



Going for Gold in the Productivity Olympics? Your Choices in Reward Administration are Business Critical!

By James Markham

In my previous article (ref: *TEBR July/August 2012 edition*), I argued that organisations are not paying enough attention to how the Reward relationship with their employees is being managed both by their own Reward functions and by the consultants, intermediaries and service/product providers which make up the Reward supply chain. I suggested that organisations which change to a more integrated approach to managing their employee Reward relationship, will not only find new routes to improved productivity but also more cost-effective ways of coping with the growing trend of European Governments to shift costs from national provision to employer/employee provision.

In that article, I set out:

- Why senior management need to pay attention to improving reward operations.
- Some of the current operational weaknesses of the Reward function.

- Some misapprehensions causing the current lack of investment in the Reward function.
- Some of the forces which are driving a need for a change of attitude and approach.
- A picture (the “Reward Hub”) of what “Good” looks like.
- Some brief thoughts on how to get to “Good”.

In this article, I would like to expand on my picture of what “Good” looks like and how European companies might try and get there.

A Summary View of the Reward Administration Challenge

Companies large and small tend to have a wide variety of financial and non-financial elements contributing to “what the employee gets out of the relationship”. This set of elements constitutes the Reward relationship. These elements are viewed by the employer in terms of what they do for the employee’s motivation and engagement with the

organisation, and thus by assumption productivity. Companies can be quite creative in terms of the reward elements they provide their employees, ranging from flexible hours, social programmes and learning opportunities to a wide variety of individual benefits available often on a “cafeteria” basis.

The inhibiting factor in company reward design has always been its efficient delivery to/access by employees. Most of the technical solutions currently sold to the Reward function to administer desired reward elements are unintegrated “point” solutions

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(e.g., pension admin, share schemes, flex, “TRS”, “voluntary benefits”, maternity, sick pay, holidays etc), each potentially valuable in its own right but collectively not joined up. The delivery costs for many reward elements are seen to outweigh their value thus restricting the opportunity to use reward design more strategically to manage employee motivation.

This situation is set to get more challenging in some countries, like the UK, where there has been significant experimentation with new reward concepts, and delivery costs over the last ten years have continued to rise. To make matters more difficult, Government continues to both mandate certain benefits and dictate the rules under which those benefits get distributed to the employee recipients. In the UK, in particular, this state of affairs has been brought to a critical point with a “perfect storm” of recent government initiatives which, inter alia, are increasing the complexity of reward administration, changing the economics of product supply, and forcing all employers for example to add pension auto-enrolment benefits to their reward relationship.

The Emerging Reward Hub Solution

If employers are to manage reward effectively in order to accommodate changing government policy and continue to maintain and enhance employee engagement, a new way of managing reward must emerge. The problem of rising delivery costs and lack of integration occurs in many areas of modern life. There are various types of solution, but the introduction of joined-up technology to reduce delivery costs and integrate across service elements is becoming widespread - except in Reward. Until recently, little attempt has been made to put in place an integrated portal (“Reward Hub”) providing a single location for all aspects of the “reward relationship” between organisation and employee.

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The Reward Hub concept is not a “one size fits all” solution, nor is it currently available as an “off the shelf” product. Organisations will need to make choices regarding the breadth and depth of capability they want to enable, but the direction of travel in the market is:

- Integrated supply of products relevant to the employee – selected by the employer as relevant reward elements in their reward strategy.
- Centralised, online provision of functionality of interest to the employee relating both to their work communication needs and their product needs – selected by the employer as

relevant to the reward strategy.

A Reward Hub is a technology platform with the breadth of capability to fulfil the ambition of a true reward management programme focussed on achieving full employee engagement. The objective of such a platform is to create a “go to” portal that employees want to use. The technical features of such a hub would be:

- Rich user functionality
- Powerful data management engine capable of legislatively compliant handling of all the rules, requirements, calculations, notifications and approvals, which make up the company’s reward relationship with its employees.
- Powerful integration capability with the Reward Supply chain, which brings in the products and services required.
- Full reporting functionality allowing participants (managers, staff, their agents, their suppliers) appropriate access to the data consistent with their needs and obligations.

