
Perceptions of top management about the total rewards statement: a case study in the retail sector

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Abstract: A total rewards statement (TRS) is a summary of compensation, benefits, and perquisites that an employer provides to their employee. This qualitative case study examines the TRS related perceptions of senior managers of a large retail company headquartered in the USA and operates over 3,000 retail locations across the USA and Mexico. In particular, it investigates whether employees have a change in their perceptions of their employers in the light of TRS adoption. The findings suggest that employees react to TRS in a manner that broadly aligns with the tenets of the social exchange theory (SET) and the theory of incentives. Certain issues related to the principal-agent problem were also evident in the employee perceptions. It was observed that the use of TRS created positive vibes and became a lever to subtly communicate change advocacy in the case company. In other words, TRS could foster both social and economic exchanges in organisations.

Keywords: total rewards statement; TRS; social exchange theory; SET; agency dilemma; employee benefits; total rewards; compensation; incentives.

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1 Introduction

A total rewards statement (TRS) is a summary of information that is provided to employees. The statement delineates a composite picture of all direct and indirect compensation, benefits, and perquisites that an employer expends on behalf of, and directly to, an employee (Fuller, 2011; Schneier and Muzumdar, 2014). Statements can be provided to employees in paper form or electronically through mail, websites, portals, or similar systems (Schneier and Muzumdar, 2014). The statements are intended to be a central and single point of information for employees regarding their full rewards package.

According to the US Department of Labor's (2015) Bureau of Labor Statistics (BLS), the potential civilian labour force in the USA is 156,906,000 people, and the employed population is 148,331,000 people (US Department of Labor, 2015b). Also, according to US Department of Labor (2015b), in the USA, an average of 30% of total compensation is spent on benefits. Companies in the USA are using TRS to communicate the value of all combined benefits to their employees, and they are spending significant resources to implement them. Research studies in the USA that provide information regarding the extent to which TRS are used come from organisations that provide research in support of services that they subsequently sell in the marketplace. For example, a joint report by two leading benefits companies indicated that 52%–58% of respondent companies used TRS (WorldatWork and Mercer, 2010). Companies with annual revenue under \$500 m had a 52% usage; companies with annual revenue of \$500–\$10 b had a 54% usage; companies with annual revenue of more than \$10 b had a 58% usage. A more recent survey conducted in the USA by AON Hewitt (2012) indicated that 75% of their 750 respondents used TRS. The most recent study conducted in 2014 in the USA (WorldatWork, 2015) indicated that 43% of respondents used TRS. The available usage data related to TRS in the USA varies widely.

Cost estimates to establish and implement paper-based TRS are up to eight dollars per person (Crawford, 2014; Fuller, 2011). Cost estimates to establish and implement electronic-based TRS are up to 100 dollars per person (Crawford, 2014). The lower cost estimates for paper-based TRS are driven by the fact that internal human resources personnel can generate these statements with access to typical office software and the data that comprises a statement. The higher estimates for electronic-based TRS are driven

by the cost of ownership of human capital management (HCM) systems. Pricing related to ownership of these systems is normally unpublished information, but in a whitepaper produced by success factors, an example cost work-up was provided for a single module, performance management, of their multi-module HCM solution (Berggren, 2015). The costs of the single module were effectively \$22 per year per employee. When multiplied by the number of modules that comprises the HCM suite, costs would easily exceed \$250 per year per employee (not including any estimates for system integration and implementation.) A human resource consulting firm that integrates SAP/success factors systems quotes pricing of \$95 per employee per month or \$1,140 per employee per year (HRlab.com, n.d.). Using the estimates provided by Fuller (2011) and Crawford (2014) regarding TRS in the USA, these numbers establish a paper-based market potential of \$1.186 billion and an electronic-based market potential of \$14.833 billion.

The importance of benefits in the decision to join an employer is high. One study reported that in the late 1990s, 79% of workers reported that benefits were very important to their employment and employer choice (Christensen, 2002). The same study reported that five years later, in 2002, the number of workers reporting the same importance level of benefits had remained basically unchanged at 77%. In 2004, a report by the Employee Benefit Research Institute cited that 80% of workers consider benefits to be a very important factor in choosing to join an employer (EBRI, 2004). However, Mercer stated “the perceived value of workplace benefits among employees who participate in both health and retirement plans is starting to erode” [Mercer, (2014), Para. 1].

The sales proposition for TRS is that they help with employee retention by ensuring that employees are fully aware of all investments made in them by their employers (Fuller, 2011; Hay Group, n.d.; Towers Watson, 2012). This purportedly creates a sense of gratitude from the employee toward the company because of the improved knowledge regarding the total costs of all rewards that are borne by the company. Companies are expending resources in order to provide TRS to employees because of an expectation that it will improve the employer and employee relationship.

It is difficult to ascertain an accurate estimate of the number of companies that are using TRS; however, in 2008, employee benefits reported that a “total reward approach has already been adopted by three in 10 employers” [EBRI, (2011), p.56]. A more recent statement by the Corporate Executive Board estimated that, “more than half of organisations have re-evaluated their approach to pay, benefits, and total rewards communications.” [CEB Blogs, (2014), Para. 1]. Even without reliable data sources to estimate market penetration, it is reasonable to infer that adoption rates of TRS are increasing, and such an inference is supported by firms operating in the rewards market (Bremen and Davenport, 2014; Stoeckmann and Kelley, 2010).

There is indeed some consensus in the literature that the use of TRS will improve employee retention, improve employee engagement, improve employee satisfaction, reduce employee anxiety, and improve company-competitiveness when attracting talent (Morano, 2008; Schneier and Muzumdar 2014). Top managers are significantly more influential in a firm’s choices regarding TRS; simultaneously, they are personally affected by such choices. There appears to be limited scholarly research on senior employees’ perceptions regarding TRS and their attitude towards companies that employ TRS, and this study aims to fill that gap. In particular, it investigates whether employees have a change in their perceptions of their employers in the light of TRS adoption.

