

## ARTICLE

# Human resources focus: How total rewards became the heartbeat of the HR function

As companies find it harder to attract and retain talent, the role of total rewards leaders is more crucial than ever. Interviews with seven of these executives suggest they are expanding their remit, getting creative with benefits, and collaborating more widely than ever before to help their companies retain a competitive edge.



Searching for the best total rewards leaders continues to be a strategic priority for organizations of all sizes and across industries to accelerate the maturity, scalability, and creativity of the function. As the total rewards function evolves, it will continue to validate the role of HR as an engine of business performance. We spoke to seven total rewards leaders across industries to better understand the fundamental changes the function has undergone in less than a decade.

## A perfect storm

Total rewards leaders described four drivers of change.

### 1. Rapid cross-industry digitization

All industries have embarked on a digital transformation journey. For companies such as banks, healthcare systems, retailers, and manufacturers, this requires shifting their talent and rewards philosophies to attract and retain more digitally knowledgeable leaders—and therefore having to join the already fierce war for talent in Silicon Valley. Many are poaching top tech HR leaders to help them rethink their approaches to compensation, benefits, and wellness.

### 2. Global pandemic

As a result of the global Covid-19 pandemic, keeping employees safe, closing and then reopening offices, engaging and retaining a remote or hybrid workforce, and managing employee wellness have become new strategic priorities for HR leaders, and the total rewards teams were at the heart of these constantly changing policies.

### 3. Equity & inclusion

As fairness, equity, and inclusion become essential values within the workplace, pay equity—and transparency around it—rose as a top priority for rewards leaders. This is now seen not only as a way to compete for talent through compensation, but also a critical element of organizations' values, culture, and employee value proposition. As stated in the *Harvard Business Review*, "Employers that fail to effectively address pay inequity open themselves to public backlash and legal action, all at the peril of the bottom line."<sup>1</sup>

### 4. From an overheated market to a soft market

The rise of financial markets in 2021 and much of 2022 fueled innovation and hypergrowth, leading to unprecedented levels of hiring. This pushed the war for talent to such extremes that organizations had to reward talent at all costs. Recruiting was fast and furious, and compensation reached highs that made any available market data obsolete. "It became a cut-throat environment between tech companies competing for engineers. We needed more heads to feed the machine," shared a rewards leader. "The price went up, and we paid," we also heard.

The total rewards leaders were at the heart of this hiring spree. Now, as the market has softened and interest rates have increased, rewards leaders are having to rein in expenses. As one of them shared, "We are more thoughtful today than in the past couple of years. We take our time and we spend time with the business asking a simple question: 'Is this person truly worth this price point?' We need to rationalize more than we have."

### Though the hiring spree has softened, total rewards leaders see changes continuing

"The truth is, we went from a frothy market to daily layoffs, but the goal remains the same: competing for top talent. The demand exceeds the supply. We are still in a war for talent. It has shifted from war for quality versus quantity. Redefining what competitive packages look like on a regular basis continues to be a priority for rewards leaders," shared one rewards leader.

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<sup>1</sup> Joanna Kim-Brunetti, "What It Takes to Be a Fair-Pay Workplace," *Harvard Business Review*, December 12, 2022, hbr.org.

## Competing on the entire employee experience

*“Everyone wants Google talent but not everyone can afford Google talent, which creates a dynamic where every company needs to be more creative and change the paradigm.”*

In response to all of this, total rewards leaders are changing their fundamental assumptions. “Everyone wants Google talent but not everyone can afford Google talent, which creates a dynamic where every company needs to be more creative and change the paradigm,” shared a rewards leader.

Paying new hires with no experience more than experienced employees, for example, is a hard case to make, one executive noted, but compensation options are limited in more junior roles. However, at more senior levels, many total rewards leaders at companies offering significant equity compensation, for example, are rethinking the compensation mix (cash versus equity) and equity vesting (ratable versus cliff) to improve talent attraction and retention. Others are focusing on new ways to think about company value-based compensation if equity values remain depressed.

