Reward: rethought and renewed

8 trends and challenges in total rewards

Reward strategies are being reviewed and refreshed to reflect modern workforce demands, a changing economic landscape and strategic opportunity. This note sets out some of the pressing challenges for total rewards, and initiatives to address these.

1. Equal Pay & Pay Transparency

Pay equity and transparency is a critical HR challenge and opportunity for the coming year. The catalyst for the focus is incoming regulatory changes, in and outside the EU. The main reason for the change a broader societal ask for equitable and transparent pay practices.

- **Equal pay** refers to the principle of providing equal compensation to employees who perform work of equal or equivalent value, regardless of their gender, race, age, or other protected characteristics. This concept aims to eliminate wage disparities and ensure that all employees are fairly compensated based on their skills, responsibilities and effort.
- **Pay transparency** refers to the practice of openly and proactively sharing information about pay structures and compensation within an organization. This concept aims to promote fairness and equality by ensuring that employees have access to clear and accurate information about how pay decisions are made. By fostering an environment of openness, pay transparency helps to address pay discrimination and bias and build trust.

Leading employers use the opportunity that the regulatory changes provide, to review their total rewards frameworks and create a competitive advantage. The company wide and HR strategy and goals form the foundation to setting equal pay and pay transparency strategies. From this foundation, change priorities include reviewing data availability, understanding current (un)adjusted pay gaps within the organisation and their root causes, and reviewing robustness of existing job architecture and pay levels.

That pay equity and pay transparency is a talent attraction and retention benefit is apparent – for example, in Deloitte's 2024 Gen Z and Millenial Survey, two-thirds of respondents believe businesses have the ability to influence social equality, with ensuring equal pay and pay transparency as the most cited approach.

- To combat pay discrimination and help close the gender pay gap within the EU, which currently stands at 13%, the EU has adopted the **EU Pay Transparency Directive**. A new set of measures introduces minimum requirements for job evaluation and classification, pay structures, recruitment processes, documentation, communication, and mandates pay gap analysis and reporting. Although EU member states have until June 2026 to implement the EU Pay Transparency Directive, employers are starting preparations given the wide-ranging nature of the Directive, its cross-over with the Corporate Sustainability Reporting Directive and its impact on a series of key strategic areas for HR.

2. Return on Investment

We have noted an uptick in businesses questioning how to evaluate return on investment and spend effectiveness for their total reward offerings – especially their benefits. This has been accelerated by the changing economic climate and the magnitude of reward costs in the context of the overall profit and loss.

While analyses vary across companies, potential areas of focus include:

- How does the overall reward cost and reward composition compare to similar businesses?
- Does the reward framework reflect the overall strategy, sustainability and D&I goals and reward philosophy of the business?
- What value does talent place on different components in their reward package?
- To what extent do higher retention rates mitigate a higher reward spend (e.g. given cost of rehiring, retraining and lost institutional knowledge).
- Can the benefit provider landscape be optimised?
- Can benefit management be further optimized to decrease operational time spent by HR?

ROI assessments can blend qualitative and quantitative analysis and draw on reward and broader HR management information (e.g. retention rates) to create insights that allow management to understand how their reward programmes compare against the market and might be tailored to better enable the strategy.

To measure ROI on total rewards, employers are assessing where they are on the maturity curve; from insufficient internal data to fully quantify total rewards spend, through to having an infrastructure that can fully monitor changes in the business, employee sentiment and the interaction with total reward spend.

3. Giving employees choice

Over recent years, employers increasingly focus on giving employees choice around how their reward is structured, including through flexible benefits programmes.

By offering personalisation and choice, they aim to tackle the **challenges of fixed reward packages:**

They don't work for everyone. We have 5 generations in the workforce today: Traditionalists, Baby Boomers, Gen X, Millenials and Gen Z. Every generation has something unique to offer, from knowledge and experience, to forward-thinking and innovation. Every generation has different needs. Employers who are winning the war for talent know how to attract, motivate and retain individuals belonging to each separate cohort.

