TOTAL REWARDS
STUDENT WORKBOOK

SHRM
SOCIETY FOR HUMAN RESOURCE MANAGEMENT

Benefits and Business at Aflac and L.L. Bean

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Case Overview

In its 2008 annual *Job Satisfaction Survey Report*, the Society for Human Resource Management (SHRM) reported that for the past five years, employees rated compensation and benefits among the top three aspects most important to their job. But despite the importance of these aspects, employee satisfaction with their compensation and benefits packages remains low. According to a Conference Board report, "employees are least satisfied with their companies' bonus plans, promotion policies, health plans and pensions". Employers are missing critical opportunities to maximize employee job satisfaction and other organizational outcomes through their total rewards programs.[1]

In the book *Dynamic Compensation for Changing organizations: People, Performance & Pay*, The Hay Group asserts that traditional pay structures no longer keep pace with the emerging, strategy-focused organizations that exist in today's globally competitive market. "What shifted were organizational work values, work cultures and business strategies. Although they have been largely overlooked, dramatic changes in the organizational rules have frequently rendered traditional compensation strategies ineffective. Employees today are expected to work in teams rather than solely on their own. They are expected to keep learning new skills and to assume broader roles. They are expected to take more risks and responsibility for results. As a consequence, we are slowly coming to the realization that we may be paying for the wrong things, sending inconsistent messages about the company to its employees, or creating artificial expectations of continued advancement and raises, no matter how well the company performs."[2]

Furthermore, in its publication *Implementing Total Rewards Strategies*, SHRM notes that "the right total rewards system—a blend of monetary and non-monetary rewards offered to employees—can generate valuable business results. These results range from enhanced individual and organizational performance to improved job satisfaction, employee loyalty and workforce morale."[3]

Today, HR professionals are responsible for programs far beyond the profession's administrative personnel roots. They are expected to measure the success or failure of HR practices based on the achievement of organizational outcomes. Brand identity, bottom-line profitability, employee job satisfaction and increased management focus are all outcomes that can be achieved in part through an organization's total rewards program. This case examines two very different organizations and how they align their total rewards programs with their organizational goals and values.

Aflac Insurance

COMPANY INFORMATION

Aflac is a Fortune 500 insurance company founded in 1955 by three brothers, John, Paul and Bill Amos. Today, Aflac employs more than 4,500 people and has more than 71,000 licensed independent agents throughout the United States and Japan. The following is an excerpt from the New York Stock Exchange business summary.

"Aflac Incorporated is a general business holding company and acts as a management company, overseeing the operations of its subsidiaries by providing management services and making capital available. Its principal business is supplemental health and life insurance, which is marketed and administered through its subsidiary, American Family Life Assurance Company of Columbus (Aflac), which operates in the United States (Aflac U.S.) and as a branch in Japan (Aflac Japan). Aflac's insurance business consists of two segments: Aflac Japan and Aflac U.S. Aflac Japan sells cancer plans, care plans, general medical indemnity plans, medical/sickness riders, living benefit life plans, ordinary life insurance plans and annuities. Aflac U.S. sells cancer plans and various types of health insurance, including accident/disability, fixed-benefit dental, sickness and hospital indemnity, vision care, hospital intensive care, long-term care, ordinary life and short-term disability plans."

AFLAC CORPORATE PHILOSOPHY

"Since its beginning, Aflac has believed that the best way to succeed in our business is to value people. Treating employees with care, dignity and fairness are founding principles of Aflac."

AFLAC'S MISSION

To combine innovative strategic marketing with quality products and services at competitive prices to provide the best insurance value for consumers.

GUIDING PRINCIPLES

To offer quality products and services at competitive prices and use new technology to better serve our policyholders.

- Build better value for our shareholders.
- Supply quality service for our agents.
- Provide an enriching and rewarding workplace for our employees.

THE CASE AT AFLAC

With a desire to be an employer of choice, Aflac Insurance is no stranger to the competition for talent among employers in the United States. In fact, according to the Bureau of Labor Statistics (BLS), the unemployment rate in the insurance industry was at 3.3 percent in March 2008, a number consistently below the national and state levels in other industries (Exhibits A and B). This makes finding and retaining qualified individuals to deliver positive results to shareholders an ongoing challenge.