2 Background

The genealogy of literature that relates to the use of TRS is rooted in principal-agent theory (also known as the agency dilemma), theory of incentives, and the social exchange theory (SET). Each of these areas interrelates with one another to form the progression of literary history upon which TRS derive their purported benefits in employee perceptions.

2.1 Principal-agent theory

The origin of a formal proposal of the principal-agent theory came from Berle and Means (1991) around the discussion of corporate governance related to a decentralised system of shareholders struggling to affect control of corporate managers. Managers, instead of acting on behalf of shareholders, act in their own interests; “the incongruence between shareholders and management is an example of what is known as a principal-agent problem” (Gentile, 2010). The formalisation of a principal-agent theory was promulgated essentially by two different scholars, Barry Mitnick and Stephen Ross, doing similar work separately but concurrently in the early 1970s (Lopes, 2016). The agency dilemma arises when an individual needs to enlist the support of another person in order to accomplish work on his/her behalf; the former becomes the *principal* and the latter becomes the *agent* (Jensen and Meckling, 1976). The agent performs tasks on behalf of the principal. The dilemma develops around the inability of the principal to *perfectly* control the actions of the agent. In a perfect-control situation, the agent would perform the work in precisely the manner that the principal desires.

The premise of the principal-agent theory is that, in human relations, perfect control cannot be achieved; therefore, mechanisms are put in place that strive for the most-perfect control possible (Harris et al., 2013). Payment for services performed is a fundamental mechanism that is used in order to motivate and control the agent to perform tasks as the principal desires. In exchange for receipt of payment, the agent submits to accountability with the principal.

Providing incentives and establishing accountability does not yield perfect control though (Zardkoohi et al., 2015). The mere act of employing an agent creates a knowledge gap. Due to the delegation of tasks, and the proximity of the agent to the tasks, the agent possesses knowledge that the principal does not. The knowledge gap is known in the research primarily by the term *information asymmetry*, meaning that the knowledge possessed by the agent(s) in comparison to the principal is asymmetrical in nature and cannot be fully known by the principal (Monks and Minow, 2011; Popović et al., 2012; Tian, 2014; Wiseman et al., 2012). The greater the number of agents and the greater the number of layers in the organisation, the greater the information asymmetry and resultant knowledge gap.

The full expression of the agency theory developed over a period of years by a variety of scholars in the disciplines of economics, law, political science, and corporate governance (Zardkoohi et al., 2015). The concepts and tenets of the agency dilemma were used in many other works prior to the formalisation of the theory, so it is important to acknowledge those contributions. For example, the work of Barnard (1948) in his research and writing around business ethics and morals; the work of Coarse (1937) in his work on the nature of the firm in economic theory; and, in political science, the work of

Pitkin (1967) on the concepts of representation. Viewing the principal-agent relationship from a positive vantage point, and opening up the discussion of how incentives can drive a balanced contract between the parties is owed to Jensen and Meckling (1976). Agency theory continued to diverge away from general and broad-based discussions of the firm into other areas of study. Agency was brought into the study of political science by Moe (1984); it was introduced into sociology by Shapiro (1987); and, it was brought into discussion in management by Eisenhardt (1989).

Even though a formalisation of a proposal of the theory occurred relatively recently, the constructs underlying the agency dilemma are universal to human relations (Boss and Phillips, 2016; Harris et al., 2013). Consequently, much can be discovered in various literature genres about mechanisms that have been used to help control the work of agents on behalf of their principals. The origin of wages is an example of a control mechanism that has been used throughout history.

2.2 *Theory of incentives*

Much like the constructs that form the basis for the agency dilemma, the constructs that form the basis for a theory of incentives are ever-present. Even the etymology of one of the most basic and common terms used, salary, dates back thousands of years. In the English language, the use of the word *salary* dates back to the 1500s, where it was used in reference to the pay of the priesthood (Morrish, 2012). The etymology of the word *salary* goes back even further though, and it has its roots in the Latin word *salarium* and is ultimately derived from the root word *sal*. The first known use of the word *salary* was in Roman times, where soldiers were paid part of their wages in salt, which was considered a valuable spice and used in commercial exchanges at the time (Fields and Brógáin, 2011).

The theory of incentives builds upon the agency dilemma and addresses agent remuneration techniques (Frank and Obloj, 2014). The theory of incentives differs from the economic theory which places people in transaction-based roles, where one person sells services to the other at market price, representing transaction costs (Müller and Schmitz, 2016). Economic theory does not sufficiently define the employment relationship due to unknown factors regarding the business of the firm and the needs of the principal. Firms adapt production to the needs of the market, and adaptation creates unknown future requirements on the work needed from an agent. It is this unpredictable nature of the work that makes it advantageous for the principal to offer wage and incentive-based remuneration to the agent (Kolb, 2012). This allows the principal to create a longer standing employment relationship.

The formation of a theory of incentives was based on remuneration for piece-rate and profit-sharing contracts (Bose et al., 2010; Neilson and Stowe, 2010). The piece-rate incentive structure dates back to the formation of guilds, with documented examples in craft areas such as tobacco and textiles (Chand, 2012; Stanfors et al., 2014). The use of piece-rate compensation carries forward to today; Chand's (2012) description of its use in the garment industry in Fiji is a modern day example. Babbage (2015) put forward the need to be able to measure productivity in a piece-rate remuneration setting, and he later espoused two general principles for the system. The first principle being that remuneration should be based on the profitability of the firm. The second principle is that there should be more incentive for the agent to invest in improving the firm compared to any other advantage that an agent may be able to find if another course were pursued.