They don't stand out in a tight labour market. Unemployment in the Netherlands remains at an all-time low – 3.7% in Q1 2024. Employers are forced to either up their financial rewards, or to be more creative with their total rewards offerings with cost neutrality in mind.

They don't (fully) support doing what's right. Doing right matters to society: to talent, to regulators, to unions, to investors and many more. Employers offering green options to their employees support their companies ESG strategy and speak to the ethics and beliefs of their environmentally conscious. workforce.

Introducing personalisation and choice is a careful exercise that involves managing a complex legal and tax landscape, updating/upgrading HR systems, managing a diverse and quick evolving benefit provider landscape and additional admin for HR.

Solutions for personalisation and choice that are becoming increasingly popular are the Flex Budget (keuzebudget) and interactive total reward platforms (technology).

Flex budgets typically take shape as a percentage of the annual base salary. It offers employees the opportunity to spent "their money" as they deem most fit: on benefits that work for best them. Companies focus on creating flexibility with cost neutrality in mind: in exchange for other reward elements, not added on top. Traditional elements that are grouped together to create a budget may for example include extra-legal vacation days, personal L&D budgets, allowances and mobility budgets.

User-friendly and **interactive reward platforms** – like Deloitte's My Benefit, My Choice - are introduced to meet the demands of personalized and flexible total rewards programs. Talent receives full transparency on their financial and non-financial benefits though a personalized total rewards statement. They select their benefits when it matters to them, though a 24/7 flexible benefits webshop. From a back-end point of view, HR's benefits administration is simplified through process automation and integration with HRIS, payroll systems and vendors.

4. Embedding sustainability & DE&I in total rewards

Today's wide societal ask around sustainability and DE&I is driving businesses to take action to get to a greener and fairer world.

Successful employers generate opportunities from this societal ask. They lead the way by aligning their total rewards and incentive policies to their company's sustainability & DE&I strategy. Through total rewards, companies have a unique ability to demonstrate the importance of sustainability and DE&I to wider stakeholders, rewarding long-term sustainable value creation for their business, incentivizing delivery of key aspects of their sustainability agenda and ensuring fairness and transparency in pay.

Potential elements to consider include:

- What value does your talent place on adding more sustainable benefits?
- Does your organisation operate benefit programs for specific talent groups – e.g. women, LGBTQIA+, neuro diversity and cultural diversity groups?
- Have you mapped how individual reward elements link to the company's sustainability and DE&I goals?
- Do individual reward elements meet their intended purpose and desired outcomes?
- Have you incorporated sustainability and D&I metrics into your executive incentives?
- Are they cascaded down into the wider employee reward and incentives?

5. Performance Management

Around five years ago, a number of employers opted to remove individual performance ratings. This followed a perception that the rating distracted from broader performance conversations, with much of the nuance of the conversation overshadowed by 'the number'. While employers may have operated 'shadow ratings' to facilitate reward outcomes, focus within these businesses shifted to holistic performance conversations focused on discussing achievement and ambitions in a rounded way.

Some of these employers are now opting to re-introduce ratings on the basis that:

- Performance conversations weren't happening with the required level of honesty – the rating is seen as a useful 'hook' to encourage direct and candid conversations around performance.
- Economic climate has meant many businesses are seeking to reaffirm a performance culture – with the rating seen as useful tool to drive this.
- Differentiation – desire to 'push the performance curve to the left' to better differentiate top performers.
- Equality – ratings seen as additional data point to gauge equality outcomes (e.g. gender, ethnicity etc.).

Where ratings are re-introduced, some are opting to make these more nuanced – e.g. separate ratings for 'the What' and 'the How'. Some employers are also moving back approaches such as forced distribution, while others are using more guided discretion.

The focus on performance management and people development is prompting businesses to consider:

- What is the right rating scale e.g. 3 point? 5 point?
- What is the right distribution – this differs between businesses.
- Which roles should receive a rating – e.g. how high or low is the 'cut-off'?
- How is the rating linked to reward outcomes?
- Fairness of outcomes?

