shift swaps
- Providing alternative schedules
- Using job sharing which allows multiple employees to work one job

Theme Six: Attrition

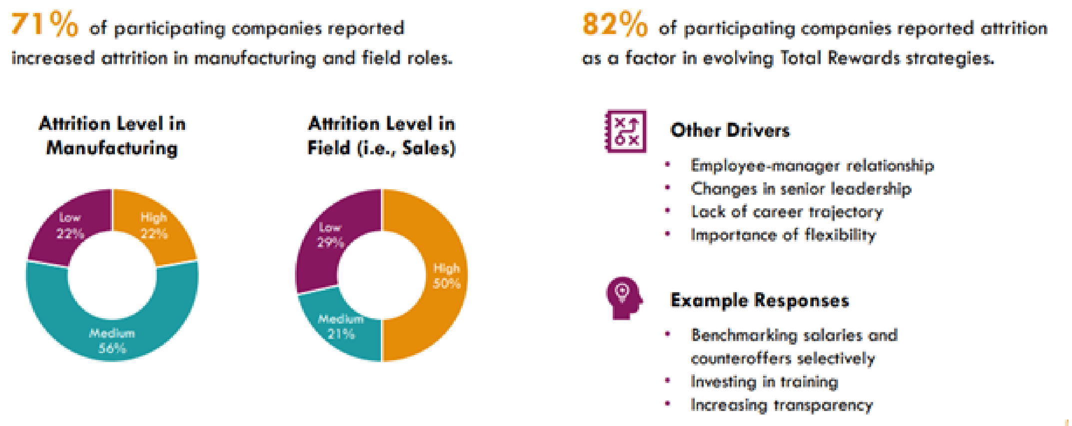
The last key theme that emerged in our findings was attrition. Most companies we interviewed experienced higher attrition in the past two years which is consistent with the high level of movement in the labor market. Broadly, companies shared that they are monitoring attrition more closely with the “Great Resignation” in mind. More specifically, 71% of participating companies reported increased levels of attrition in manufacturing and field roles (particularly in Sales). In some cases, the attrition levels have been unsustainable.

We were curious how these changes impact Total Rewards strategies. Attrition is a factor in updating these strategies according to 82% of participating companies. However, in most of our conversations, compensation and benefits leaders shared that they viewed Total Rewards as only one facet of mitigating attrition.

Companies shared that there are other key factors that have driven attrition in the past two years such as the employee-manager relationship, changes in senior leadership, lack of career trajectory, and level of work flexibility. From a Total Rewards perspective, companies are benchmarking salaries and assessing counter offers on a more selective basis as leaders shared that increasing base pay is not a sustainable lever for the long term.

Outside the Total Rewards space, companies also emphasized employee development and transparency. Training managers how to better support their employees, surveying employees about their experience, communicating back what employees have shared, and sharing concrete plans to respond to feedback are all important tools being utilized to promote engagement and retention.

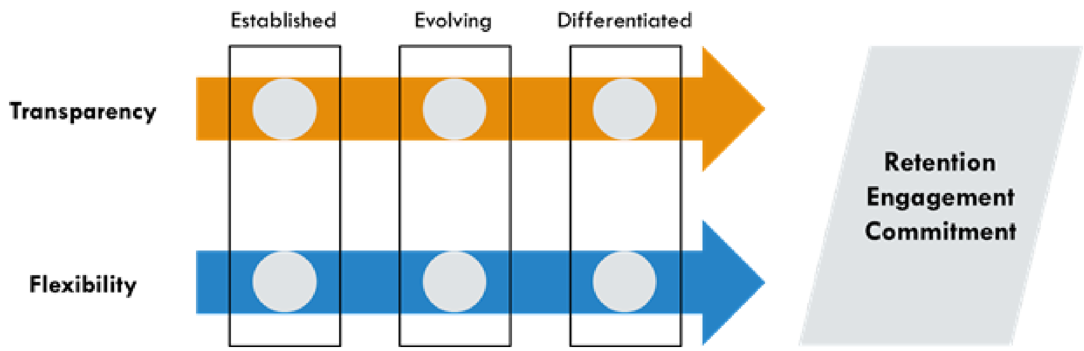
**Figure 6:** *Increased Attrition, Drivers, and Responses*