Organizational outcomes related to human resources at Aflac reflect many of the basic functions, including recruiting, retention, diversity and training. At Aflac, the company strives to deliver quality service to its 4,500 employees while staying competitive in the insurance market. Aflac prides itself on being ahead of the curve from a consumer perspective and desires to mirror that philosophy in its treatment of employees. How does the company made famous by the duck maintain the integrity of its brand while delivering results through its people? How important are benefits and compensation to the company's ability to compete in a growing industry?

Casey Graves, vice president of human resources in charge of compensation and benefits at Aflac, says that the needs of the company's employees continue to be the driving factor behind Aflac's total rewards programs. As with most programs, it begins with an employee needs assessment and continues to be measured through outcomes, which have been directly influenced through the company's enhanced total rewards efforts. The consistent thread throughout this process, according to Graves, is the quality of communication. Graves explains that Aflac's total rewards statements have evolved from a one-page document to an in-depth review of the true value of the employment compensation and benefits.

Employee satisfaction surveys and focus groups conducted in 2007 with Aflac employees and managers drove the needs identification process. A key focus of the survey was to help recruit talent and improve retention in an industry with low unemployment rates. Although survey results varied, Aflac's response was consistent: to give employees what they need from a benefits perspective while balancing the cost, all within a rapid period of growth.

Throughout the process, the company focused on providing value-added programs that would improve employee job satisfaction, support organizational initiatives and provide opportunities for professional development. Aflac seeks to accomplish this by:

- **Providing Aflac products to employees at little to no cost**—for example, offering employer-paid life insurance, a company-paid cancer policy and company-subsidized accident protection insurance.

- **Providing total rewards in line with philanthropic goals.** Aflac dedicates resources to efforts that support the community in four areas: health, education, youth and the arts. One benefit offered to Aflac employees is the recognition of a "Volunteer of the Month," in which an employee is awarded for the time spent volunteering at his or her charity of choice.

- **Developing employees for their next career level through extensive employee training and leadership programs to keep pace with the strategic growth goals being executed company- wide.** More than 91 percent of Aflac's employees at the senior vice president level and above have been promoted through the ranks. Aflac's corporate training department hosts two employee learning initiatives. The first is a leadership development program with on-site courses for all employees from entry level to senior management. There are three levels of classes; some classes require employees to have taken prerequisite courses that are a part of the offered curriculum. Instructor-led classes offer a variety of subjects for workers seeking both career and personal development and are designed to help employees achieve a quality work/life balance. Course topics range from "Managing Your Career" to "Preventing Diabetes."

Cost-containment is on every HR professional's mind when discussing employee benefits. According to the National Coalition on Healthcare, the cost of offering health insurance continues to outpace inflation. In fact, "in 2007, employer health insurance premiums increased by 6.1 percent, which was two times the rate of inflation. The annual premium for an employer health plan covering a family of four averaged nearly $12,100. The annual premium for single coverage averaged over $4,400." And, as Graves points out, that is added to the cost of steadily growing the business each year, which includes adding staff. Suddenly, employee benefits become a conspicuous line item on profit and loss statements and must therefore enhance the achievement of organizational outcomes in order to be justified. An important theme in Aflac's communication to its employees is that the health care cost containment is an employer and employee shared responsibility.

Aflac seeks to administer benefits in a cost-effective manner while staying true to the concept of employee service. Aflac recognizes the actual value of employee benefits, and as a result, its overall philosophy is that "it's all about the employee." For Aflac, in addition to competitive salaries, it includes designing benefits packages that reflect the needs of a multi-generational workforce—some seeking portability, others seeking stability. It is about creating a positive work environment that is conducive to productivity—by offering one of the largest on-site child care facilities in the United States. Aflac sponsors outdoor adventure days, on-site fitness centers and service discounts. It pays 100 percent of the employee premium for its ground-breaking cancer insurance, in line with the company's philanthropic commitments as a socially responsible organization, positioning Aflac to lead its industry to enhanced service levels. These benefits, according to Graves, send the message to employees that they and their lifestyles are important to the organization. The proof continues to be demonstrated in recent employee survey results:

- Approximately 90 percent of employees were attracted to and remain at Aflac because of company reputation.
- Employees are happy with the profit-sharing bonus, with 81 percent of employees saying they believe it is better than that of other companies.
- Eighty-nine percent of employees consider Aflac's total rewards statement an effective communication tool.