The written work of Smith (2014) describes incentives in use in Europe after the fall of the Roman Empire, and this is evidence of the express use of incentives in the context of the agency-dilemma that dates back centuries. Smith's (2014) work on incentives was built upon by Babbage (2015) in the 1800s, addressing the need to be able to precisely measure performance output for the purposes of remunerating workers in a fair and equitable manner. "However, Barnard... is the one who can probably be credited with the first attempt to define a general theory of incentives in management." he described the firm as a cooperative system where the duties of executives (principals) include the responsibility to provide remuneration and incentives that ensure "the willingness of persons to contribute their individual efforts to the cooperative system." [Laffont and Martimort, (2002), pp.11–12]. Barnard (1948) also referred to establishing proper and motivating incentives as being one of the more pronounced examples of executive failure (Laffont and Martimort, 2002). Barnard (1948) is the individual who can be regarded as formally expanding the realm of remuneration and incentives from monetary forms into non-monetary forms. It was his exposure to the development of a system of pensions and insurance in the late 1800s and early 1900s that initiated the inclusion of non-monetary forms into the theory of incentives.

2.3 Social exchange theory

SET states that social exchanges are a process of exchanges between parties that are fundamentally intangible in nature, or in other words they cannot be easily quantified in economic terms (Braithwaite and Schrodt, 2015). It starts with one party furnishing assistance that another party needs or desires, and the acceptance of the assistance causes a social perception of indebtedness.

The obligation to repay a benefit has long been noted by observers of human interaction. Democritus, for one, offered the following advice in the fourth century B.C.: "Accept favors in the foreknowledge that you will have to give a greater return for them." Four centuries later the Roman Seneca observed that "He who receives a benefit with gratitude, repays the first installment on his debt." [Gergen et al., (1980), p.3].

In a social exchange, accepting assistance obligates an individual to repay at a future point in time in an undetermined amount (Braithwaite and Schrodt, 2015). However, individuals normally concern themselves with the rule of reciprocity whereby there is a desire to balance inputs and outputs between persons and to stay out of debt with each other in social interactions (Thomas and Iding, 2012). In a social exchange, a psychological contract is developed that includes the use of a sense of quid-pro-quo on promises of assistance in exchange for promises of productivity (Lambert, 2011).

The economic implications of social exchanges are not a new concept. The roots of this concept have their watersheds in the works of individuals like Marcel Mauss, Karl Marx, and B.F. Skinner (Gergen et al., 1980). The origin of a SET, rooted in the interplay of economic and social interactions, was first articulated by Weber (1947) and subsequently refined by Blau (1986) (originally published in 1964). Even though Blau (1986) builds upon Weber's (1947) work, he contributed substantially to the economic concepts of social exchange. The latter work by Gergen et al. (1980) is an effort to unify prior research and literature into the theory of social exchange, in which they reemphasised the process of indebtedness and equity in social exchanges that can be coupled with economic conditions.

In a social exchange process related to total rewards, the economic value of the exchange of health and welfare benefits for labour is dependent upon the perception of the utility of the benefits. Utility means the “specific and concrete, real or imagined, advantages...or means for present or future use as they are estimated” (Weber, 1947). In this exchange process, the employer has knowledge of the real costs of the benefits, but the employee has only the perception of value derived from an estimate of utility that they evaluate on their own. This creates an imbalance or asymmetry of information. If the employer can derive greater economic value out of the increased productivity from the employee, then the information asymmetry yields an advantage to the employer (Lambert, 2011). However, if the employee can derive greater economic value out of the benefits compared to the production they provide the employer, then the employee has the advantage.

In the case of employees depending on companies to provide needed and vital benefits, under the governance of social exchange, the company extracts the ability to make demands on the employee (Matiaske, 2013). The employee is left in a position of feeling obliged to repay the debt to the degree that utility and value are perceived. If the health and welfare benefits are perceived as highly valuable and useful, then the feeling of obligation on the part of the employee is high. If the health and welfare benefits are perceived as holding less value, then the feeling of obligation is correspondingly lower.

Building and expanding upon the body of work around SET, researchers and scholars have sought to express similar constructs related to organisational commitment. A full articulation of an organisational commitment theory has not yet been developed. As early as 1968, Lyman Porter described organisational commitment as the investment by employees of high levels of effort above and beyond what is minimally required by their position (Buchanan, 1974). It was also noted that employees desired to remain with an organisation in order to achieve its goals and objectives. Subsequent scholars expanded the definition of organisational commitment. Kantor (1968) emphasised loyalty to the organisation. Sheldon (1971) emphasised the intent of individuals to work toward achievement of organisational goals. The definition of organisational commitment was expanded further in the early 1970s by indicating that it is a desire to remain with an organisation despite the opportunity of betterment elsewhere (Singh et al., 2008). This early work on organisational commitment leveraged the concepts of a psychological bond, which stemmed from the research in SET.

Further definition around organisational commitment was fostered by research conducted by Buchanan (1974) where he put forward a formal three-part definition. Organisational commitment consists of identification, involvement, and loyalty. Schein (1980) viewed organisational commitment as a component of organisational effectiveness. As such, Scholl (1981) identified organisational commitment as being something that should be fostered and developed in employees and managers alike. Continued research through the 1980s and early 1990s by individuals such as Caldwell et al. (1990) emphasised the value of building organisational commitment.

The research on organisational commitment identifies characteristics of commitment in employees and their importance to organisations (Somers, 2010). These characteristics can be measured, surveyed, and reported against; however, generation and development of organisational commitment continues to be rooted in psychology (Thomas and Iding, 2012). The development and generation of organisational commitment in employees also continues to be of significant value and desire to organisations who want to foster

employee retention, dedication, devotion, and investment of discretionary effort toward the achievement of their organisational goals (Somers, 2010). The commitment of an employee to an organisation involves affective attachment and an active evaluation of perceived costs, reciprocal benefits, and a generated sense of obligation on behalf of the employee. Being rooted in the generation of a sense of affective obligation, organisational commitment builds upon SET.

