Revisiting benefits design approaches: The strategic value of identity-based benefits

Executive summary

When designing benefit offerings, organizations often frame the task as a trade-off: should we follow the market (do what others do) or should we rather focus on our employees' preferences (let them choose)? In this paper, we contend that framing the problem as a dichotomy underplays the strategic role of benefits and ignores alternative approaches that could be more meaningful and effective. In the past, using benefits to communicate strategic intentions has proven a challenge. Based on recent research applying anthropomorphism ideas to organizations, we suggest an additional approach, which considers an organization's identity in designing benefit offerings. With stakeholders increasingly expecting companies to position themselves as distinct players within a complex societal and environmental context, the concept of identity-based benefits presents itself as a powerful tool for sensemaking about "who the organization is" and for creating a fruitful connection between the organization and its stakeholders.

REVISITING BENEFITS DESIGN APPROACHES: THE STRATEGIC VALUE OF IDENTIFY-BASED BENEFITS

By Daniel Afonso, Cranfield University, Monica Franco-Santos, Cranfield University, Luis R. Gomez-Mejia, Arizona State University

INTRODUCTION

Across industries, employee benefits account for nearly 40% of the total employment cost in the United States (U.S. Department of Labor 2020). Their key objectives are to attract and retain talent, so this rewards element is not only costly but also critical for organizations (Gerhart and Newman 2020). Choosing the most suitable benefits package is a challenge most organizations address by either matching what their labor markets offer or focusing on meeting the expected needs of employees. Following either of these approaches has been found to have limitations in terms of competitive advantage. This is why some scholars and compensation consultants promote the use of a more strategic approach to the selection of benefits; that is, an approach that is based on the alignment of benefit choices with an organization's strategy (e.g., SHRM 2020). In practice, the use of this later strategic approach has proven elusive. Recent changes in the world of work, however, are creating the conditions for an alternative way of seeing employee benefits, which could help add a strategic perspective that has not been fully implemented before.

The COVID-19 pandemic is transforming the way we work and the perception we have of our organizations. Among other things, remote working on an unprecedented scale and the increased concerns over the mental and physical health of employees have had organizations working feverishly during the last few months. A set of managerial interventions have been swiftly undertaken to help keep businesses

viable and employees healthy, productive and engaged. Many organizations are addressing the requirements voiced by employees, extending their benefits provision to incorporate aspects such as protection upon returning to the office or including additional support should they contract COVID-19 at work (The Harris Poll, 2020). Other organizations are less concerned and more passive and, as a result, run the risk of being perceived as less caring or compassionate. The COVID-19 pandemic is not only changing the way we think about safety, our office or work in general but, at a deeper level, it is also changing the way in which we relate to organizations and the way in which we expect them to behave. As Rose Gailey, a partner at Heidrick and Struggles stated, employees increasingly "want and expect [their organizations] to carry forward a sense of connection, care and humanity" (Caprino, 2020). We increasingly describe our expectations in human terms (we want organizations to care or have humanity) and we watch them closely as if their actions at a time like this would clearly and inescapably reveal who they are.

The answer to the question "who are we as an organization?" is known as organizational identity, the characteristics of an organization that are thought to be central, distinctive and enduring (Albert & Whetten, 1985; Whetten, 2006). Having clarity on the answer to this question helps employees make sense of an organization's decisions and actions and enables them to derive a sense of self from their belonging to it.

As organizations roll out new benefits programs in response to COVID-19's new normal, employees are likely to interpret them not only as responses to a specific employee or market needs, but also as statements of organizational identity, clear declarations of who the organization is or aspires to be. Rolling out these benefits programs, therefore, presents a unique opportunity for organizations elbowing their way through the talent market to stand out from the crowd and provide employees and stakeholders with clarity and meaning they can relate to and capitalize from. Consequently, employee benefits has the potential to play a more strategic role in providing leaders and their organizations with tools and leverage.