6. Recognition

Emphasis shifting to enhancing timely recognition. Recognition is cultural and broader than monetary reward, based on the regular demonstration of gratitude. However, spot monetary incentive schemes can support a recognition culture. These schemes typically involve peer nomination to receive vouchers or small bonuses to celebrate successful projects or positive behaviours.

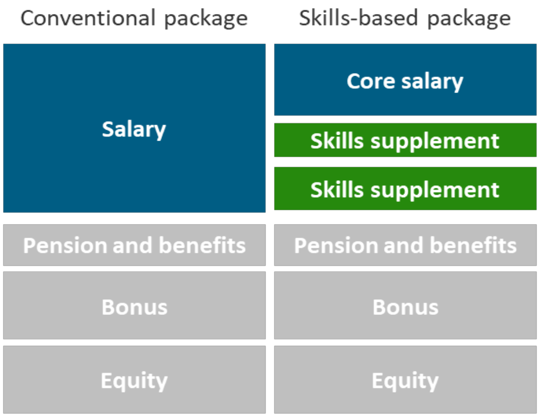
While the annual bonus can reflect personal achievements at year end, benefits of immediate 'spot' recognition include a narrowing of the time gap between achievement and reward, which reinforces an individual's sense of being recognised. They have particular impact for junior roles, and some businesses have redirected reward spend into such initiatives for this level in recent years.

Successful spot incentive schemes typically based on:

- Small € awards - e.g. vouchers or cash bonuses
- Peer nominations - to encourage culture of mutual recognition
- Clear articulation for reason behind awards

7. Skills-based reward

Skills-based reward is based on a conceptual approach to pay, involving offering a core salary, and skills supplements that layer on top of the core salary. The value of these skills supplements should reflect market demand and may oscillate year to year based on the marketability and value of skillsets.



In practice, few businesses operate or are likely to operate such evolved skills-based reward programmes. Partly this is due to the complexity of operation, such as quantifying the value of skills and how this changes, identifying and defining the skills that merit recognition, and ensuring fairness.

Skills supplements are more commonly seen in businesses and organisations with rigid pay structures – certain roles might have a skills supplement layered onto their 'core' salary to bring them up to market equivalence for their skillset. Their core salary can then remain harmonised with their grade level, allowing the organisation to pay at market without 'breaking the whole framework'

Where businesses have greater flexibility, entirely separate pay frameworks might be developed for 'hot skills' roles.

While skills-based reward remains rarer in practice, some businesses are considering more broadly how to better bring skills into the organisation. For example, some are launching skills-based marketplaces, where individuals self-identity their skills on a portal and projects are then staffed using talent from across functions. To allow this mobility, there may be a degree of package standardisation (e.g. if similiar grades in different functions are on significantly different packages).

8. Wellbeing and benefits

Wellbeing continues to be a focus for businesses, albeit one contextualised by affordability. Where companies have prioritised wellbeing, focus is shifting from looking at specific wellbeing benefits to wellbeing as an outcome.

- **Wellbeing benefits** – work and life is separate. Wellbeing is achieving by the balance of life and work, and individuals have primary agency over their wellbeing. Workforce wellbeing is enhanced by benefit packages, increased flexibility, wellness perks.
- **Wellbeing as an outcome** – work is a determinant of wellbeing and part of life. Work directly shapes an individual's wellbeing. Companies are accountable for designing fulfilling work and creating an environment conducive to wellbeing, in particularly through culture and effective leadership.

Making an impact that matters

At Deloitte, our purpose is to design innovative, simple, fair and impactful Total Reward solutions, to help clients transform today's rapid change and complex challenges into opportunities to attract and retain top talent, to enhance their employer brand, and to create sustainable long-term value to their business.

Do you recognise these trends and challenges in total rewards? Do you want to know more, or simply share your experience?

We would love to exchange further thoughts. Get in touch!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