More recent research has had the effect of accumulating knowledge that verifies the axioms of SET both from an empirical and qualitative standpoint (Harris et al., 2013). Research studies have extended the use of SET into varying disciplines; for example, a study conducted by Gould-Williams and Davies (2005) tested the effects of SET between managers and employees in order to empirically demonstrate the ability to predict the effects of human resources management practices on employee outcomes. Nakonezny and Denton (2008) utilised the framework of SET to explain the lifecycle of marital relationships. Zhang and Jia (2010) used the SET to empirically establish linkages between corporate entrepreneurship and high-performance human resources practices. Another example in the UK, Buch et al. (2014) used both social and economic exchange theories to predict the level of work-effort put forth by workers.

3 The study

This research was conducted from November 2015 to February 2016 and utilised a qualitative case study design. Creswell (2014) observes that case studies are best suited to investigate the essence of experiences related to a specific program from the perspective of the participants. The use of a case study method allowed the researchers to engage a small number of participants and explore thoughts, feelings, and emotions in depth. All participation in the research was voluntary and established ethical guidelines were followed. According to Patton (2015), there are six types of questions that can be asked on any topic in qualitative research: experience, opinion, feeling, knowledge, sensory, and demographic. The interviews for this research included questions on all but sensory and demographic information.

3.1 Case selection and description

A retail organisation engaged in the sale of furniture, appliances, and electronics was the target for research. The case company was founded in the 1980s from a core set of 16 stores and for 20 years grew primarily through acquisition. The company underwent two key acquisitions, one in the late 1990s of a competitor that operated approximately 1,400 stores, and another competitor in the early 2000s that operated approximately 800 stores. The case company was privately held until the middle 1990s and has been a publicly traded company since that time.

During the research study, the first author was employed by the case company as a senior director in the organisation's human resources (HR) department. It was observed that the company utilised TRS in a targeted manner, deploying them only to executives in the organisation (VP, SVP, and EVP). The company had not used TRS in any other managerial level at any point in its history. This presented a unique case study opportunity to explore employee thoughts and feelings about benefits/rewards in their

current state, and then to deploy TRS and explore employee thoughts and feelings again in order to discern any thematic changes.

The organisation offered benefits/rewards in each of the US Bureau of Labour Standard's five categories:

- paid leave: vacation, holiday, sick, personal.
- supplemental pay: overtime and premium, shift differentials, non-production bonuses.
- insurance: life, health, short-term disability, long-term disability.
- retirement and savings: defined benefit (not offered by the case organisation), defined contributions.
- legally required benefits: social security, medicare, federal unemployment insurance, state unemployment insurance, and workers' compensation.

The ability to conveniently access a population that had no exposure to TRS at an organisation that offered a full array of benefits/rewards made the selection of the case organisation ideal for this qualitative case study. Again, in order to study changes in perceptions of participants over a period of time, it was necessary to focus on a population that had not previously received TRS. In the target organisation, TRS had only been used at executive levels but was seriously considering the inclusion of Directors for future distribution of TRS within the next six months. This provided a convenient period of time for the researchers to conduct the study. This unique circumstance also defined the criterion for participant selection: the participant population needed to be Directors and Senior Directors who had no prior experience with TRS.

In order to identify and describe changes in employee perceptions and felt-obligations, a sample needed to be taken prior to the TRS implementation and another one after it. The target organisation further limited the time criterion because they generated their TRS in the first 45 days of their fiscal year, with the TRS reflecting a summary for the prior year. The target organisation's fiscal year was aligned with the calendar year. Therefore, it was necessary to conduct the first round of interviews and focus groups in the fourth quarter of the year, and then wait for the organisation to generate the TRS for the participants. Subsequently, in the first quarter of the following year, the second round of interviews and focus groups were conducted. For all participants who finished the study, the time elapsed from first round to second round interviews and focus groups was between 90 and 100 days. The ten-day range was necessitated by scheduling requirements for the researcher to conduct interviews and focus groups. For all participants who finished the study, the time that elapsed from receiving their TRS to second round interviews and focus groups was no more than 20 days.

The target population, as shown in Table 1, totalled to 80 people. There were 54 directors and 26 senior directors that could be invited to participate. All 80 were invited to participate in the research. The research was conducted in two rounds: one prior to receiving TRS, and a second after receiving TRS. Round one had 12 participants, six senior director, and six director. Round two had six participants, four senior director, and two directors. The research was conducted from October through February, which is

during the busiest months for a retail company; therefore, non-response and drop-off rates were expected to be high.

Table 1 Research participant demographics

	Target population	Invited target population	Number of participants	
			Round 1	Round 2
Director	54	54	6	2
Senior director	26	26	6	4
Total	80	80	12	6

Of the target/invited population, 15% participated in round one and 50% of the round one participants finished the research and participated in round two.

