

Value adding total reward strategies



All change please

It is well known that reward can represent anything up to 70% of an organisations total cost base and in this context it is surprising that so many organisations do not have current, up-to-date strategies in place to help manage that sum to the best effect. This is all the more surprising when market conditions are so challenging and cost management and efficiency are such key concerns in helping to deal with pressure on margins and performance in every sector.

Many organisations reviewed their reward strategies in response to cost constraints at the onset of the recession in 2008–9 but a decade on and markets and organisations have evolved. While the concern around costs remain, today's operating environment is very different from where we were a decade ago. The HR landscape is undergoing a silent revolution with quantum leap changes in thinking about performance management, the rapid surge in automation and digitalisation and increasing levels of regulation. HR is even having to address questions around the nature of 'a job' with the emergence and rapid growth of the gig economy. In addition, the political landscape together with increasingly agile working practices have clearly evolved as shown by changes in national leadership and political sentiment in many parts of the world.

These changes are leading to new policies and approaches which have impacted the way many organisations need to do business — as demonstrated by the UK's vote to leave the EU.

In this context, organisations need to ask if their decade old (at best) reward strategies are appropriate today and whether they will help the business to succeed tomorrow. An outdated and poorly aligned reward strategy could have a highly detrimental impact on an organisation and undermine its efforts to drive performance and deliver its business strategy.

An organisation will be handing its competitors a significant advantage in the marketplace if it fails to develop a reward strategy which is aligned with its own unique values and context.

Organisations need to ask if their old reward strategies are really appropriate today and help the business to succeed tomorrow

Reward strategy – the intent

In the mid-twentieth century Herzberg suggested that financial reward is only a hygiene factor in employee motivation. However, Aon research in 2017 and 2018 identified reward and recognition as the number one opportunity for employee engagement globally and at a European level. Deeper analysis of these results reveals that the issue is not with the amount or the levels of reward but rather with how it is delivered and the challenge around perceptions of fairness. The delivery of reward and ensuring that it is seen as fair and transparent is obviously a primary focus of any reward strategy.

The benefits of an engaged and motivated workforce are significant and it is clear that reward has a significant role to play in delivering them and cannot be simply dismissed as a hygiene factor.



The impact of engagement



Components of an effective strategy

It is still possible to discover organisations who state their reward strategy as being 'market median' with little in the way of other supporting context. For the majority this would be seen as little more than a policy statement. Most will actually need something more significant and considered if they are to ensure that reward is really adding value to the business and not just acting as a cost item on the balance sheet.

An effective reward strategy does not exist in isolation but is part of a cascade like any other business critical process, beginning with the reward philosophy and extending down to a detailed delivery process. The documents associated with the different phases do not need to be long and complex (there are some excellent reward philosophies which cover just a side or so of A4) but many organisations inadvertently omit some steps in the cascade and end up producing documents with a confused purpose as a result. Keeping them separate and distinct helps to ensure their clarity and enables easier communication and implementation at the appropriate point in time.

The impact of engagement



Reward philosophy

- The overarching vision for how the organisation wants to reward its people.
- Clear and transparent link to organisation values and purpose.



Reward strategy

- Brings the vision to life on a component by component basis.
- Defines the reward elements, the interplay between them and responsibilities for their implementation.



Reward policy

- Policies produced for each individual reward component. They provide detailed design descriptions and guidelines on the scope of any flexibility in implementing the reward strategy.



Reward process

- Provide a detailed description of how the individual reward component will be delivered to the employee.

To be effective, a reward strategy should give consideration to the following points:



Reviewing or creating a reward strategy with Aon

Reviewing or developing a new reward strategy can feel like a daunting task due to the potential number of moving parts that need to be aligned and considered. It is also true that the ripple effects of the decisions made in developing a strategy can extend far beyond reward. In today's social media driven culture, organisation's reputations and brands are valuable commodities which need to be protected and enhanced. This should not deter organisations from addressing the subject but rather help to ensure that it is seen as a business priority and not just a transactional responsibility for HR.

As you embark on this journey you will need an experienced and credible partner to take you through the process. They must be able to highlight and prepare you for the opportunities and challenges that will arise. This will help to ensure that your resulting strategy delivers the maximum potential benefit to the business and its people-and this is where Aon can help.

Aon can take the complex and make it simple. We have a clear and robust approach to developing reward strategies and a team of highly experienced professionals to coach or lead you through the journey.



The Aon approach

The Aon approach looks at understanding business and employee needs and aspirations and sees reward as the vehicle for delivering alignment between them as part of a wider HR and business strategy.