Perhaps most telling of all in the competitive world of insurance—employee turnover fell below 10 percent in the first quarter of 2008.

EXHIBIT A: THE BUREAU OF LABOR STATISTICS, APRIL 2008

INSURANCE CARRIERS AND RELATED ACTIVITIES: NAICS 524

Employment, Unemployment & Layoffs:

Data series	Dec. 2007	Jan. 2008	Feb. 2008	Mar. 2008
Employment (in thousands)				
Employment, all employees (seasonally adjusted)	2,316.8	2,313.9	(P) 2,310.2	(P) 2,314.1
Employment, nonsupervisory workers	1,848.0	1,836.0	(P) 1,839.7	
Unemployment				
Unemployment rate	2.3%	2.9%	2.6%	3.3%
Layoffs				
Mass layoff events	9	13	7	
Initial claimants for unemployment benefits	514	1,022	468	
Footnotes (P) Preliminary				
(Source: Current Employment Statistics, Current Population Survey, Mass Layoff Statistics)				

EXHIBIT B: THE BUREAU OF LABOR STATISTICS, UNITED STATES CIVILIAN UNEMPLOYMENT RATE, ALL INDUSTRIES

Labor Force Statistics from the Current Population Survey

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1998	4.6	4.6	4.7	4.3	4.4	4.5	4.5	4.5	4.6	4.5	4.4	4.4
1999	4.3	4.4	4.2	4.3	4.2	4.3	4.3	4.2	4.2	4.1	4.1	4.0
2000	4.0	4.1	4.0	3.8	4.0	4.0	4.0	4.1	3.9	3.9	3.9	3.9
2001	4.2	4.2	4.3	4.4	4.3	4.5	4.6	4.9	5.0	5.3	5.5	5.7
2002	5.7	5.7	5.7	5.9	5.8	5.8	5.8	5.7	5.7	5.7	5.9	6.0
2003	5.8	5.9	5.9	6.0	6.1	6.3	6.2	6.1	6.1	6.0	5.8	5.7
2004	5.7	5.6	5.8	5.6	5.6	5.6	5.5	5.4	5.4	5.5	5.4	5.4
2005	5.2	5.4	5.2	5.1	5.1	5.0	5.0	4.9	5.1	5.0	5.0	4.8
2006	4.7	4.7	4.7	4.7	4.7	4.6	4.7	4.7	4.5	4.4	4.5	4.4
2007	4.6	4.5	4.4	4.5	4.5	4.6	4.7	4.7	4.7	4.8	4.7	5.0
2008	4.9	4.8	5.1	5.0	5.5	5.6	5.8	6.2.	6.2	6.6	6.8	7.2

L.L. Bean

COMPANY INFORMATION

L.L. Bean is a privately held outdoor apparel specialty catalog and retail store founded in 1912 by Leon Leonwood Bean, an outdoor enthusiast and entrepreneur. In his autobiography, *My Story*, Bean wrote that nothing eventful occurred before his 40^{th} year when he created a leather-topped, rubber-bottomed hunting shoe. As the legend goes, he sold his first 100 pairs by mail order with a 100 percent satisfaction guarantee. When 90 pairs were returned defective, he kept his promise and made the refunds. Bean borrowed $400 from his brother to perfect the design and went on to become a clothing consultant for the military during World War II, an author and, of course, the president and founder of a retail giant. As described by Yahoo finance online:

"With L.L.Bean, you can tame the great outdoors—or just look as if you could. The outdoor apparel and gear maker mails more than 200 million catalogs per year. L.L.Bean's library includes about 10 specialty catalogs offering products in categories such as children's clothing, fly-fishing, outerwear, sportswear, housewares, footwear, camping and hiking gear, and the Maine hunting shoe upon which the company was built. L.L.Bean also operates about a dozen retail stores and some 15 factory outlets throughout the Northeast. In addition, it sells online through English- and Japanese-language Web sites."

L.L.Bean's annual sales grew from $616.8 million in 1990 to $1.169 billion in 2000, with an average annual growth rate of 6.8 percent. In 2000, L.L.Bean paid a 10 percent company-wide bonus.

More than 11,000 people worked for the company during the 2006 holiday season, and in 2007 the company reported $1.5 billion in sales, with approximately 80 percent of those sales coming from Internet and catalog sales. The company continues to evolve into a multi-channel sales giant through mail order, telephone, Internet and in-store sales.

