



Getting More for Less: Revolutionising the Reward “Asset”

Empowering Reward to Perform Better. Are We Making Reward “Work” Enough?

By James Markham

In a period of recession, most major companies look for new ways of selling or streamlining operations. Rarely, however do companies turn to improving the operational capability of the Reward function. Of course, everyone accepts that Reward is important, in particular the shape of that Reward (level of pay, benefits, allowances etc). Reward is, after all, the key “asset” which you exchange with your employees in order to secure their productivity. However, the effectiveness of actual Reward operations (administration, delivery, communication) is generally below the “radar screen” of senior management.

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The visible consequence in Europe of this perceived lack of importance is a relatively low level of investment in Reward operations compared to other business functions, particularly in technology. Reward operations are characterised by an ad hoc collection of technology point solutions, semi-manual processes and a general lack of workflow or system integration. Most company re-engineering projects omit any significant re-engineering of the Reward function.

Reward functions themselves are fairly accepting of this low level of technology and lack of process efficiency. This is not because the relevant technology is not available. The reasons are: because of the knowledge base of HR/Reward professionals; many of the costs of the inefficiencies arising are not borne by the Reward function but by the IT function or some other business function; and because the payroll and provider industry has commanded generous enough margins to be able to absorb some of the cost of the inefficient administrative practices in use, thus diminishing any business case for change.

We Need to Improve Reward Operations

In this article I will try to make the case that the current state of Reward operations is a significant business issue for most companies of any size. I believe that companies do not recognise the hidden costs they are incurring through their current Reward administration practices nor the potential for more control and more effectiveness with better technology. In the UK, a “perfect storm” of government initiatives has arisen to catalyse a substantially increased level of attention and investment to this area. However, even without this catalyst, there is a strong economic case for more investment.

In the following sections, I will set out why there is a value to improving this operational capability, why there is nevertheless a lack of investment, what seems to be driving up

attention levels, what a good solution would look like, and what we need to do to achieve it. I hope to show that Reward operations present some real opportunities in terms of cost reduction and value enhancement through investment in the right technology solutions.

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What Are the Operational Weaknesses of the Reward Function?

The operational challenge for the Reward function is to efficiently and compliantly assess employee reward eligibility arising from “status” (like job, location etc) and “inputs” (like hours, and shifts etc), together with the ongoing changes in eligibility arising from “events”, whether company-driven (like promotion, or change of work location), personal (like marriage or disability), regulatory (like new pension rules), or for other reasons, in order to generate the right file of data for the company’s payroll and benefit providers, and thus ensure the right reward allocation for each employee.

In addressing this operational challenge, the technology, process design and data architecture in place for most European companies are not providing some key capabilities:

- **Cost-effective Integration:** The data collection and aggregation required to perform expected Reward operations is substantial. However most integration is semi-manual, even in the form of transfer via spreadsheets. Different databases are held in different un-integratable point solutions. These arrangements are unnecessarily expensive and not fit for purpose. The cost is usually not visible on the Reward function balance sheet, because the required data collection and aggregation is often spread out amongst business units, the HR function, the payroll supplier and other third parties.
- **Employee Engagement:** Engagement is a big topic that can only be touched on here. However, it is certain that reward, which an employee does not value or is unaware of, is wasted reward. Much recent investment in Reward has been focussed on securing “engagement”. Success, however, has been limited. In contrast, over a similar timeframe, social and marketplace technologies like Facebook and Amazon have achieved very substantial levels of individual engagement because they have powerful underlying data management technology, which enables them to deliver engaging functionality.
- **Control:** Reward represents one of the largest cost items in a company and yet comprehensive access to data for tracking, analysis and decision support is lacking owing to inappropriate

data architecture, let alone adequate technology. The situation is poor within-country, and worse in regard to aggregation across countries. Equally, there is little ability to enforce common corporate reward policies because of the lack of integration across the various internal, payroll and provider solutions in use.

- **Adaptability:** Where companies have made investments to establish a solution with some or all of the above capabilities, that solution is typically designed only to meet the immediate problem – and thus is difficult to adapt as legislation, suppliers, and strategy change. The level of change in Reward is substantial enough that such investments can quickly become outdated.