Business needs

- Desired values, culture and behaviours
- Employee commitment, performance and innovation



Reward philosophy and strategy

Aligning needs and aspirations to create a win:win for the business and its employees

Employee needs

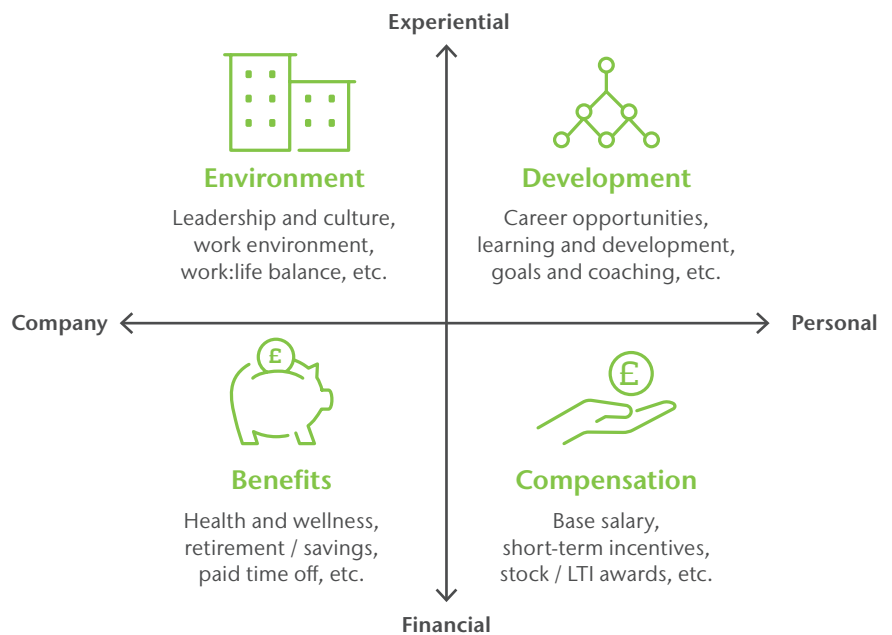
- Competitive and fair reward and development
- Flexibility, transparency and trust



Total reward

Our Total Reward approach reflects our fundamental intent to help an organisation deliver performance and create a win:win through alignment with employee needs. We recognise that not every organisation will want to look at total reward on every occasion but the concept is at the very heart of our beliefs and thought processes. Whether we are helping to develop a total reward strategy or working with you on any of its individual components, we will be thinking about how the changes we recommend will impact the wider employee experience and total reward proposition, as well as the impact on the performance and culture of the business.

The Aon total reward model





The Aon Reward Strategy Review Process

The approach we take to reviewing and developing a reward philosophy and strategy will vary based on specific client context and need. However, we use a simple, tried-and-tested framework as a start-point for discussion and development.

This includes a number of core elements, although there can be significant variation on how each individual element might be delivered in a client context.



**Employee and management
/ leadership engagement**



1. Understand

Business need and aspirations

It is essential that we understand what your organisation wants and needs to achieve so we can consider how best to position your reward strategy to support and enable success.

We often encounter reward strategies, and approaches, which are obstructing, and even derailing, the successful pursuit of an organisation's objectives. This is simply because they may not have been reviewed for some time or have been changed piecemeal over the years without consideration of the combined impact. We need to know whether the organisation is looking to reinforce its culture and values, embed change, drive performance, leverage cost, deliver flexibility or position itself more effectively to recruit and retain, (or a combination of some of the above) so that reward can be established to reflect this.

Current reward arrangements

Understanding existing practices at a policy and practice level (including how they are communicated) provides

a baseline against which subsequent evolutions can be measured.

Employee perceptions and preferences

No-one would dream of developing a solution or launching a new product without first testing the market to understand its issues and gauge the responses to the new evolutions. It is the same with reward. You need to engage with your audience (your employees) to really understand their perceptions and concerns, as this will help to ensure that any solutions developed can take these into account. There are still many occasions where we see new reward approaches being developed based only on management feedback and with only notional attempts to involve employees and give them a voice in shaping the outcome. This can mean that the change never really gains any traction or simply fails to deliver meaningful benefits. This is clearly a waste of time and energy and consequently we look to ensure that the employee voice is heard in any review or development process.