THE BRAND

L.L.Bean has always been a marketing professionals' dream of creating a brand into an institution. Strategists, marketing specialists and other business professionals (including the competition) have tried to duplicate the company's achievements with varying degrees of success. A brand is built on perceptions about quality, service and status created by using a particular product or working with a specific company. A brand can be built using marketing techniques such as visual imagery, wording that identifies what the organization does, and advertising campaigns targeted to a desired demographic. Strong brand identity can build a relationship with the consumer. In L.L.Bean's case, this is a relationship with Maine and the great outdoors. The company operates on the belief that the brand should reflect Bean's values, not just the products it sells. This case examines how L.L.Bean built the brand by using employees as the critical channel through which to accomplish strategic directives.

When Leon Gorman, grandson of Leon Leonwood Bean, assumed the presidency of the company in 1960, he sent a message to employees defining their stakeholders—those to whom L.L.Bean was ultimately accountable in a values-driven business. L.L.Bean's stakeholders were its customers, employees, vendors, communities and the natural environment.

In addition to a strong customer focus, the company sought to solidify the brand through social responsibility. Social responsibility is a business concept driven by the principles of ethically sound practices, awareness of the business imprint on the environment, and improvement of the quality of life of the company's employees and the communities in which it operates. Social responsibility at L.L.Bean is divided into four categories:

- **The environment**

  With company products geared for outdoor use, L.L.Bean focuses its philanthropic efforts on preserving the environment. Examples include green building, charitable giving and employee participation in preservation activities.

- **Paper procurement**

  L.L. Bean is committed to sustainable, responsible paper procurement, an important consideration because the company mails more than 200 million catalogs each year. It uses recycled fiber, and suppliers are required to have programs in place to support sustainable management of natural resources.

- **Labor rights**

  When the company decided to move some operations offshore, it made a commitment to labor rights, including human rights monitoring. In fact, the company terminated at least three offshore vendor relationships that did not meet its human rights standards. Included in Bean's Vendor Code of Conduct are standards for safety, non-discriminatory practices, and fair compensation and benefits. This code of conduct includes processes for auditing and investigating complaints.

- **Charitable giving**

  Charitable giving at L.L.Bean is based on Gorman's concept of the stakeholder and the company's heritage in the outdoors. The company has donated more than $5 million toward environmental conservation efforts to groups like The National Park Foundation and Ducks Unlimited. It sponsored the Peace Climb up Mt. Everest, during which more than three tons of trash was collected. In addition, quality of life of the Bean employee and customer is reflected in the company's charitable giving efforts to groups such as United Way and the Portland Symphony Orchestra.

THE PROBLEM

The company spent the 1970s and 1980s developing the brand into an American institution. L.L.Bean operated on the premise that profits are an outcome of strong customer service. Profits, therefore, were a byproduct rather than a corporate focus. Growth was strong, particularly in mail order. By 1990, however, sales were stagnating, productivity was declining and the mailing list was not growing. The U.S. economy slipped into a recession, and as a result, 1990 was the worst year for L.L.Bean in a decade. Sales growth improved in 1992 when the company expanded into the Japanese market. In 1995, Bean launched their e-commerce web site. There was significant upper-management turnover, though, and Gorman believed that because of the rapidly changing external environment, the company had lost direction. In 1996, sales flattened again, and for the first time under Gorman's leadership, the company reported a decline in sales. It was the first time the board of directors voted to not award annual bonuses to employees.

THE CASE AT L.L.BEAN

L.L.Bean launched a strategic review. The 80+-year-old company had been through decades of change, yet its core business model had consistently provided excellent growth and profit. This was no longer the case by the 1990s when the competitive landscape reflected a more technically savvy and cost-conscious customer and global employee market. The need to reorganize became obvious to Gorman.

The strategic review process began in 1996 and included analyses of both strategic and operational processes, including brand identity, target markets and operational competencies (employees). HR was one of the strategic business units (SBUs) developed as an outcome of the review process. The SBUs were part of a decentralization process in which each unit had responsibility for its profit and loss and was held accountable to a balanced scorecard approach in performance metrics. This designation for the HR department allowed it to develop operational tasks such as compensation and benefits into a strategic process with measurable outcomes—for example, linking pay to performance and increasing employee job satisfaction. In addition, total rewards were used as strategic solutions to many of the issues identified in the review process, including global outsourcing, multi-channel marketing initiatives, employee recognition and the redefining of the brand.