In this paper, we review the different approaches used to select benefits offerings, which have often been motivated by historical changes and contextual circumstances. We critically discuss how these approaches have fallen short in making employee benefits strategic and make the case for the use of organizational identity as an anchor for benefits package design. We conclude with a map of the four approaches companies can take in designing their employee benefits offering, and suggest ways in which the four approaches may be combined for maximum impact.

TRADITIONAL APPROACHES TO BENEFITS CHOICE

Throughout the history of employee benefits, there have been two main approaches for choosing what benefits to offer employees: focusing on matching what the market offers or servicing employees' preferences, with many companies using a combination of both. We will explore how these two approaches originated and why they may be coming up short in providing strategic leverage to the organizations that deploy them.

Market Reference

The provision of employee benefits can be traced back to the early 19th century when a small number of companies in Britain and other European countries started providing housing, social clubs and educational and cultural activities for employees. What got to be known as welfare capitalism emerged in the United States late that century and it was initially offered to only a small portion of the employee population. The Great Depression of the 1930s aggravated the deep and complex disruptions in family and community life that resulted from illnesses induced by industrial labor and gave weight to organized and unorganized labor movements to push for a more extensive coverage of benefits (Rosner & Markowitz, 2003). In response to the social situation resulting from the Depression and with a more active and empowered labor movement, the U.S. government started introducing tax exemptions that would lay the grounds for what is known today as the employee benefits offering. The increase in provision in the 1930s and 1940s was further accentuated in the following decades. Health insurance in particular spiked during WWII as President Roosevelt signed an Executive Order that froze compensation increases nationally to prevent an inflationary spiral to lure people away from military service, but allowed companies to increase their insurance and pension benefits, which they inevitably did (Mihm, 2017). Benefits accounted for 19% of the total employment costs in the 1950s, growing to 39% in the mid-1980s (Barber et al. 1992). That percentage has stayed on those levels since, and while the term fringe benefits is still widely used today, these expenses are clearly no longer marginal relative to salaries.

The choice of employee benefits plans can be described as reactive when designed and deployed to bridge the gap between employee protection expectations and government provisions. By studying the prevalence of a particular benefit (that proxies as an assessment of the tax benefits and market expectations of it), organizations can decide in a straightforward way whether to provide it or not. Probably the so-called "institutional isomorphism" also plays a role in the growth of certain benefits given that businesses tend to imitate other leading companies in their employment practices. Given that the level of the benefit is not positively related to the satisfaction of the benefit (Dreher et al. 1988), most companies tend to simply provide them at the median of the market as costs beyond that point don't guarantee a return and are therefore hardly justifiable.

Introducing a benefit when 50% or more of the companies in the market use it is a prevention tactic, a way to avoid the lack of this benefit harming one's ability to attract and retain talent. This approach to benefits choice is cost-effective and relatively easy to implement, but it fails to provide organizations with a competitive edge because it fails to provide a meaningful differentiation from other players in the market.

Individual Choice

In the last quarter of the 20th century, generational shifts in the workplace created the conditions for flexible benefits to emerge. Older employees whose dominant experience was that of life-long employment carried over the expectation that companies would provide them with life-long security benefits. Younger generations, in contrast, were less ready to rest their hopes for future security in the benefits programs of their companies (Dulebohn et al. 2009). With up to four generations

sharing the same office space, segmentation was soon seen as a way to improve the return of investment of benefits provision. Although the real long-term value of the choice they provide is not entirely clear (Iyengar et al., 2004), flexible benefits programs have been seen to increase employee satisfaction (Barber et al. 1992) and have therefore become a norm in many countries as well as an expectation from prospective and current employees.

The provision of flexible benefits essentially is the catering of individual preference. In that sense, it can be said that, similar to the strategy of referencing to the market, it involves the company delegating to the individual the decisions on the choice of what benefits employees will ultimately enjoy somewhere else. Flexible benefits, therefore, work to service individuals' needs but fail to provide the company with a strategic lever. Organizations own the decision of what benefits will get to be in the menu and what the experience of choosing and administering them may feel like, but they will not necessarily advance their business strategy in doing so.