### Total Rewards Framework

Based on everything we learned in this study, we put together a framework to help our CAHRS partners assess their current Total Rewards strategies. Our findings highlighted transparency and flexibility as important factors in driving retention, engagement, and commitment. With this in mind, our framework is divided into transparency and flexibility dimensions. We classified companies as established, evolving, or differentiated to provide a source of comparison.

**Figure 7:** *Total Rewards Framework*




Transparency Dimension

The transparency dimension in the framework centers on sharing information more freely in an effort to benefit the organization and its employees. In this dimension, we classified 39% of participating companies as established, 39% as evolving, and 22% as differentiated. Across this dimension, we found three focus areas: performance, communication, and the company's Total Rewards framework.

With respect to performance, we found that established companies aligned goals to business objectives. As they move towards transparency, they increasingly tie performance to compensation metrics, and cascade those metrics down to all levels of the organization to align business strategy.

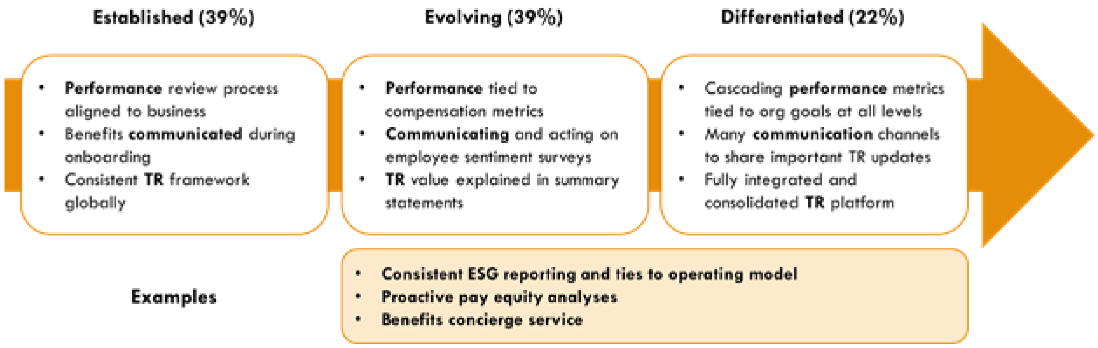
With respect to communication, established companies communicate benefits during onboarding, and as companies transition to evolving and differentiated, they increase the number of touchpoints when sharing information about Total Rewards.

With respect to a Total Rewards framework, established companies have a consistent framework, evolving companies take it a step farther by sharing how the framework applies to each employee, and differentiated companies have a fully integrated and consolidated Total Rewards platform.

Below are three transparency examples we found across participating companies that were evolving or differentiated:

1. One evolving company made use of consistent reporting of ESG metrics for both employees and shareholders.
2. One differentiated company used annual pay equity reviews with proactive steps taken to address the findings.
3. Several evolving and differentiated companies established a benefits concierge service where employees can call in to discuss their benefits and ask questions.

**Figure 8:** *Transparency Dimension*




<u>Flexibility Dimension</u>

The flexibility dimension in the framework centers on employee-centricity and work flexibility which we learned is something employees have increasingly valued in the past two years. In this dimension, we classified 39% of participating companies as established, 50% as evolving, and 11% as differentiated. Across the dimension, we identified three key focus areas: compensation framework decisions, benefits offerings, and work models.