Multi-channel marketing was another outcome of L.L.Bean's strategic review. Multi-channel marketing is the ability to offer customers more than one way to purchase a product. The company decided to expand their brick-and-mortar stores and capitalize on the opportunity presented by the Internet (Exhibit A). According to Gorman, Internet retail sales doubled each year since 1996.

A weakness identified in the strategic review was that the company's financial and human resources were geared to grow the catalog business but not retail expansion or Internet sales. The diversification initiative took staffing to another level. For example, the decentralization of the management team to other locations required concentrated efforts by the company to infuse the non-corporate facilities with L.L.Bean values. The development of new jobs required thorough market research, including a comprehensive job analysis process. The lack of technical skills such as data processing threatened to topple the organization if it didn't acquire the staff with the required knowledge, skills and abilities to perform in a highly competitive market at an organization that was used to setting the standards for quality. Developing job descriptions and conducting salary surveys allowed the company to develop a comprehensive compensation and benefits framework to manage this period of rapid growth and diversification.

As a result of the strategic review process, total rewards at L.L.Bean became a core business practice critical to the accomplishment of organizational goals. Traditional benefits offered at L.L. Bean include performance-based bonuses and cafeteria-style health care. Non-traditional benefits include store discounts, on-site fitness programs and the use of company-owned outdoor gear such as tents and canoes. The company continues the tradition of outdoor adventure days and trips as a way to connect employees with the L.L.Bean values—the love of the outdoors. L. L. Bean himself believed in profit-sharing with employees long before it became a strategic compensation practice. Back in the days when pay was 18 cents an hour, paid in brown envelopes of cash, Bean surprised employees with bonuses calculated as a percentage of profits—Bean's employees were paid when the company performed. These practices reflect the L.L.Bean philosophy that the employees' passion for the company and its products will translate to the customer. As far as Bean was concerned, the company had an obligation to stakeholders, and it began with employee satisfaction. As Leon Gorman put it:

"Our stakeholders have invested their patronage, careers, finances, social services and outdoor values in our enterprise. They trust us to tell the truth, to sell quality products, to guarantee satisfaction, to pay fair wages and provide opportunities for growth, to secure their investment, to participate in society, and to sustain our natural environment. They trust us to grow to the extent that we can enhance our benefits to them. They trust us to go the extra mile in everything we do."[4]

Global outsourcing of operations brought intense scrutiny to the function of compensation and benefits. This resulted in Gorman leading the challenge for fair wages at the company's global subsidiaries and vendors and, in some cases, firing those who failed to comply.[5] In addition, global benefits were markedly different from U.S. benefits because they were infused with cultural purpose. For example, among Japan's official holidays are Respect for the Aged Day, a Cultural Day, the Emperor's Birthday and Physical Fitness Day. In addition, although Japan's retirement system was similar to the United States (a combination of Social Security and employer-sponsored plans), Japanese employees typically collect one lump-sum severance payment at the time of retirement based on years of service. Commuter costs and housing subsidies are also common fringe employment benefits in Japan.[6]

Did the 1996 strategic review work? Were employees rewarded for their continued excellence, loyalty and dedication to the corporate objectives? Let's look at L.L.Bean's 2006 Year in Review press release, as reported by PR Newswire:

L.L.BEAN INC. REPORTS 2006 NET SALES RESULTS

"For the 2006 fiscal year ending February 25, 2007, L.L.Bean reported record annual net sales of $1.54 billion, a 4.6 % increase over 2005. The company also announced that its Board of Directors approved a cash award of 7.5% of annual pay to eligible employees, a payout of approximately $25.5 million. An additional $8.8 million will be allocated to the pension plan, keeping the plan fully funded.