Table 2 The coding scheme

Code	Description
P: Cost	Cost: references made by participants to the costs of rewards programs.
P: Dissatisfaction	Dissatisfaction: references made by participants regarding any dissatisfaction that they felt with the rewards programs.
P: Satisfaction	Satisfaction: references made by participants regarding any satisfaction that they felt with the rewards programs.
P: Gratitude	Gratitude: references made by participants where they felt grateful and/or thankful for the rewards programs.
P: Anger	Anger: references made by participants where they felt anger as a result of the rewards programs.
P: Fear	Fear: references made by participants where they felt fear and/or anxiety as a result of rewards programs.
P: Pessimism	Pessimism: references made by participants where they expressed negativity and pessimism prompted by the rewards programs.
P: Ambivalence	Ambivalence: references made by participants where they felt both positive and negative feelings but were unable to make a choice, indicating conflict.
FO: SET compulsion	SET compulsion: statements made by participants that reflected the presence of the operation of SET which made them feel compelled to return a felt-indebtedness as a result of the content of the rewards programs.
FO: SET independence	SET independence: statements made by participants that reflected the absence of the operation of SET which in contrary made them feel independent toward their employer as a result of the rewards programs.
FO: Compensatory	Compensatory: statements made by participants that indicated that they view total rewards as a purely economic or compensatory exchange for services rendered.
FO: SET change	SET change: statements made by participants that reflected the presence of the operation of SET which made them feel compelled to return a felt-indebtedness as a result of a change in the rewards program.

4 Data analysis

That data was organised and prepared for analysis using computer-aided qualitative data analysis software (CAQDAS). Specifically, the qualitative data analysis (QDA) miner lite open-source program was used to assist in data organisation, management, sorting, and coding. The data was reviewed and then coded. Thematic coding was used with each participant's response in order to sort and categorise the data.

Table 2 shows the coding scheme that was derived predominantly from the reading of the interview notes and transcripts. Coding was structured based on the research questions.

The first research question focused on employees' perceptions; therefore, codes were prefixed with the letter 'P'. The second research question focused on felt-obligation; therefore, codes were prefixed with the letters 'FO'. The second research question focused on felt-obligation; therefore, codes were prefixed with the letters 'FO'. This additional theme of 'SET change' was developed organically in the examination of the data from the post-statement, second round, interview transcripts. The discovery of this theme was from an examination of data that did not seem to fit the prevalent or expected patterns (Patton, 2015).

4.1 *Theme 1: cost details are helpful*

Comments related to costs of total rewards were more prevalent among participants after receiving the TRS. Comparing round one and round two comments on cost, the clearest difference is in the nature of the comments. Pre-statement, round one, comments by participants contained evidence of a general sense of costs, for example, 'There is a lot of cost to the organisation above and beyond just salary' (P3). This statement reflects a sense of costs, but it also reflects a lack of specificity. Contrasted with post-statement comments by participants, which contained evidence of a specific knowledge of the cost components:

"To be able to look at it and see your contribution versus the organization. You know, it gives you a better perspective. I don't really know what the competitive market is in that space, but it gives you an idea what you're paying versus what the company is paying (P5)."

"Yeah, I think I can describe the depth of them [benefits] more. And, it's helpful just to have a quick snapshot reference as to what each of those components are and the costs associated with them (P7)."

"I do think seeing both the employee and employers' contributions side by side helped my perception there a little bit (P9)."

"Well, now I know. I can see the breakdown of the different buckets. You know, not just what you get paid, it's the other stuff too. That's helpful (P10)."

Employee perceptions of costs are important to the operation of SET, and specifically to generating a sense of indebtedness (Matiaske, 2013; Thomas and Iding, 2012). "The greater the perceived need for a resource, the greater its reward value when received and the greater its cost when given up" [Gergen et al., (1980), p.6]. The TRS facilitated a move from generalised to specific knowledge relative to employer costs. The needs of the employee and the subsequent value of the rewards remained a function of employee perception relative to their own personal experiences and circumstances.

4.2 Theme 2: feelings of dissatisfaction declined

Feelings of dissatisfaction were evident in the first round of interviews and focus group. The following participant comments represent dissatisfaction with various element of the total rewards package.

“Um, I think they are slightly below average. I think other companies have better compensation and benefits programs (P3).”

“I don’t feel like the company is really making an extra effort, you know, they don’t want to lose people in the organization. You know, I feel like the company is really, you know, hitting us below the belt and really not giving us what is compatible (P5).”

“But, overall, I still feel like just cost for medical and some of those benefits are still a little bit higher when compared to other places (P9).”

“I can’t help but have that sinking feeling of, ‘this is what we could be making, but I know that I’m not’ (P10).”

The absence of commentary that reflected dissatisfaction by the participants in the second round of interview/focus group is noteworthy. There were no discernable comments that indicated a continuing tone of dissatisfaction with health benefits from the participants in the second round.

Dissatisfaction is a hindrance to the functioning of social exchange, and the removal of items that dissatisfy the participants helps to promote a more favourable condition for social exchange to function (Lambert, 2011). Items that dissatisfy are psychological costs to the recipient, and potentially real costs in the case of unplanned healthcare expenses, whereas satisfiers are rewards. The recipient’s perception of costs and rewards governs the felt-obligation and operation of reciprocity in a social exchange (DeLamater and Ward, 2013).

Additionally, items that dissatisfy can create wariness, which is a general cautiousness that stems from a fear of exploitation (Shore et al., 2009). Wariness causes participants to adopt behaviours to protect themselves, where wary people have lowered expectations from a relationship. Therefore, wary individuals expect less from others and they feel less obligated to contribute in return. In this way, items that dissatisfy hinder reciprocation. Since reciprocation is a critical element to establishing trust and creating an on-going positive exchange, items that dissatisfy work against the employer and the employee in the context of the social exchange.

4.3 Theme 3: feelings of satisfaction increased

Feelings of satisfaction about the rewards and benefits provided were evident in both first and second rounds of interviews and focus groups. In the second round of interviews/focus group, statements indicating satisfaction predominated and supplanted statements of dissatisfaction. The following statement was made by P5 in the first round of interviews:

“I don’t feel like the company is really making an extra effort, you know, they don’t want to lose people in the organization. You know, I feel like the company is really, you know, hitting us below the belt and really not giving us what is compatible (P5).”

In the second round of interview, P5 made this contrasting statement indicating an improved level of satisfaction after receiving the TRS.