STRATEGIC BENEFITS AND THEIR ELUSIVENESS

In the 1990s, the nature and role of the HR function had come under scrutiny with David Ulrich famously challenging HR professionals to transform a department that had become "value sapping" (Ashdown 2014). Through that decade, many departments changed their name from Personnel to Human Resource Management (HRM), signaling a move from being an administrative function to being a strategic one. HRM professionals started working to align the strategy of their HRM department (and consequently their talent, rewards or benefits practices) to that of their businesses. This seemingly logical thread connecting strategies promised to hold many advantages for organizations, including those of consistency, value and increased competitiveness (Gomez-Mejia 1992; Gomez-Mejia, Berrone, and Franco-Santos 2010).

Strategy, however, has proven to be a slippery and elusive construct from which to drive benefits choice and design. Part of the problem is that, as noted above, benefits offerings more often than not represent an isomorphic response to what other organizations are doing rather than a set of strategic choices, making benefit packages blend in rather than stand out. Also, many organizations' formal strategies aren't strategies, but rather road maps or a simple set of objectives (Kenny 2018; Wells 2019), and strategy many times originates serendipitously, at different levels in the organization (Chia and Rasche 2015) and in an eclectic and even irrational way. Building a benefits offering from a company's strategies is a real challenge and while endless PowerPoints have been filled with the promise of alignment, benefits offerings have, in practice, mainly been guided by market referencing or the orchestration of individual preferences rather than business strategies (Long, 2014). Despite all the above, designing a benefits offering at least partially based on the business' strategies remains a logical and desirable way forward and Benefits professionals should continue to pursue it. If done successfully it provides a statement of intent from the company that carries strategic meaning and aligned clarity.

A NEW WAY FORWARD: ANTHROPOMORPHISM AND ORGANIZATIONAL IDENTITY

Just before the world was hit by the COVID-19 pandemic, the consultancy Deloitte published its annual "Insights" report, calling for a need for the social enterprise to emerge. The report stated that "A social enterprise is an organization whose mission combines revenue growth and profitmaking with the need to respect and support its environment and stakeholder network. This includes listening to, investing in and actively managing the trends that are shaping today's world. It is an organization that shoulders its responsibility to be a good citizen" (Deloitte 2020). These expectations that are placed on organizations have anything but been accentuated with the breakout of the pandemic, Deloitte would later reflect.

In trying to make sense of the uncertainty and the significant shifts in the world of work, employees are increasingly looking at organizations the way they look at individuals: holding them accountable for being a good citizen or asking them to 'listen to trends' or to 'shoulder responsibilities' like they would ask a friend or a colleague. We indeed anthropomorphize to make sense of complex things. Because we believe we understand human beings and what they do, we give things human characteristics to make them feel more predictable (Ashforth et al. 2020). If I think of my company as caring, for example, there is a better chance that I feel I can predict how it will behave at the outset of a pandemic.

Anthropomorphism has been exploited extensively in advertising, with brands being seen as having personality: "the set of human characteristics associated with a brand" (Aaker 1997). Absolut vodka, for example, was described by consumers as a "cool, hip, contemporary 25-year old." A similar thing happens with organizations. We are not surprised to see Amazon described as "ruthless" or Southwest Airlines as "friendly" (Ashforth et al. 2020). However, whereas marketers have long been leveraging anthropomorphism as a tool for brand strategy, organizations are yet to seriously embrace it. The time is ripe, however, for organizations to start paying attention to the way employees and stakeholders are attributing to them traits, emotions and intentions. With the COVID-19 pandemic, employees are feeling the need to understand what a company stands for and are asking their organizations: "Who are you?"

The answer to this question is known as an organization's identity; that is, the characteristics it has that are thought to be central, distinctive and enduring. An organization's identity helps employees and stakeholders understand the company and its actions. It also enables employees to identify themselves with the organization and to derive a sense of self from their belonging to it. There is growing awareness in business that having employees identify with the organization brings benefits to companies and their performance (Lichtenstein et al. 2011). For example, one study revealed how people sought to join start-up organizations when they desired to be seen as high-technology workers as well as to identify with their employers' "rebellious" organizational identity (Indergaard 2004). We are happier when we spend time doing things that we associate with our identity (Ogilvie 1987) and will seek out and stay in organizations that allow us to do so (Cha and Roberts 2019).