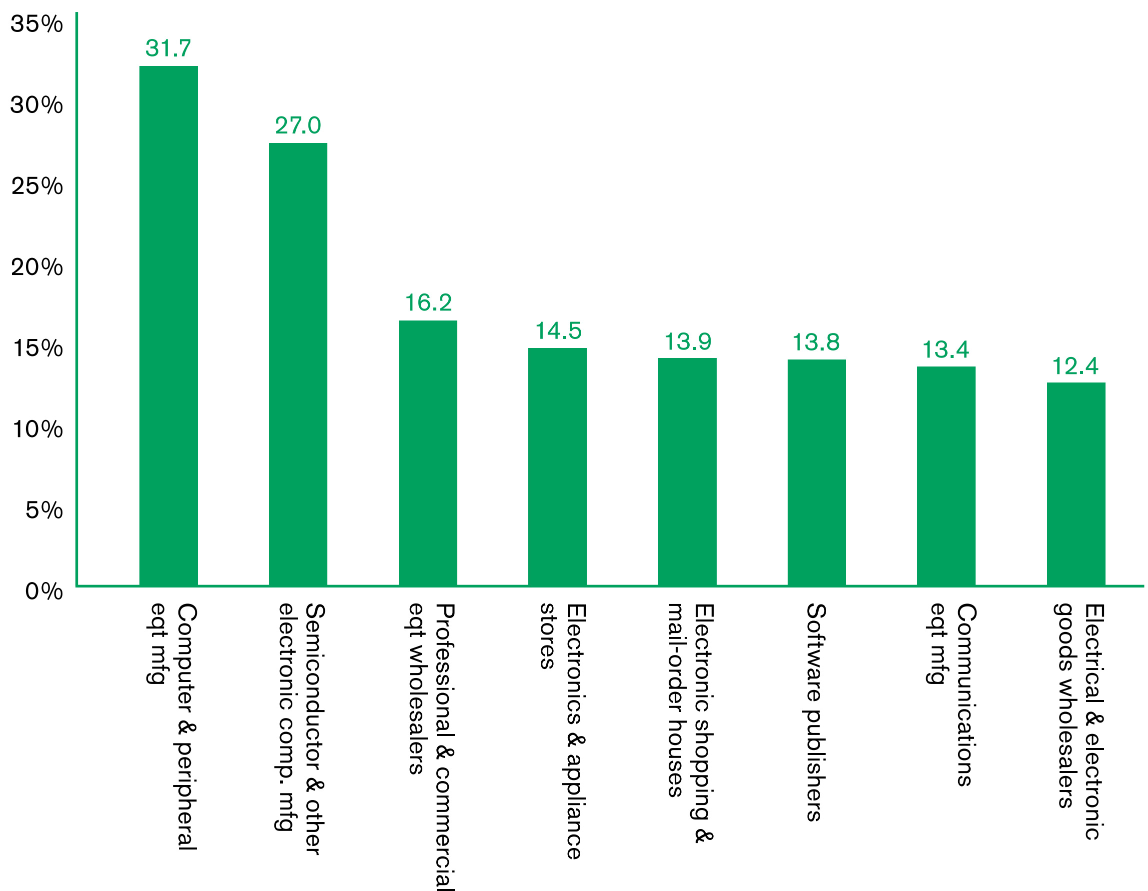
"It's a well deserved bonus," said Leon Gorman, L.L.Bean's Chairman of the Board. "2006 was a year in which we made excellent progress on a variety of strategic initiatives important to the future of our business. We are pleased to be in the position of rewarding Bean employees for their achievements."

Chris McCormick, L.L.Bean's President and CEO, expanded on the year-end results for 2006. "We had a strong start and strong finish to the fall and winter selling season," he said. "Although unseasonably warm weather had an impact on sales in December and early January, our business performed very well and the product line continues to hit the right mark with our customers. I am very proud of all that we accomplished in 2006 through our employees' hard work and dedication," he continued. "It was an exciting year with a lot of energy and growth, including the opening of three additional stores, launching $90 million in investments in our hometown of Freeport, and making further progress on the international side of our business."

EXHIBIT A: L.L. BEAN-BUREAU OF LABOR STATISTICS FOR ELECTRONIC SHOPPING & MAIL-ORDER HOUSES, ESTABLISHMENTS PRIMARILY ENGAGED IN RETAILING ALL TYPES OF MERCHANDISE USING NON-STORE MEANS SUCH AS CATALOGS OR ELECTRONIC MEDIA

The eight industries with the highest productivity growth rates over the 1990–2000 period, each experienced growth in output per hour of more than 12 percent per year, on average.

Industries with highest labor productivity growth rates, 1990-2000



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