But even that’s not enough. “A paradigm shift needs to occur in the way we think about compensation,” said one leader we talked with. “Competitive means [asking], is there equitability in your pay practices? Competitive means [asking], do I feel like I’ve got an opportunity and a clear level of attribution to that opportunity to share in the upside and downside of the company?” Everyone sees more pay transparency coming, and some expressed additional considerations in that context. For example, in a transparent environment, “more messaging and thoughtfulness is required to make sure changes impact DE&I strategy.”

Total rewards leaders are also getting creative in finding new ways to be competitive, moving past tangible rewards alone to focus much more on how employees are treated and to appeal to their values and sense of purpose, including by connecting what each person does with the purpose of the company. Empathy and how leaders treat employees will also continue to matter more in the future.



Other benefits are also increasingly important for talent attraction and retention. For example, one leader noted, “Prior to Covid, people organized their lives around their work. Now, people organize their work around their lives.” As a result, companies need to try to offer the benefits that make sense under these conditions.

The total rewards leaders we spoke to noted a strong focus on mental health offerings for their ability to not just support individuals but also families and communities. “How am I serving our employees and their family members to get them the care that they need when they need it?” asked one total rewards leader. “We’ve reshaped and reimagined our entire approach to mental health. It’s not about providing an employee assistance program or a bunch of links to where someone can get help. This is holistic—whether you need coaching to get through a specific event or to sit down with a therapist.” Another added that their company is “considering more formal sabbatical programs and looking at other ‘new trade-offs.’”

Furthermore, as companies transition to remote-first or bring their employees back to the office, employees’ and their families’ needs are changing in terms of caregiving, childcare, commuter benefits, and work-from-home benefits—programs that may have been on the back burner but that are coming back into focus. Total rewards leaders are resetting their philosophies in these areas and confronting difficult questions, such as whether to offer certain benefits like daycare firsthand or to partner with vendors. In addition, some total rewards leaders are rethinking a one-size-fits-all approach in favor of de-bundling benefits to get a higher ROI. “In the past, we would ask, ‘What are the big programs that could apply most broadly?’ Now, we’re asking, ‘What are the really high-impact programs that can help those most in need?’” By providing more tailoring and more choice, such as allowing people to select from a menu of benefits, companies are finding they can get higher utilization and higher impact.

To do this, total rewards leaders need to have a firm understanding of employee needs. They’re pursuing multiple strategies to engage with employees and candidates to understand the gaps and meet them where they are, including sitting down with employee resource groups, conducting pulse surveys and sentiment analysis, and asking candidates about the benefits they appreciated at past companies. To deliver these benefits and communicate consistently about benefits, purpose, and talent philosophy, some total rewards leaders are working closely with the broader HR organization as well as the employee experience organization.

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## Looking ahead

As the total rewards function keeps evolving, so are the profiles of its leaders. Being someone who can impact the business has become the most critical attribute, ensuring that the total rewards strategy can solve immediate talent and business challenges. Analytical rigor, pragmatism, and strategic credibility at all levels of the organization are also essential. Being well-versed and tested in a variety of business contexts and having led significant transformation are also typically requirements since the mandate is typically about building or re-inventing the function. Finally, bringing a global mindset allows organizations to think about rewards across geographies.

Cultivating the next generation of total rewards talent will be the best way to continue to meet the dynamic nature of this center of excellence.

This is a tall order in an environment where demand for these leaders is high. Many have developed aspirations for bigger roles including CHRO and COO. Cultivating the next generation of total rewards talent—either from inside the function or from outside the function (such as finance and operations professionals)—will be the best way to continue to meet the dynamic nature of this center of excellence.

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# Human Resources Officers Practice

We partner with organizations to help them identify strategic human resources leaders who are prepared to lead and create high-performing organizations. We help our clients find HR leaders with the business acumen, strategic and market insight, financial savvy, operational capabilities, and ability to harness data and technology to drive business success. These leaders must be culture shapers with the foresight, resilience, and adaptability to drive transformative change in organizations through strategic talent management.

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