Employee benefits programs are powerful vehicles to shed light on an organization's identity. A sociable organization may offer catered lunch or large dining areas and an entrepreneurial organization may allow the use of certain company resources and working time for employees to try out alternative side projects. Slack, for example, is often considered a caring organization, in part because it offers fitness and wellness benefits including weekly massage therapy and personal and professional development stipends. Google's benefits — like the company — are perceived as fun and creative. Microsoft, who has its learn-it-all principle "at the heart of who we are as a company," has pivoted part of its benefits strategy around it through the COVID-19 crisis (Thiele 2020). Although some of these benefits may have been originally conceptualised in the context of culture work (a long-standing ambition of HR practices), given culture can be understood as the enacted manifestation of an organisation's identity (Czarniawska, n.d.) they contribute to shaping the answer to employees question: "who are you?"

In sum, we contend that employee benefits can work as an expression of an organization's identity, helping attract and retain employees that identify themselves with it. The deployment of identity benefits (those that can help organizations answer the question "who am I?") provide employees with greater clarity about the place they work for and allow them to develop a sense of connectedness and belonging. We believe that it is in this space that strategic use of benefits is most promising.

A GUIDING FRAMEWORK FOR CHOOSING BENEFITS

There is surprisingly little academic research on employee benefits. Compensation is the least researched area in the HRM literature (Deadrick and Gibson 2007) and benefits lag even further behind other elements of compensation (Werner and Ward 2004). Perhaps because of this, the strategies and tactics that have emerged over time have been a consequence of the circumstances of the times in which they originated more than the outcome of well-thought-out research. Once again, it is in fact known that the implementation of benefit policies is affected by the institutional environment. The adoption of work-family benefits, for example, is significantly affected by the welfare-state context (den Dulk et al. 2012) and macro-environment conditions affect the adoption of pay-for-performance systems at large (Gooderham et al. 2018). The outbreak of COVID-19 is providing a new change in context, bringing with it the opportunity for a different approach to strategizing benefit package design. For instance, many organizations now see the provision of telework as a benefit to employees (Mayo, Pastor, and Gomez-Mejia 2009).

The choice of benefits in organizations has generally been a result of the application of three approaches: referencing the market, providing individual choice and aligning benefits to strategy. Adding identity benefits as an additional approach, we develop a framework that can guide and clarify the different options organizations have for selecting their benefits offerings. The first two approaches we designate as tactics as the organizations are not exercising strategic choice in deciding what benefits are ultimately enjoyed by the employee but are delegating this decision to either the market (market benefits) or individuals (flexible benefits). The second two approaches we refer to as strategic because the organizations exercise strategic choice and purposefully create meaning, aligning and adding to their business strategy (strategic benefits) or their organizational identity (identity benefits). We add

a second distinction by describing market and strategic benefits as pursuing competitiveness (a positioning or an edge vs. its competitors) and describing flexible and identity benefits as pursuing differentiation (allowing the differentiation of individual choice and the portrayal of the organization's identity as unique).

TABLE 1 Four Approaches to Benefits Provision

	Competitiveness	Differentiation
Tactic	Follow the market (Market benefits)	Offer individual choice (Flexible benefits)
Strategic	Align with the company strategy or "what" the company aims to achieve (Strategic benefits)	Align with the company identity or "who" the company aims to be (Identity benefits)

All four approaches to the design of a benefits package are important and useful. Different circumstances will call for the use of one or another approach. We speculate that an effective benefits design will consider all four approaches in equal measure, balancing the tensions and paradoxes that specific choices may bring.

