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Strategic reward and total reward

Outlines the main characteristics of strategic and total reward, and looks at designing and implementing a reward strategy across the organisation

Introduction

Strategic reward takes a long-term approach to how an organisation's reward policies and practices can support its business objectives. The concept of 'total' reward covers all aspects of work that employees value, both tangible and intangible, and may form part of an overall reward strategy.

This factsheet explores the various aspects of designing and developing a reward strategy, from rationale to implementation and gives guidance on the principles to consider. It introduces the various characteristics of total reward (including the elements they may include), before looking at the approaches organisations can take, and the advantages and drawbacks of total reward.

What are strategic reward and total reward?

Strategic reward

Strategic reward is based on the design and implementation of long-term reward policies and practices to support and advance both the organisation's objectives and employee aspirations.

Total reward

The concept of total reward covers all aspects of work that are valued by employees, including elements such as development opportunities and/or flexible working opportunities, in addition to the wider pay and benefits package.

Links between strategic and total reward

The use of total reward may form part of a strategic approach to reward for many employers. For example, an organisation might adopt a total reward approach, providing cutting edge learning programmes together with flexible working options, as well as more traditional aspects of pay and benefits, to recruit, retain and engage the staff it needs to secure its business objectives.

The role of strategic reward

Developing a reward strategy

Deploying strategic reward approaches often involves setting out a formal, written reward strategy, although it's also possible to adopt a strategic approach without the use of such a document.

Content of reward strategies

In his Handbook of reward management practice, Michael Armstrong has observed that 'reward strategies are diverse and so is the structure used by different organisations to define and present them'. However, four elements are typically included in strategies:

- a statement of proposed reward developments
- a rationale setting out the business case for the reward proposals
- a definition of guiding principles
- an implementation plan.

While varying approaches to strategic pay exist, examples of the type of principles to consider include:

- Designing pay structures and pay progression arrangements that ensure that the values, behaviours, performances and attitudes that the business needs to be successful are rewarded and recognised (for example, linking individual pay progression with those types of performance that are valued by the business such as customer focus).
- Positioning variable earnings carefully against basic pay to encourage appropriate employee performances (for instance, using cash bonuses to drive higher sales levels while also taking account of corporate governance standards, risk and opportunity management and brand trust).
- Developing a pay policy that's competitive with the external labour market in order to recruit and retain key personnel needed to achieve business success (for

instance, paying certain high-performing staff at the upper quartile level when compared with the external labour market) while also taking into account internal market relativities.

- Ensuring both 'vertical' integration of employee reward approaches with business goals (such as developing performance-related pay arrangements to help increase revenues) as well as 'horizontal' integration of reward policy with wider HR policies (for example, ensuring that pay progression arrangements are aligned with an organisation's culture, purpose and mission as well as external factors, such as regulation).

For more on how reward strategies can be supported, see our factsheets on [pay structures](#) and [pay progression](#), [performance-related pay](#), [bonuses and incentives](#) and [market pricing and job evaluation](#).

Putting strategic reward into practice

Although strategic reward – at its simplest, using reward policy to support long-term sustainable business goals – is often taken for granted as desirable, some commentators have highlighted difficulties in translating the theory into organisational practice. [One view](#) concludes that attempts to use strategic pay systems are especially problematic for 'a frustrated and often much maligned pay function and long-suffering line management' and that employers might be better-served taking a risk management, rather than a strategic, approach to reward.

However, the adoption of strategic and risk-based approaches to reward aren't necessarily mutually exclusive. There's more on both approaches to managing reward in our [guide to the pay review process](#).

For more detailed information on risk management approaches to reward, see our [Reward risks](#) report.

Approaches to total reward

By recognising that pay isn't the sole motivator, and acknowledging the importance of not only tangible and intangible rewards within the wider context of the work experience, total reward has wide-reaching implications for employers and employees alike.

As a concept, total reward is not new. As with many trends in management, the development of formal concepts and theoretical models of total reward originally came from the USA (where the description 'total rewards' is generally used).

What is included in total reward?

The US organisation WorldatWork has identified six separate components of the work experience in addition to pay and benefits:

- performance and recognition
- work/life balance
- organisational culture
- employee development and career opportunities
- business strategy
- human resource strategy.

Although these components have always existed in the workplace, they've often been taken for granted and managed in isolation rather than as a whole. Under a total reward policy, all aspects of the work experience are recognised and prominence is given not only to remuneration but also to non-financial rewards. This is important since experience shows that employees place great emphasis on intangible rewards when deciding where to work and the level of commitment to give to their job.

Total reward may include some, or all, of the following elements as well as traditional elements of pay and benefits packages:

- flexible benefits
- access to professional and career development
- a challenging role
- freedom and autonomy
- opportunity for personal growth
- recognition of achievements
- preferred office space or equipment
- capacity to raise matters of concern
- involvement in decisions that affect the way work is done
- flexible working hours
- opportunities for home working
- administrative support.

The term total reward can also be used in a more limited way simply to refer to the financial value of the pay and benefits package rather than the value of the total package of financial and non-financial rewards.