Recognising a Good Reward Hub when you see one

A “layman’s picture” of a Reward Hub could be understood in part as a combination of Facebook and Amazon built for the workplace and serving the needs of the employee/employer Reward relationship. Whilst individual access would need to be role based and security controlled, the kind of services available to employer and employees (and the advisors and suppliers engaged by them in the Reward relationship) could be expected to include:

- Tracking and managing the total reward package including:
 - Any accumulated assets (workplace savings, pensions etc) which are part of the current reward relationship or have been imported from a previous employment relationship.
 - Health related services made available by the employer.
 - Other products provided by the employer to provide various forms of security (life insurance etc).
 - Any other benefits including leave.
- Enabling employee changes to their reward package to suit their needs (flexible, cafeteria style), if part of the company’s reward strategy.
- Making available relevant forms, reports and tax related notifications as appropriate both on an individual, group and company-wide basis.
- Providing a single place for making/reporting employees’ changes to personal circumstances including marriage, address change, name change and similar, with the option of automatically reviewing/amending those parts of their reward package which may be impacted by these changes.
- Presenting a marketplace of goods provided advantageously as part of the reward relationship.
- Supporting employee/employer/advisor/supplier communication and exchange in keeping with the workplace relationships desired and required.

What are the Choices of Supplier?

Reward hubs are currently in development, so only a few will

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present all possible service capabilities. Furthermore, most employers will not have the change management resources to absorb such a significant technology change in one step. Therefore, the key to choosing the right supplier is whether the supplier's organisation and underlying technology can support the development and addition of desired service capabilities in the future as the employer's strategy develops over time.

The market is moving to provide the following choices:

Choice One: Technology Providers delivering fully configurable "Reward Hub" Solutions to the Global/conglomerate marketplace

Some employers will want their own tailored "Reward hub", either because they operate multiple domestic units each with their own distinct requirements, or they want to operate European-wide or globally with a single platform that can incorporate both the international variations and the corporate requirements. Tailoring would of course show in the "front end" portal, but more substantially there would be tailoring of the data management engine to reflect particular workflow and reward eligibility needs. Additional tailoring would be required to accommodate full integration into the organisation's existing system/data architecture and "straight through processing" to the associated suppliers and consultants in the organisation's reward supply chain - with direct portal access for some or all of those third parties. These solutions are available now.

Choice Two: Product Providers Providing Standardised "free" Solutions

In some countries, companies will be able to take advantage of the emerging product provider hubs which may well be "free to use" – as costs can be based entirely on the cost of the products consumed (although those products will of course be priced to include the cost of distribution to the employee/employer). Product providers (particularly, life and pensions) carry much of the cost burden and profit earnings in the current Reward supply chain, and, for reasons I set out in my earlier paper, they are increasingly motivated to automate their part of the supply chain. In the absence of any alternative Reward hubs, they are building their own proprietary hubs, albeit with a recognition that they will need to carry third party and possibly competitor products. These Reward hubs will have a high level of standardisation, although in addition to product choice, some "front end" personalisation and provision of user access to the agents of the employer and employee (as well as to the employer and employee themselves) is likely to be possible.

In the USA, one result of the "Obamacare" initiative to drive all working Americans into a medical insurance programme is the emergence of these kinds of reward marketplace solutions for multiple employers. So far in the States they appear to be product provider led, although it seems likely that the intermediary consulting and advisor sector will get involved.

In the UK, these investments are also happening and provider hubs of one kind or another are being launched this year, 2012. The key differentiator appears to be whether the provider has limited themselves to putting an "integration skin" on top of pre-existing, and possibly quite manual, technology, in order to be fast to market, or whether they have introduced new technology into their infrastructure to put in place a true "end-to-end" solution for their clients. It is likely that only the latter approach will in the end achieve the required efficiency savings.