“Um, I would say more favorable than our original conversation because I see what they are contributing versus before I really didn’t know...So, um, when you see that, I think it makes you feel a little bit better. More favorable (P5).”

While P7 made no contrasting statements in the first round, P7 did make affirming statements indicating satisfaction and positivity in regards to total rewards:

“I feel like the total package is competitive. Having it all together is reassuring, and it created positive feelings from that standpoint (P7).”

P9 made the following comment in the first round focus group:

“But, overall, I still feel like just cost for medical and some of those benefits are still a little bit higher when compared to other places (P9).”

Subsequently, in the second round focus group, P9 made the following comment, indicating an improvement in perceived satisfaction about the insurance portion of the total rewards:

“I think it’s um, if anything it’s made me feel a little more positive towards the, um, you know, seeing the insurance component, it gave me a better realisation of what [the company] is contributing... I would say that has improved my perception of the total rewards (P9).”

In the first round of interviews, P10 was focused on the bonus/incentive pay portion of the total rewards package and communicated a sense of disappointment:

“I can’t help but have that sinking feeling of, ‘this is what we could be making, but I know that I’m not’ (P10).”

Contrasted with the second round of interviews, P10 broadened his/her view and made more satisfactory statements related to the total benefits package:

“Pulling it all together is invaluable... I think that, I feel good about them [benefits] (P10).”

Of particular interest and note is that the participants used the term *value* in the post-statement interviews and focused group. The perception of *value* from the participant toward the provider of benefits is a key construct in SET. In SET, when a provider supplies valuable services it implicitly obligates the recipient to repay (Matiaske, 2013). In operation, SET would say that improved perceptions of satisfaction from the benefits provided by the employer would generate an appropriate improvement in the felt-obligation to repay on the part of the employee.

4.4 Theme 4: feelings about market competitiveness improved

Participant feelings about the market competitiveness of the rewards and benefits provider by their employer seemed to improve from round one to round two of the research. This participant’s comment in round one of the research indicated a sense of being average:

“Um, those I uh, like I said, I think they are average. So, I’m not as happy with that aspect [benefits and rewards] of the company as I’m with other parts of the company (P3).”

In round two of the research, the same participant expressed what seemed to be a new opinion about rewards and benefits, viewing them as a bonus:

“We are an at-work or an at-will state I think so there is no reason that they should have to give you should they no longer need your services. That is the way I look at it, um, any and every reward on top of that, whether it’s health insurance or any kind of incentive compensation or flexible spending account or HSA or anything like that is a bonus (P3).”

In the first round interviews, this participant describes the benefits as being *in-line*:

“I would say that the benefits are just in-line. Uh, I wouldn’t, I don’t feel that the organization has given us so much more than in a similar role in a different organization would probably have very similar benefits on average (P5).”

In the second round interviews, the same participant seemed to have an improved perception of the rewards package:

“To be able to look at it [TRS] and see your contribution versus the organisation. You know, it gives you a better perspective (P5).”

Average and *adequate* is how this participant described their benefits and rewards package in the first round focus group:

“The first thing that came to mind to me, honestly, is average and adequate. We have coverage, and I think it’s average (P7).”

In the second round focus group, the same participant used the words *pretty competitive* to describe the same benefits and rewards:

“I think for the most part, [the company] is competitive in what they offer to their employees. In terms of the base salary, the bonus plan, the long term incentive plan, insurance, and the 401K. I mean, I think that’s pretty competitive within the industry. The percentages may be a little different, but the components seem to be in line with what everybody else offers (P7).”

Perceptions of market-competitiveness of total rewards generate a sense of fairness or un-fairness on the part of participants. In the comments from the participants, words such as *adequate*, *competitive*, *in-line*, and *average* were used. From the literature on social exchange, the need to determine rewards versus costs is incumbent upon the recipient in any situation (Matiaske, 2013). There are multiple variables with multiple rewards and costs attached, and even though some of the components are specified in terms of economic costs (e.g., cost of medical coverage) the recipient is still placed in a situation where they must weigh the value of the total rewards package against what they would view as fair in the marketplace. Each variable may advance or recede the value proposition and sense of obligation to reciprocate on the part of the recipient (DeLamater and Ward, 2013). Through the interactions with the participants, it was observed that each participant was going through a thought process in order to derive an opinion of market competitiveness, and none of the participants referenced their physical TRS when answering the question. The evaluative thought process of the participants supports the belief that the sense of market competitiveness is a derived evaluation of rewards and costs, which would enable the functioning of the SET and specifically the felt-need to reciprocate in-kind on behalf of the recipients (Lambert, 2011).

4.5 Theme 5: employer-provided benefits contribute to being compelled to deliver good performance

This theme was evident in the second round of interviews and focus group; it was not evident in the first round of research. The theme centered around participant desires to demonstrate improved performance as an outcome of having received the TRS and viewing the summary of the company-provided benefits and rewards. These two participant comments related specifically to incentive bonus that was available to them:

“To a certain extent, we drive the operations of the company. We don’t drive it [performance] as much as some other people, but we do have a vested interest. So, it [TRS] motivated me, if anything (P7).”

“So, there’s that motivation, and I think, you know, if we had clear visibility to the results, and we all get on the same page, we could increase that motivation (P8).”

“I would agree to the extent that there’s an inspirational or motivational element to get to what that [bonus] could be (P9).”

This participant comment reflects a sense of obligation to ensure contribution levels are worthy of the total rewards being provided:

“Because you know that you look at the total package and you look at the total rewards that you’re getting. You want to make sure that you’re contributing, you know, to that degree. So, yeah, I would think that there’s a correlation there... It made me think, okay, let me refocus, let me make sure that I’m contributing what they same I’m worth. I want to make sure I’m contributing that (P10).”