To draw an illustration of a combined approach: Referencing benefits to the market could be used for **traditional** benefits (such as pensions or health insurance) that have been seen to have no effect on perceived organizational support (Muse and Wadsworth 2012); nontraditional benefits that have been found to have an impact on perceived organizational support (Muse and Wadsworth 2012) such as food allowances or activities for dependents could make up the menu of **flexible** benefits; benefits in the form of working tools (such as private use of personal phone or car) could work to support a particular business **strategy** of availability of services in support of customer intimacy; and finally, new and rich work-life balance benefits, which have proven to have a positive effect on employees (Muse et al. 2008), could be introduced as **identity** claims for an organization that aims to be perceived as caring, empathetic and humane.

Using a combined approach to employee benefits package design will help raise an organization's awareness of the leverage existing in its current offering and help it proactively plan and deploy benefits that carry both strategic and organizational meaning. Strategic benefits have long been a quest for practitioners. Organizations need to now put an extra effort into building a benefits strategy that can support their claim of being who they say they are.

CONCLUSION

We have contended that a key to making employee benefits strategic is to design the benefits program to match the desired identity of the organization. This requires some careful planning and deliberate choices to enhance the desired identity. For instance, an organnization that wants to project a family-friendly identity needs to

think of an array of benefits, such as flexible work hours, parental leave, day-care support, telework and dual-career programs, that cater to that image. As another example, an organization that wants to project an innovator image may want to provide benefits that allow employees to pursue their own interests, cover educational expenses for technological training, offer a percentage of working time for employees to work on their own projects and reward them for coming up with new ideas. As a third example, a company that wants to project the image that it is a good corporate citizen and that social responsibility is an important corporate objective may want to provide employee benefits that reinforce that image (for instance, providing paid time to work in community organizations, rewarding pollution control and prevention activities, offering sabbatical to employees to help with important social causes and developing "executive in residence" programs for universities). The list can go on and on but the essential point is that the benefits provided will service their strategic intent when they are perceived as credible representations of the organizational identity being pursued.

ABOUT THE AUTHORS

Daniel Afonso is the Global Vice President of Organization and Rewards at the Radisson Hotel Group and a researcher at Cranfield School of Management, UK. He has held regional and global Human Resources positions in leading organizations including Mölnlycke Healthcare, Hästens and Avon Cosmetics. During this time, he has lead organizational and cultural transformations globally, upgrading talent and reward processes and building effective and sustainable people practices. Prior to this, Daniel worked as a Talent and Rewards consultant with Watson Wyatt, supporting companies advance their people practices and meet their stakeholder needs and business aspirations. Daniel is a certified coach and has been an entrepreneur in the hospitality and consulting businesses.

Dr. Monica Franco-Santos is a Reader (Associate Professor) in Governance and Performance at the Centre for Business Performance, Cranfield School of Management, UK. Her research, teaching and consulting interests are in the areas of performance management and reward systems. Her work has been published in academic journals and professional periodicals such as *The British Journal of Management, International Journal of Management Reviews, International Journal of Human Resource Management,* and the *International Journal of Operations and Production Management*. Before joining Cranfield University, Monica worked as a remuneration consultant and an internal consultant in various organizations. For more information about recent research projects, or specific publications visit http://www.som.cranfield.ac.uk/

Luis Gomez-Mejia returns to Arizona State University, where he taught for two decades before joining Texas A&M University and the University of Notre Dame. Prior to his first appointment with ASU, Professor Gomez-Mejia taught at the University of Colorado at Boulder. A highly cited scholar, his research focuses on the relationships of international management, strategic management, executive compensation, and family businesses. One of the most published authors among the "big eight" management journals, he has published more than 200 articles in the *Academy of Management Journal, Academy of Management Review, Strategic Management Journal, and Administrative Science Quarterly*, among others. Prior to entering academia, Professor Gomez-Mejia worked for eight years in human

resources for the city of Minneapolis and Data Control Corp. He has also served as a consultant to numerous organizatons including IBM Corp., DuPont, and Honeywell International Inc. In 2015, he was selected to the Thomson Reuters Highly Cited Researchers list, ranking in the top one percent of researchers in economics and business worldwide.

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