Choice Three: Intermediaries Providing Services and Standardised Multi-product solutions on a "fee for service" basis

Some employers desirous of an "off the shelf solution" but wanting to maintain product independence, will look to an intermediary to provide a standardised "marketplace" offering. There are a number of intermediaries starting to get involved – providing more or less integrated Reward solutions on a fee-for-service basis:

– **Flex Providers** are active in the UK and some other European countries (e.g., Spain, Sweden, Switzerland). Many are currently extending their flex solutions to accommodate a wider range of benefits and in particular address the need for pensions auto-enrolment in the UK market. Most have technology that is strong on "front end" screen design but weak in the kind of data management, work flow and system integration capability required for a true Reward hub.

– **Payroll Providers** are being driven to add more functionality to their Reward services to consolidate their market position in the current environment. Currently, their solutions are not seeking to be full Reward hubs, and indeed they are pushing back on the validity of the concept, perhaps because it treats payroll as simply one of many reward providers, which might seem to disadvantage their payroll business.

– **Employee Benefit Consultancies** have always had some involvement in Reward distribution (pension admin, flex, share scheme admin etc). They recognise that the emerging changes may impact their market. They are beginning to develop platform offerings that better integrate key elements of reward distribution. It is currently unclear how quickly

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these investments will move.

– **Broad-based Administration Outsourcers** are active both in buying up flex solution providers and exploring how to develop a true Reward hub offering with end-to-end automation. It is currently unclear how quickly these investments will move.

Given the economics of reward distribution, there will be an underlying market driver forcing suppliers of all types to consider moving to being able to offer a full palette of reward. This may be most demanding for the product providers and in particular the life and pension providers. Although they stand to gain the most initially from this market evolution, they would then be obliged to take on broad reward outsourcing services which they may not hold to be core to their business. There are a number of possible outcomes of this set of market forces so it would be unwise to predict the final result.

What Should Drive Choice?

Selecting a supplier that really has the appropriate end-to-end technology is critical. Most employers' Reward functions have allowed poor service and escalating costs (albeit usually transferred to the employee), on the basis that "reward administration" was not business critical. Modern day, integrated technology is the route to cutting these costs and improving service.

Another key issue concerns what needs to be automated. Reward processes have long been regarded as "quirky" and somehow outside of the normal set of business processes (finance, manufacturing, purchasing etc) which have already benefited from substantial end-to-end automation. The reason is that Reward needs substantial external integration to be effective. The employer needs automation that is not just "post payroll", but reaches into the organisation to establish end-to-end processing from point of data origination (e.g. point of employee hire) through to the provider (whether payroll or pensions or other). Only advanced technology can provide this capability.

Capacity for change may also influence choice. Some employers may need to integrate on a step-by-step basis and decide to retain, say, their flex provider whilst introducing a reward hub for pension and savings products. Consolidation will follow later.

In Conclusion

Small companies and even some non-UK companies may feel these developments do not concern them. However, that is wrong. The UK and the USA may appear to be more active in terms of Reward integration, but these developments are essential to bringing the Digital Age into the employee/employer relationship across the whole of Europe. If only because of

increasing competition with Asia, European employers need to substantially increase the efficiency of the Reward relationship and leverage the technologies of today to strengthen employee engagement.

To date the reward marketplace has been characterised by:

- Low technology expectations by many employers resulting in maintenance of expensive, manual processes in the Reward supply chain, with costs simply being transferred to the employee.
- Misguided technology investments by many life and pension providers who have oversimplified the data management functionality required to automate the current manual processes.
- Predominance of "employee portal" solutions with little focus on end-to-end data management by many intermediaries who have not felt any market demand to provide anything more sophisticated.

With the declining appeal of current Reward administration approaches to younger employees with their expectation of online capabilities and the growing demand from government for employers to provide and administer arrangements for the health and security of the citizenry, we need to do something different. If we make the right choices achieving gold medal status is perfectly possible!

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.

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