Characteristics

An analysis of various total reward models by Thompson in Total reward, a 2002 CIPD Executive briefing, found that they can be characterised by an approach that is:

- **Holistic:** it focuses on how employers attract, retain and engage employees to

contribute to organisational success using a mix of cash and non-financial rewards.

- **Best fit:** it adopts a contingency approach – total reward programmes need to be tailored to the organisation's own culture, structure, work process and business objectives.
- **Integrative:** it delivers innovative rewards that are integrated with other human resource management policies and practices.
- **Strategic:** it aligns all aspects of reward to business strategy – total reward is driven by business needs and rewards the business activities, employee behaviour and values that support strategic goals and objectives.
- **People-centred:** it recognises that people are a key source of sustainable competitive advantage and begins by focusing on what employees value in the total work environment.
- **Customised:** it identifies a flexible mix of rewards that offers choice and is better designed to meet employees' needs, their lifestyle and stage of life.
- **Distinctive:** it uses a complex and diverse set of rewards to create a powerful and unique employer brand that serves to differentiate the organisation from its rivals.
- **Evolutionary:** it's a long-term approach based on incremental rather than on radical change.

Coverage

While private sector employers have tended to be at the forefront of the formal development and adoption of total reward policies, there has been interest in the approach among public sector organisations.

To take one example of heightened interest in total reward in the public sector, there has in recent years been a focus on the non-basic pay advantages of working in the sector, such as high-quality pensions and work-life balance provisions, among the public sector pay review bodies (which recommend pay rises for several groups of public sector workers such as medical staff, teachers and defence staff).

Advantages and drawbacks of total reward

Advantages

The aims of total reward include the desire to enhance recruitment, retention and

performance levels.

Total reward has a particularly strong potential to enhance the reputation of an organisation as an employer of choice through its capacity to place a value on the non-basic pay or wider non-financial benefits of working for an organisation.

Many employees are unaware of the costs to the employer of benefits such as pensions, which can be very substantial for an employer. Hence the use of total reward is often closely associated with the desire to communicate the value of the employment package. Employers frequently provide individual employees with total reward statements that emphasise the value not only of basic pay but also the wider benefits package and potentially other congenial aspects of employment.

Drawbacks

Research from our [Reward management surveys](#) indicates that employers believe they're better at integrating financial aspects (pay and benefits) into a total reward approach than the non-financial aspects. An area of concern revealed by the research is line manager behaviour, with employers expressing concern at how well they've integrated the behaviour of these staff within a total reward approach. Yet, if line managers don't support the organisation's commitment to total reward (for example, over family-friendly working patterns) the approach is likely to fail.

Other potential challenges include:

- Some rewards are easier to provide than others. For example, most employees might prefer a desk located by a window, but office accommodation is a finite and not particularly flexible resource. In such cases, it would often be very difficult to meet everyone's needs.
- Attempting to measure or weigh the value of certain reward against one another – particularly if the aim is to include a numerical or tangible value in total reward statements distributed to employees. Employees can be confused by too much reward choice.
- The need to educate staff by communicating the value of the reward package and what the strategy aims to achieve.
- The danger that the organisation defines the total reward offering with no regard to the needs and wants of its staff.
- The temptation for employers to shift the reward mix from pay to lower-cost benefits and non-financial rewards.
- Cynicism among some employees that total reward is no more than a cost-cutting

strategy.

Furthermore, our book [Reward management: alternatives, consequences and contexts](#) notes that there has been a lack of evidence to suggest that this approach improves employee engagement, productivity or well-being. The authors flag that this may be about to change though, citing research looking at the positive impact it can have in recruitment.

Useful contacts and further reading

Contacts

[Reward & Employee Benefits Association](#)

[IBEA: The International European Benefits Association](#)

Books and reports

ARMSTRONG, M. (2019) *Armstrong's handbook of reward management practice: improving performance through reward*. 6th ed. London: Kogan Page.

PERKINS, S.J. and WHITE, G. (2016) *Reward management: alternatives, consequences and contexts*. 3rd ed. London: Chartered Institute of Personnel and Development.

ROSE, M. (2018) *Reward management: a practical introduction*. 2nd ed. HR Fundamentals. London: CIPD and Kogan Page.

Visit the [CIPD and Kogan Page Bookshop](#) to see all our priced publications currently in print.

Journal articles

BROWN, D. (2014) [The future of reward management: from total reward strategies to smart rewards](#). *Compensation and Benefits Review*. Vol 46, No 3, May/June. pp147-151.

FARRAND, L. (2016) Put the scores up on the board: a total reward strategy will enable employees to see the full value of their package. *Employee Benefits*. May. pp18-19.

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PATON, N. (2014) Is total reward really dead? *Employee Benefits*. December. pp26-27.

SCOTT, D. and JORDAN, D. (2018) Laying it bare: the business benefits of pay transparency. *WorldatWork Journal*. Vol 27. Reviewed in [*In a Nutshell*, issue 83](#).

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