The social exchange involves one party doing something on behalf of another party that generates a general sense of obligation in the latter (Shore et al., 2009). Unlike an economic exchange in a system of compensation and incentives, in social exchange, the sense of future obligation is not specific (Thomas and Iding, 2012). Therefore, “the nature of the return cannot be bargained about but must be left to the discretion of the one who makes it” [Blau, (1986), p.93]. It is only the social exchange that generates feelings of obligation and a compulsion to repay on the part of the recipient.

In alignment with the social exchange, the felt-obligation regarding future value-contribution of the participants is a judgment that the participants need to make. It was clear through the interviews and focus group that the participants were attempting to gauge their contributions in relation to the rewards that they had been provided by the employer. This thought process was clearer and more prevalent after the use of the TRS. The nature of total rewards being rooted greatly in a system of welfare and insurance establishes potential future value to the participants that is unquantifiable to them. This further aligns with social exchange inasmuch as “the specific benefits exchanges are sometimes primarily valued as symbols of the supportiveness and friendliness they express, and it is the exchange of underlying mutual support that is the main concern of the participants” [Blau, (1986) p.95].

4.6 Theme 6: understanding of employer investment became more comprehensive

One of the designed purposes of the TRS used was to communicate economic value of the rewards and benefits provided to the participants by the company. The TRS outlined the employee and employer costs in a side-by-side manner. These participant comments reflect a change in understanding of the economic investments made by the employer on the participants' behalf:

"I mean I can see, to, you know look at everything on a couple, you know pieces of paper. To be able to look at it and see your contribution versus the organisation. You know, it gives you a better perspective. I don't really know what the competitive market is in that space, but it gives you an idea what you're paying versus what the company is paying (P5)."

"And, it's helpful just to have a quick snapshot reference as to what each of those components are and the costs associated with them (P8)."

"I do think seeing both the employee and employers contributions side by side helped my perception there a little bit. So, I guess I would say that has improved my perception of the total rewards (P9)."

"Wow, it's not just base, you think about the benefits you are getting, you think about some of the other things that come into play here. It is a pretty valuable package that you're receiving (P10)."

The comments above and this comment are indicative of the shift in thinking: "I think that for me, the piece that changed a little bit is understanding what the company pays for my insurance. Because in the past they never told you how much the company contributes toward that piece" (P9).

In the second round interviews, the cost of benefits was associated with compensation by the employer because the TRS quantified the spend associated with providing benefits and provided a total cost summary for all benefits and rewards provided.

This would indicate that, to the extent that TRS clearly quantify the monetary value of benefits provided to the participant, they function to embolden the economic exchange between the organisation and the individual. In these conditions, the functioning of the theory of incentives is operative over social exchange (Song et al., 2009). Economic exchange is different from a social exchange where the value of the exchange is difficult to quantify and therefore leaves one with a sense of indebtedness to the other. The economic exchange is based on the trading of services, in exchange for compensation, that is perceived to be equal to the services provided (Kolb, 2012). In the case where TRS can communicate either potential future value or indistinct future value, social exchange can there-again operate (Thomas and Iding, 2012).

4.7 Theme 7: TRSs highlight employer change advocacy

This theme indicated a feeling from the participants of a sense of compulsion to repay an indebtedness to the organisation and an active reciprocity bond based on SET. The

feeling was based on the knowledge that the participants saw positive changes in their rewards *and culture* that were attributed to the actions of the organisation. These participant comments relating to change advocacy only occurred round two of the research, and in all cases where change-comments were made, they were accompanied by a positive perception:

“Like I said they’ve gotten a lot better. So, I try to keep that in perspective of where were we when I started and where are we now. I keep that in mind as to they’re making improvements over the years (P3).”

“I look forward to open enrolment to see what changes they’re going to make. Um, and so I’m encouraged by that (P3).”

“It seems like [the] organisation has made some efforts over the past few years to try and find the right blend or mix or a little bit more of some new benefits versus a little bit less of some other benefits... some of the messaging that I have seen around some of the changes has been you know, ‘we’re listening to you, and we’re making some changes’ things to that nature. So, it seems like there’s some concerted effort (P5).”

“The positive sign is that I think they re-evaluated it and made adjustments (P7).”

“So, I think there’s a positive thing that I took away, is that, hey, they’re looking at this making positive changes for us as the years go on. That does make me feel better about the company. That they’re looking at, and making adjustments that benefit us (P8).”

“Even the bonus, from when I started as a Director until now, has gone up...So, there’s that motivation, and I think, you know, if we had clear visibility to the results, and we all get on the same page, we could increase that motivation (P9).”

In post-statement interviews, positive changes were perceived by the participants as the organisation advocating on their behalf. The perception of the organisation advocating for them generated a sense of felt-obligation on the part of the participants, and it demonstrated an active bond of reciprocity which is a reflection of the operative of social exchange. Change advocacy, on behalf of the participants by the organisation, taps into the basic mechanisms of social exchange, and it leverages what Matiaske (2013) effectively describes as a universal human truth: reciprocation is not a question that requires depth of thought or intense deliberation; society has embedded the notion of reciprocity in culture. Using TRS to communicate changes that the organisation has enacted on behalf of the participants potentially opens up an active social exchange process. Change-advocacy on behalf of participants creates a dependency by the recipients rooted in the sense of obligation to repay, which is the obligation of reciprocity (Lambert, 2011).

5 Discussion

From round one to round two of the interviews and focus group, the content of knowledge statements regarding costs changed. In round one, prior to the distribution of TRS, participants made general statements about the costs of benefits and rewards. In round two, after the distribution of TRS, participants made statements that demonstrated specific knowledge of the cost components of the benefits and rewards. The salient point

of consideration is whether or not the shift from general knowledge to specific knowledge has an effect on the operation of the social exchange, more exactly on the feeling of indebtedness by the recipients.

