

# How to Develop a Total Reward Strategy

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A good total reward strategy is a simple set of principles that outline what you want reward in your organisation to achieve.

It summarises your agreed view on where you want to position yourselves compared to your competitors, how you will recognise contribution, and what the employee deal looks like.

It acts as a critical reference point for all future decisions on pay and performance, and clearly articulates your stance on each pay component - base pay, bonus (long and short term), benefits, recognition and performance.

Without a clear strategy, pay decisions can become inconsistent and ad hoc.

## KEY COMPONENTS OF A TOTAL REWARD STRATEGY

A total reward strategy covers much more than pay, bonus and benefits.

Total Reward is a term used to describe the Employee Deal – the full suite of reasons an employee chooses to join and stay with an organisation:

**Monetary** - fixed pay, variable pay, benefits & recognition

**Non-monetary** - performance, career growth, engagement, culture & environment (which includes non-monetary recognition)



For a fully effective reward strategy, there needs to be a clearly articulated proposition and plan behind each of these areas.

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## FOUR DIMENSIONS OF PERFORMANCE

A common pitfall in reward stems from confusion around what exactly constitutes 'performance' and how these elements influence pay and reward. It's worth considering EXACTLY what you mean by the term 'performance' and how this will be reflected in your reward strategy.

When you ask the question 'should we connect pay to performance' you will get a range of interpretations, views and answers to this.

Here is a simple model to guide how the components of performance might influence each reward component. You may choose to disagree with certain interpretations within your organisation, but the important point is to be clear on YOUR stance:



### **EFFORT + BEHAVIOURS = RECOGNITION**

If an individual demonstrates hard work and dedication (effort and behaviours) does that alone warrant a pay increase at the end of the year? If they consistently made effort without becoming more skilled in their role (therefore growing the size of the role), they will end up being overpaid in comparison to their peers for doing the same job. Here, I'd suggest recognition is the most appropriate reward mechanism.

### **EFFORT + BEHAVIOURS + SKILLS = BASE PAY INCREASE**

In order for base pay increases to remain affordable, sustainable and equitable, the skill level must have increased to validate additional base pay. This might mean greater ongoing responsibility, moving closer to promotion to the next grade, or achieving a promotion. Short term KPI achievement (outcomes) may have also been achieved, but these alone do not necessarily demonstrate ongoing merit for a pay increase, unless skills have also improved.

### **EFFORT + BEHAVIOURS + SKILLS + OUTCOMES = BONUS**

Outcomes alone should not drive bonus. If an individual achieves exceptional outcomes and demonstrates the right behaviours, skills and effort, the most appropriate reward mechanism is a short term bonus/incentive scheme. Outcomes at the expense of others (ie not showing the right behaviours) should not lead to a pay increase or bonus.

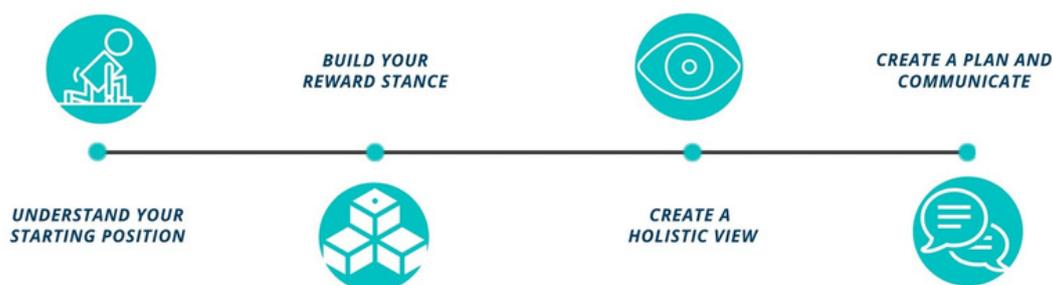
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## YOUR 4-STEP APPROACH TO CREATING A TOTAL REWARD STRATEGY



### Step 1: Understand your Starting Position

To begin with, you'll need to examine a range of internal and external factors and establish your position in each area and articulate your current reality.

Your internal factors may look at current business priorities (e.g. aspiration to grow, diversify, innovate, etc.), culture and values, pay and benefits spend, consistency of reward structures throughout the business, and the purpose of each reward component.

