

'May you live in interesting times'

Whether you view this as a blessing or a curse, it is a fact that interesting times are certainly here for those of us in HR, and Reward Practitioners in particular.

The UK is in the middle of a recession and the uncertainty and volatility in the financial markets has created an increasingly difficult environment, whether you operate in the public or private sector.

How we rise to these challenges will have a significant impact on the success of our organisations in both the short and long term.

There are some obvious responses to the kind of downturn that we are experiencing. For instance, organisations can reduce their cost base through redundancies, implement a pay freeze, place an embargo on recruitment or a combination of these measures. However, whilst there will be some tough decisions to be made, we need to be mindful of the fact that the business environment is cyclical and hopefully sooner rather than later we will see a recovery. It is likely that those companies that find the right balance now between managing costs, retaining key employees and maintaining staff morale will be best placed to weather the current economic storm and to take advantage of the recovery when it arrives.

Effective reward management is a complex mix of extrinsic factors which include base salaries, bonuses, allowances and benefits and intrinsic factors such as role design, career and personal development opportunities and leadership style. The latter is a key issue that you ignore at your peril and it is worth remembering the old adage that people leave managers, not companies.

The natural tension between what employees want and what employers can afford, or consider appropriate to provide, creates a number of key challenges for Reward Practitioners. Furthermore, employees are becoming increasingly sophisticated in terms of their expectations and increasing awareness of the segmentation in the employee population (eg based on age, length of service, gender, level of responsibility and/or lifestyle) means there are no 'one size fits all' solutions. So what better reason can there be for reviewing your reward strategy and the associated policies and practices to ensure that it is cost effective, delivers value for money to the business and provides employees with a reward package that they value?

What should you be doing?

The cost of extrinsic rewards is one of the largest overheads for organisations. It is important, now more than ever, that you have the necessary policies, processes and systems in place to ensure that reward is managed effectively, costs are controlled and the return on this significant investment is maximised.

Organisations should ask themselves the following questions:

- Do we have a solid foundation for our reward strategy?
- Do we know what we are currently spending on salaries, bonuses and other benefits?
- Are we getting value for money? Could we improve our return on investment?

- Do we know how our reward package compares to those provided by similar organisations?
- Can we accurately cost the impact of changes to the reward package we offer in order to ensure that money is spent in the right areas?
- Is our approach open and transparent so that employees can understand the true value of the rewards that we provide
- Do employees value the different elements of the reward package that we provide and, if not, do we know what they would value?
- Do employees consider themselves fairly rewarded for the work they do?

Intrinsic rewards are often less visible, but are certainly no less valuable as part of the overall reward proposition. Whilst some of these are not traditionally within the remit of Reward Practitioners there are clear arguments that they should be involved as the outcomes will impact on the all round reward proposition for the organisation. Key questions to consider here include:

- Do our managers have the necessary leadership skills required to get the best out of their staff?

An honest assessment of management capability can pay dividends and identify development needs that will benefit the organisation and the individuals concerned.

- Is our investment in training supporting the continued success of the organisation?

In a downturn it is often tempting to cut the training budget in order to provide an immediate saving, but this can be false economy as reducing the opportunities for personal development can result in loss of staff. The harsh reality of the situation is that typically the best staff (and the ones you wish to retain) will be the first to leave.

- Is our current structure the most effective in terms of meeting the challenges that lie ahead?

If economies are necessary, then a review of the way that work is organised including the division of responsibilities and structure of roles will provide an appropriate focus on the key issues. This will necessarily involve looking at the costs of the new structure in the short and longer term in order to assess the financial viability of the changes and the payback period.

The answers to these questions will provide the basis for an overhaul of your organisation's reward strategy and the associated policies and practices for both extrinsic and intrinsic rewards. However, it may not be feasible or appropriate to try and address all of the issues outlined above as, for instance the outcomes have to be justifiable and affordable in terms of the costs. Therefore, the first step should be to look at the priorities for your organisation and establish an action plan. You will also need to consider whether you have the appropriate tools for the job.

For instance, job evaluation (which has been criticised as being bureaucratic and seen as less fashionable for a number of years) is increasing in popularity amongst UK firms with alternative approaches being developed to improve the process. Not only does it provide a firm foundation for an open and transparent approach to provision of the extrinsic elements of reward, it provides organisations considering restructuring with the information required to make informed decisions.

When considering changes it is essential that Reward Practitioners are able to produce accurate, reliable costing information to support proposals/recommendations and inform decisions by senior management teams. In most cases organisations use spreadsheet applications for this purpose, although these can be limited as it can involve advanced knowledge and skills in using the software, in particular when modelling various different scenarios. The alternative is to use one of the proprietary packages available for this purpose, the advantage being that these packages have the required facilities off the shelf and avoid the development lead times and costs associated with spreadsheets.

To conclude, there is opportunity in adversity and the difficult economic climate that we find ourselves in actually provides a catalyst for making changes. It is important that HR and Reward Practitioners grasp the opportunities that these troubled times present in order to ensure that their organisations are well placed to weather the storm and are in a good position to benefit when the economic situation improves.

Helping you to manage your reward challenges

NorthgateArinso's market leading software solutions give you the ability to better understand your reward strategy and help ensure that your wage bill is being spent in the right places.

Our experienced reward consultants have worked with numerous commercial organisations helping them with issues similar to those discussed in this article.

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