In the work of Gergen et al. (1980) on the theory of indebtedness, they present a framework for understanding the perceived magnitude of indebtedness and how it impacts a recipient's felt-obligation to repay. The sources of the felt-obligation and the magnitude of indebtedness are four-fold: motives of the provider, costs incurred by the provider and the recipient, which party caused the help, and social pressures. While one of the four sources is related to costs, the other three are related to social aspects of the exchange between provider and recipient.

From round one to round two, there was a discernible shift in perception, on behalf of the participants, from comments that expressed dissatisfaction to comments that expressed satisfaction. Between the two rounds of interviews and focus groups, the employer did make one substantial change to their benefits plan where they increased the matching contribution of their retirement plan. Comments indicating satisfaction were most often surrounding this change in the benefit plan. This change connects to the sources of felt-obligation and indebtedness in the area of costs incurred by the provider (Matiaske, 2013). The increased costs of the change to the employer were defined in the TRS; therefore, the participants were able to discern the magnitude of the costs. The perception of indebtedness on the part of the recipients though is also impacted by their discernment of the net benefit derived from the exchange. Comments from the participants indicated that they felt that the increase in matching contribution to retirement had a high net benefit to them, also indicating the operation of social exchange and felt-obligation resulting from a sense of indebtedness.

From round one to round two of the interviews and focus groups, an element of dissatisfaction with incentive plans became clearer for the participants. As other items of dissatisfaction were addressed by the new information provided in the TRS, the remaining items of dissatisfaction (incentive plans) became the sole focus of the negative feeling. The comments from participants connected their feelings with an increase in specific knowledge regarding their missed-opportunity for incentive and their lack of achievement of those targets. Also evident in the comments by the participants was a feeling of an inability to control or influence the achievement of the targets.

An antecedent of social exchange is the presence of dependence of the participants on the employer, stemming from the receipt of rewards which in-turn generates indebtedness (Matiaske, 2013). In round one of the research, prior to the use of TRS, the participants made comments that clearly indicated a sense of independence from the employer in regards to rewards and benefits, which would logically result in the absence of a social exchange process. Independence is contrary to dependence and indebtedness. After the distribution of the TRS, in the second round of the research, comments shifted to satisfaction and gratitude and gave no further indication of perpetuating a sense to achieve independence. In the second round, no comments of independence were made by any of the participants. The disappearance of feelings of independence would lend itself to the operation of a social exchange process.

In the second round of interviews and focus groups, participants made comments related to change advocacy. The participants were keenly aware of changes that the employer had made in the rewards and benefits that positively impacted them, and those changes were seen as the employer advocating on their behalf. Change advocacy relates

to the motives of the provider in SET (Matiaske, 2013). The recipient feels indebted to the provider when it is believed that the provider was more concerned about recipient's welfare than that of the provider. The participants clearly expressed an appreciation for changes made to their benefits and rewards by their employer. This sense of appreciation for changes provides additional evidence for the operation of the social exchange.

6 Conclusions

TRSs provide a vehicle for establishing the magnitude of the costs incurred by the employer on behalf of the employee (Gergen et al., 1980). The magnitude of the costs is one of the four areas that function as antecedents to the generation of a social exchange and subsequent indebtedness to the provider. The construct of TRS function to provide this view to participants (Schneier and Muzumdar, 2014). In this regard, it seems apparent that a recommended course of action is to use TRS as a communication vehicle between employer and employee in order to present costs of rewards and benefits.

TRSs can provide a vehicle for communication of changes that a provider/employer drives on behalf of its employees. Using TRS in this capacity enables the communication and establishment of employer motives and provides employees with a clear indication of the employer acting on their behalf. In the body of research related to SET, advocacy on behalf of employee welfare is a key component to generating a social exchange process and the development of a sense of felt-obligation to repay indebtedness (Gergen et al., 1980). With the advent of system generated TRS by leading providers of HCM systems, using TRS to communicate change advocacy is limited. These systems auto-generate TRS, and while the content of the statements is configurable, there is little opportunity for the employer to provide dynamic messaging to their employees. Employers could potentially maximise the value of the TRS by ensuring that they communicate messages about the changes that the employer has championed on behalf of the employees.

While the nature of this research study does not lend itself to generalisable empirical conclusions, the interplay between the characteristics observed leads to further empirical research. One area for future research would be a quantitative study regarding the degree to which the disclosure of specific cost information has an effect on recipient feelings of indebtedness. Specifying a future potential value, especially in areas difficult to quantify such as medical benefits, could yield the best of both an economic and a social exchange. The second area for future research would be a quantitative study that would examine the correlation between change advocacy and employee feelings of felt-obligation and indebtedness. This area is of particular interest coming out of this research study. If change advocacy would prove to correlate to SET obligation, it would set the stage for evolving the use of TRS. TRSs could become a useful platform for communicating changes that the organisation achieves on behalf of its employees. The third area for future research would be a quantitative study that would examine the correlation between types of rewards and benefits and the perceived value to employees. Performing this research using a conjoint analysis technique would enable one to discern which variables yield the most perceived value to participants. This in-turn could inform investment choices that employers make would make to their total rewards programs, thereby maximising value for both the employer and employee.

There is a very real sense from this research that the provision of health and welfare benefits is shifting from a social exchange to an economic exchange. The use of TRS

quantifies in real economic terms the value of the benefits that employers are providing. In so far as TRS facilitate economic quantification of health and welfare benefits, they are also helping to accelerate a shift from social exchange to economic exchange.

There are two compelling areas in a social exchange where TRSs appear to make an impact. First is in establishing the magnitude of the costs, and second is improving the participants' perceptions of the motivation of the provider. This research highlights a contrary point of view that the social exchange process can still operate in the context of rewards and benefits, and that TRS can play a role.

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