- How well does your current reward approach and how it supports (or conflicts with) the business objectives
- Is this view shared across all stakeholders (leaders, managers and employees)? Where might there be differing views?
- What are the current business priorities (eg aspiration to grow, diversify, innovate etc)
- How consistent are your reward structures across different parts of the business?
- Culture and values – what behaviours and outcomes do you want to encourage
- Legacy contractual obligations
- What is your pay and benefits spend? Are you getting ROI on this spend in ALL components of your pay framework
- What is the current purpose of each pay component (base, annual bonus, LTIP, benefits)

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Your external factors will look at how successfully you attract and retain talent, and how this might vary in different parts of the business (whether by function, by region or by country):

- How is your pay positioned against the wider market and your direct competitors?
- Are you attracting and retaining the people you need to deliver the business objectives?
- What are the wider economic influences to consider?
- Cultural and legal custom and practice, including country variances in global organisations
- How strong is your employer brand? Are candidates aware of you already and keen to join, or do you need to work harder than most to attract the right talent?
- Do you need to pay more than other companies to attract the right calibre, or are other aspects of your employee deal strong?

## **Step 2: Build Your Reward Stance**

Are you investing your total reward spend in the right proportions across the package? Identifying your reward stance and positioning your business against the market is crucial to differentiate yourself in the market.

Try to think about how you want to articulate the purpose of each pay component (base, annual bonus, LTIP, benefits) and whether or not performance should be connected to pay, and why.

There is no single optimum answer to these questions. You might be a small organisation that cannot afford big ticket benefits, and instead needs to inflate fixed or variable pay to attract talent. Or you might be small but able to attract talent at a lower salary/bonus than competitors because you have a truly compelling culture and opportunities for fast career growth.

Some company cultures value team performance, and share their variable pay evenly. Others value individual performance, and want to connect variable pay (bonus) to performance.

The key is having a clear stance on all these points, and being consistent to those principles.

- Are you investing your total reward spend in the right proportions across the package? Eg is your base pay high because your bonus is low (or vice versa), or is your base pay high to compensate for below market benefit?

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- How do you want to articulate the purpose of each pay component (base, annual bonus, LTIP, benefits)?
- Should performance be connected to pay? Why?
- If yes, which pay components should be connected to performance?
- What proportion of pay should be fixed/variable?
- How should you position yourselves against the market?

### **Step 3: Create a Holistic View**

Find ways to get a diverse range of inputs from different stakeholders and datapoints. Remember this is much more than pay – this is about ALL the reasons an employee chooses to join, stay or leave the organisation.

Possible ways might include:

- Strategy Workshop with Leadership
- 1:1 Interviews with Leadership
- Employee Focus Groups
- Employee Survey
- Desktop Review of Key Analytics

Don't forget the importance of doing a desktop review of key analytics. This will ensure you truly understand both the good and bad of your current situation, and any specific pain points you want to address with this review. It will serve as your benchmark for success of the reward plans you want to put in place, and may be needed to convince senior leaders of the value of investing in rewards. Think about:

- Attrition costs (recruitment time/costs, onboarding, training, missed opportunity)
- Gender pay gap
- Equal Pay risks
- Engagement scores

### **Step 4: Create a Plan and Communicate**

Create a detailed plan of all future pay decisions and processes and translate this into a one-two page document that outlines the pay stance, key principles, and purpose of each pay component.

Consider how you will communicate this across the business - how transparent do you want to be, how quickly can you achieve that transparency, and what do you need to do to get there?

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# ABOUT ME

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A highly commercial senior HR professional (FCIPD level), ICF accredited executive coach (PCC level), and Level 7 CIPD Advanced Reward qualified, with extensive experience working with HR leaders and executive teams across the full HR spectrum from talent and engagement to reward and HR strategy.

I have a strong track record of delivering tangible people metric improvements, including pre/post acquisition, all aspects of reward strategy and management including long & short-term bonus plans and pay frameworks, and wider innovative people practices including award-winning employee engagement and talent management programmes. All with a keen eye on strategic outcomes, financial risk and commercial success.

More information about my HR and coaching background can be found here:

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