So Why the Lack of Investment?

The fees and commissions collected by the benefits consulting, payroll and provider industries for distributing and administering the benefits they provide to companies dwarf the amount of money spent by companies administering their own rewards. These fees and commissions are of course in the end paid by the employee (or employer) via a lower benefit value. To date there has been limited pressure from client companies or incentive for the benefits industry to turn that money into investment to deliver better employer services or improve employee engagement. There are four company myths that dissipate any pressure for re-investment:

Myth 1: Improving Reward Administration Has No Real Business Value

The view that the effectiveness of reward administration has no real business value is reminiscent of views at the beginning of the 1990s regarding the value of SAP or Oracle software. In those days, the notion that managing company data using joined up software might deliver business benefit was not universally acknowledged. These days, we have plenty of evidence that, with the right reward management technology, a company can achieve more control, employee engagement and adaptability. Furthermore, end-to-end automation of the reward “supply chain” will substantially reduce the cost of reward distribution for employer, intermediary and provider alike.

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Myth 2: Employee Engagement is About “Front End” Design Not “Back End” Technology

Many companies see their key objective of securing more employee engagement as just a question of having an attractive employee portal. However, the social and marketplace technology companies have convincingly demonstrated that the route to powerful engagement is through the capabilities you acquire with powerful back-end data management technology.

Myth 3: Reward Management Technology is Only Needed for Flex

Flex has increased the need for Reward management technology. However, reward management is about efficient data aggregation, eligibility calculation and onward transmission to payroll and providers in respect of all reward elements, regardless of choice. An employee's base pay is typically enhanced with benefits, shift payments and allowances and may itself be varied during periods of sickness, maternity or other situations. Reward management is often quite fragmented, so the true extent and overall cost is often hidden.

Myth 4: Effective Administration is my Outsourcer's/Provider's Problem

Outsourcing does not eliminate the effects of under-investment in technology. Unless the outsourcer or provider has already invested in the kind of powerful, fully integratable data management technology required to collect and manage the data to be handled, then the client company must make arrangements to supply that data. Unless the client company has already invested in the requisite technology to produce that data, it will either incur the expense of generating that data using its available mix of semi-manual processes, or it will hand the problem over to its outsourcer to handle with its own mix of semi-manual processes. Either way, the company will end up paying in terms of price, quality, flexibility or in some other way.

Forces Driving Investment

Notwithstanding the myths that have been restricting investment in Reward operations, there are some growing drivers for change:

1. Changing Employee Expectations

Company employee portals are under increasing challenges from emerging social technology solutions. Yammer (the "Twitter-style" communications tool designed for corporates) has been driving companies to buy a corporate licence by building user volumes within the target company through direct marketing to

individual employees. Recognising the success, Microsoft has just paid (in June 2012) \$1.2 billion to buy this four-year-old start-up. These solutions have demonstrated that engagement is achieved not by colour and movement on the site but by the power of the technology to deliver desired functionality. In order to meet employee expectations, investment is required in data management technology that can support a wide range of employee services.

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2. Changing Market Structures and Government Interventions

In the UK, the government has taken steps to restrict the Life & Pension industry's ability to cross charge and has put pressure on their level of charges. Furthermore the UK government has introduced measures affecting employee pensions and payroll reporting which significantly increase the complexity of a company's Reward administration. These measures are triggering a shift in the structure of the market and establishing a case for increased investment in automation. Elsewhere in Europe, the forces for change seem to arise through the increasing political and economic pressure to integrate. Cross border integration is driving a need for more powerful reward data management technology, if only to enable enforcement of corporate policies and corporate reporting.

3. Current Benefits Trends

In some parts of Europe, the economic situation is leading to declining real wages. One form of a company response to such situations is to increase the use of non-cash rewards because of its ability to deliver more perceived value than the equivalent in cash. In other parts of Europe, non-cash allows the provision of more value to selected employees through reduced tax and with

less transparency to other staff. Handling these kinds of reward strategy in a cost effective way will require more investment in data management technology.