2. Align

Identify and develop high-level options and develop reward philosophy and draft reward strategy

Having gained an understanding of business and employee challenges, and needs and perceptions, it is then necessary to look at the opportunities for alignment. There are many ways in which this can be achieved both through analytical frameworks or more empirical HR/ business leadership workshops. One factor which is essential as part of this process is the experience of your consulting partner. There is nothing that can add as much value in this part of the process as experience. You will benefit hugely from working with people who have gone through this process many times

previously. This experience will enable the identification and development of options and ideas for consideration by the business with a clear description of their potential advantages and disadvantages based on the specific client context. This experience will be more critical than anything else in ensuring that the organisation is able to make informed decisions around the merits (or otherwise) of a particular approach and in developing an approach that really delivers for them. The output from this phase of work would usually be an agreed reward philosophy, a headline reward strategy and an indication of the nature of change to key reward components that would be required to deliver the philosophy and strategy to employees.



3. Assess

Cost modelling and benchmarking

As part of the decision making process, organisations should look at the practical impacts of the choices they make and the path they choose. This can take the form of modelling some of the potential cost implications or looking more widely at market practice to ensure that their chosen approach is affordable, differentiating and appropriately competitive.

Business and employee impact

As the final shape of the reward philosophy, the strategy and its component parts become clear, it is also possible to check again that the impacts of decisions beyond reward are understood and in line with expectations. It is only at this point that it becomes possible to develop a prioritised implementation plan which would describe the implementation and delivery of the new strategy and manage/ direct its ripple-effects beyond reward.



4. Deliver

Reward Strategy

The reward strategy document should capture:

- The reward philosophy
- The role of reward in the business
- The key components and purpose of each of the core reward components
- The design principles for each of the core reward components
- The scope of any variation/ flexibility across the business to reflect specific geographies or business unit challenges
- Accountability (leadership, line management, HR and employee) for delivering reward

A prioritised implementation plan

A plan which takes account of the organisation's capacity for change and which identifies the sequence and timing for the detailed development and implementation of individual reward components. It is not uncommon for this plan to cover an extended timeframe of up to three years if there is a significant amount of change or if the change is particularly challenging e.g. the introduction of a new performance management approach.

The background of the slide is a dynamic, abstract composition of various green mathematical symbols and graphical elements. These include numbers like '0', '2', and '10', mathematical notations such as 'a^2', 'e^t-1', and 'r^2 d', and business-related terms like 'Percentage'. There are also stylized bar charts and a pie chart. The elements are scattered across the page, with a higher density in the upper right and lower right areas, creating a sense of movement and complexity.

Aon experience and credentials

Aon has a highly qualified team with many years of experience in developing value-adding reward strategies across a wide range of business sectors at a global and local level. We are comfortable working with the largest and most complex of multi-nationals as well as with smaller, local players with 'grow, sustain or defend' business strategies.

Related Aon services

Within Aon's Talent, Reward and Performance business we pride ourselves on helping clients to make the best-informed decisions to help recruit, retain, engage and develop talent. We focus on identifying, developing and utilising data to demonstrate the impact of what we do on business and employee performance with a view to helping our clients maintain a competitive advantage in the marketplace.

Talent



Human Capital Strategy

Align human capital programmes, risk management, and organisational culture to drive business objectives.

Assessment and Selection

Select the highest quality talent with the greatest accuracy at all levels.

Leadership

Objectively identify and develop key leadership and high potential talent for a strong and inclusive leadership pipeline.

Performance Management

Create a high-performance culture by aligning each stage of the performance and rewards process to talent strategies.

Engagement

Measure and improve employee engagement to drive business performance.

HR Effectiveness

Empower HR performance, capability, and efficiencies to drive business results.

Rewards



Total Rewards Strategy

Work with us to define a total reward philosophy and strategy tailored to your firm's culture and values. We can also help you to successfully implement the strategy through the design, implementation and communication of related reward approaches and structures.

Global Compensation Surveys

Gain insight into the market competitiveness of your pay levels and elements with comprehensive global compensation surveys.

Job Evaluation

Use our highly flexible, simple and straight-forward JobLink evaluation methodology to understand your job hierarchy and underpin your work levels approach.

Executive Compensation

Design executive compensation plans that attract and retain top decision-makers for your firms and align with overall business strategies.

Regulatory Support

Get the latest insights on how regulatory changes impact your firm and how to adjust pay practices to respond to compliance requirements.

Performance



Global Benchmarking

Compare your revenue, expenses, and headcount by location to industry peers at a granular business level, allowing your firm to allocate resources efficiently.

Workforce Analytics

Use unrivaled headcount, compensation, and performance data across industries to define effective deployment and location strategies with the goal of improving business performance through people performance.

Sales Force Effectiveness

Drive growth by understanding your relative market position and maximising your sales productivity by attracting top talent, benchmarking performance against industry peers, and designing optimised incentive plans.

Client Experience

Connect the dots between customer experience, performance indicators, and business results.

About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

For further information on our capabilities and to learn how we empower results for clients, please visit <http://aon.mediaroom.com>.

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