With respect to compensation decisions, an established company makes decisions primarily using market data in a structured timeline. Evolving companies start to incorporate more inputs; they react to where employees are leaving, think about ways to adjust the mix of base and variable pay, and create tighter linkages between compensation and performance management. Some participating companies shared that for the first time compensation decisions were being made outside traditional merit processes. Differentiated companies make more proactive compensation decisions based on pockets of valued skills in the organization.

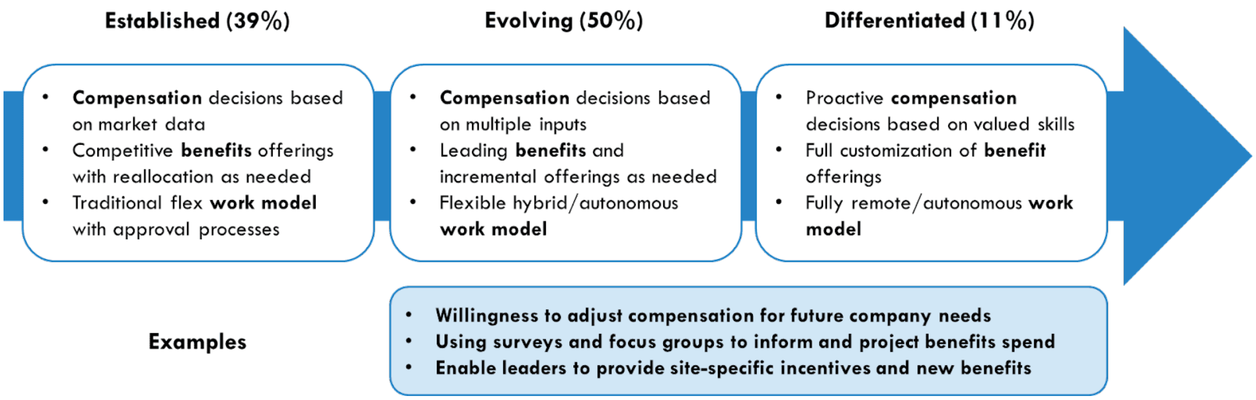
With respect to benefits offerings, an established company has competitive offerings and is willing to reallocate as needed based on usage and demand of employees. Evolving companies offer leading benefits and are not only reacting to employee feedback but also adding incremental offerings to more value for their workforce. Differentiated benefits entail more advanced customization. In our interviews, some companies shared that the notion of "flex benefits" was a topic of conversation. "Flex benefits" allow individual employees to pick and choose bundles of offerings that make the most sense for them. Companies design such programs with the needs of specific employee demographic groups in mind.

With respect to work models, an established company has a flexible work model with structure. For example, a company may schedule days when employees are expected to work at the office and create approval processes for employees that need to divert from this structure. An evolving company has a more flexible model where employees have more autonomy but are expected to work both remotely and in the office. A differentiated company has a fully autonomous work model. In this case, employees have full autonomy over when and where they work.

Below are three flexibility examples we found across participating companies that were evolving or differentiated:

1. One evolving company shared that it has enabled more flexibility in its compensation framework to adjust compensation for future needs. For example, this company wants to incorporate predictive models in its business plans and is looking to build out a data science team to enable this. The company has been focused on both the short and long term compensation levers that can be adjusted to attract the talent needed to build out this team.
2. One differentiated company shared that not only did it increase the cadence of employee pulse checks, it also established multiple forums for employees to share in small and large groups about their needs. The notes from these forums were incorporated into decision-making about benefits.
3. One evolving company shared that it decentralized a bit of compensation governance to allow local leaders to facilitate the support of their employees. This included approving certain bonuses and benefits for employees in manufacturing sites.