4. Increasing Reward Complexity

With a more global marketplace, more staff change, the need for more complex reward strategies, and the desire to drive up employee engagement, Reward administration is becoming more complex. Countries like Switzerland, Germany,

and Netherlands already have demanding eligibility management requirements. Without more investment in data management technology to handle this growing complexity, Reward will continue to consume more cost than it needs to.

What Does "Good" look like?

European Reward functions need to be re-engineered to strip out manual processes and introduce the right kind of "Reward Hub" data management technology. This is much more than implementing "point solution" technology for, say, Flex or Total Reward, which often exacerbate a company's data management challenges. There are four key features required in an effective Reward Hub:

- **Functionally rich user portal capability:** An effective user portal is required for employee engagement. However, achieving such a portal requires a powerful underlying data management engine with the capacity to support rich functionality through that portal.
- **Highly flexible system integration capability:** In benefits, where the level of technology sophistication in company systems and amongst providers varies widely, what is required is not just the capability to do true straight through processing but also the capability to provide,

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quickly and cost-effectively, any kind of interface to suit the file recipient and to vary that interface quickly and cost effectively when, say, the export schedule suddenly has to change.

- **Powerful complexity and workflow management:** An effective Reward hub requires a data management engine that can handle any kind of legislative or company policy complexity regarding how a benefit and benefit eligibility is calculated, and how that benefit is administered in terms of notifications, approvals etc.

- **Full Reporting Capability:** The technical issues to be addressed to achieve effective management reporting are challenging. However, the key requirement is to have all relevant data captured and accessible in structured databases, and capable of being retrieved in a variety of ways including export to other bespoke analysis tools. Compliance reporting, full audit and “employee data provision” (e.g., Total Reward Statements) are enabled by these same capabilities.

The overall experience a company should expect to get from an effective Reward Hub is the virtual elimination of reward administration. Once set up with relevant legislation and company policy, the system would be able to automatically import the data it needs from other company systems to assess eligibility (including data on events, such as promotion or marriage, which might influence eligibility), and then send the resulting “calculations” automatically to the local payroll and benefit provider in the format requested for processing into the final reward package. This technology is available.

How to Get to “Good”

The kind of change advocated in this article will require a complete change to most European companies’ perspectives on the way Reward data is handled. Both senior management and Reward professionals need to build their understanding of how technology, data and process work together in Reward, so they can not only select the right technology but also implement the process and organisational redesign required to ensure it works effectively. Reward technology cannot be dismissed as a “black box” which only “techies” need to understand.

For many companies, Reward administration is provided by intermediaries and providers. Those companies must ensure their selection favours suppliers who have made the technology investment to automate the whole reward “supply chain”: from point of recruitment or other employee “event” (promotion, personal change etc) at the client, through file transfer to the payroll and product providers, and back to the employee

in the form of an allocated reward element.

For larger companies the implementation of these changes may require a substantial change of roles and procedures within the company. Though not considered here, the Change Management challenge is likely to be significant.

In Conclusion: Reward Hubs Are Part of the Future

Reward Hub technology can be expected to deliver cost efficiency, more engaging portal functionality and better oversight of Reward trends and costs. Reward hubs will help European companies integrate operations more cost-effectively across multiple countries, improving the enforcement of company-wide benefit strategies, whilst enabling satisfaction of local legislative requirements.

The UK’s perfect storm is already driving significant investment by the Life & Pensions and Payroll industries, as well as requiring companies to review their Reward administration practices. Many UK companies will recognise this as an opportunity to cut costs and/or transfer costs to the payroll and benefit providers, whilst improving overall Reward operations.

Because of its unique data demands (e.g., multiple third party integration and unscheduled event driven data change) and for other reasons, the Reward function has been largely left out of the technology driven transformation of recent years which has reshaped other functions of business. Its time has come!

About the author

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Prior to starting SBC UK in 2005, James was a partner in the global HR consultancy Watson Wyatt, where he led their European e-HR and Flex Practice. He previously held senior roles within the HR and organisation change consultancy practices of PWC and KPMG. With over 30 years of experience in implementing employee benefits technology internationally, James is a frequent contributor on current industry issues in HR, reward, and technology (including Auto Enrolment) through speaking engagements, articles and publications.

About SBC Systems

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