**Figure 9:** *Flexibility Dimension*



**Opportunities for HR**

Our findings and the framework establish three key opportunities for companies moving forward:

1. **Integrate ESG into the Business.** As companies think about ESG, they should focus on aligning metrics and goals to business strategy. Moreover, compensation frameworks and performance management systems may need to be updated to drive new behavior of employees more broadly. Some specific examples include:
    a. Spelling out diversity metrics to create an inclusive environment. This should go beyond reporting counts by categories; it should also focus on other measures such as sexual harassment policies and training.
    b. Establishing employee voice mechanisms. This could include employee input into ongoing operations, input into HR policies, and conflict resolution systems.
    c. Focusing on internal pay equity and mobility options for employees.
    d. Employment security that considers retraining and replacement systems.
2. **Be proactive in Total Rewards Strategy.** We found that most companies were reactive but only a few were sharing ways that they were getting ahead of future Total Rewards needs with controlled experiments. Differentiated companies are paving the way for a more proactive approach. One such company performs a rigorous pay parity analysis every year. On the reactive side, the company runs regression analyses to understand variables that impact salary. The company looks for unexplainable differences in salary and makes adjustments as needed to minimize inequity. On the proactive side, the company establishes control and experiment groups and runs tests to consider outcomes for represented groups in comparison to underrepresented minorities. The results of the reactive and proactive analyses both inform compensation framework decisions.
3. **Focus on simplicity and consistency in communication.** Employers should continue to find ways to share digestible bits of information about Total Rewards offerings and to do so consistently. Many companies shared that they struggle to keep employees informed of the Total Rewards offerings already available to them. As companies make strategic changes, they may shift or add incremental offerings to maximize value for their employees. It is imperative to clearly communicate these updates to employees. Simplicity and repetition help to drive home the message so that employees can take full advantage of the offerings.

**Questions for the Future**

As CAHRS partners look to focus on their Total Rewards strategy, we have identified four questions to consider for additional research:

1. **What new data points should inform compensation decisions when a highly evolving market makes benchmarking data less valuable?** We found that many companies were struggling with outdated information when looking to benchmark.
2. **How can various ESG principles be integrated into management decisions beyond executive compensation?** Many of the companies we interviewed were either considering or already implementing ESG metrics into their executive compensation framework.
3. **How practical are fully customized benefits given loss of economies of scale?** Companies have brought various levels of flexibility into their benefits programs, but many remain skeptical about fully flexible or customized benefits offerings given the loss in economies of scale.
4. **How can healthcare inflation be effectively managed in a volatile environment?** For the past few years, healthcare inflation has been a growing issue that companies must face as they decide to take on or pass along those costs to their employees.

**Conclusion**

Amidst the "Great Resignation," employees are defining what they value most and pursuing new employment opportunities accordingly. Total Rewards offerings can be an important factor tied to retention. While there are multiple drivers of attrition, failure to inform employees about offerings already available or changes that will impact them is a missed opportunity.

Through our quantitative surveys and interviews with CAHRS partner companies, we learned that there were notable shifts in Total Rewards strategies in the past two years. There was little fundamental change to underlying compensation frameworks and more changes on the benefits side. Increasing reactivity in benefits required understanding employee expectations and adapting to those needs.

As Total Rewards strategies continue to evolve, companies should take a proactive data-driven approach to assess, test, and learn. Flexibility and transparency will both be fundamental to successful implementation and driving employee engagement.

**Participating Companies**

Bloomberg

Cerner

SAMSUNG

TEREX CORPORATION

Prudential

NOVARTIS

BOEING

HERSHEY THE HERSHEY COMPANY

Cargill

HARVARD BUSINESS PUBLISHING

workday

MERCK

Hormel Foods

MEDECINS SANS FRONTIERES DOCTORS WITHOUT BORDERS

Gympass

ESTĒE LAUDER COMPANIES

Johnson & Johnson

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2: The 'Great Resignation' Is Really the 'Great Discontent' (https://www.gallup.com/workplace/351545/great-resignation-really-great-discontent.aspx)

3: Employees Are Quitting Instead of Giving Up Working From Home (https://www.bloomberg.com/news/articles/2021-06-01/return-to-office-employees-are-quitting-instead-of-giving-up-work-from-home)