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Changing the Shape of Organizations and Reward

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Introduction

The world of work is changing fast and total rewards approaches need to change with it. We all hear that "things will be different in the Future of Work", but what does that really mean in practice? What opportunities are there for reward transformation, and what challenges do organizations need to address? The changing shape of organizations can be defined as 3 things: how work itself is changing (e.g., Machine learning, etc.), who does the work (e.g., Technology) and where the work is done (e.g., remote work). With this seismic shift, the old traditional job architecture approach will likely not work and needs to be addressed, which means a big impact on reward approaches. With this rapidly changing work environment, the embedded hierarchy within that structured eco-system can be a blocker to responding to change with agility. And with the close ties between pay and hierarchy, total reward strategies sit right at the heart of this. In this session we will address the approach that reward has historically taken to date, how businesses increasingly prefer to operate, and how reward agility (underpinned with technology), is becoming a huge driver in our industry.

If organizations were to tear up their current job catalogs and start from scratch today, landing on what they currently have is very unlikely. This means that organizations should not only keep it as simple as possible when making any changes, they should experiment iteratively first. Defined structure can pose a challenge when responding to changing market demands in reward levels and staying competitive for the best talent across the market, as well as retaining your best people. It may mean, for instance, during annual review or making an offer to an external candidate, that a grade promotion is required just so that the next pay scale kicks-in, or a specific allowance is now payable. However, that defined job role may also come with managerial responsibilities that the individual does not want or is not suitable for, and so an exception is made in order for them to progress their compensation or match their compensation expectation coming in.

The approach reward has historically taken to date

Hierarchy has traditionally been the bedrock of organization design with clear linear functions and reporting lines. The chain of command is clear in this approach and the delegation to individuals who are responsible for getting work done has been well defined.

Tenure has also been a big marker and has usually defined current compensation levels. Broadly speaking, the longer you have been with an organization, the more annual merit reviews you have been a part of, which means moving through the business to new pay grades and pay structures during that time.

With **promotions** to new grades and job levels usually comes new pay scales, and is the most used lever for employees to move to new compensation levels.

Another traditional lever available to line managers has been **spot bonuses** and one-off cash awards. These are usually reserved for outstanding contributions but have often also been used as a short-term retention tool. Broadly speaking, this concept has morphed into what we call recognition these days, where micro cash awards and social acknowledgement form part of short- and medium-term reward.

Reward teams have been built around **annual cycles** and processes. The calendar drumbeat is broadly familiar across the compensation and benefits industry. Crudely, pay review would happen in April, open enrollment in North America happens in the Fall, while the UK might be more like the summer months. Pay reviews have been annual and rigid in these frameworks and have remained an activity for HR teams to prepare and plan for. They each become projects in their own right.

Employees have an expectation that **Merit awards** (i.e., increases to base salary) would happen as part of business as usual, and there is a sense that this is safeguarded in the employment contract, rather than an achievement. Hence the default position for many employees and organizations that tenure leads to increases in compensation and total rewards.

Location-based allowances, or commuting, have been a feature to compensate for expensive living and commuting locations, with folks heading into fixed office complexes to do their work.

HR teams, like any other function, lean on management consultants for external **third-party advisory services**, and total reward advice has been no different. This consulting advice has tended to be focused on bespoke services and products that are based on industry-trends, rather than specifically related to that organization. This is particularly true within advising on benefit program design, and choices within those programs.

And finally, organizations have traditionally looked towards their sector peers to **compare and benchmark** their salary investments against one another within the same industry sector. However, most roles are becoming industry-agnostic, with the traditional term of ‘transferable skills’ never being more relevant. For instance, take certain job profiles and the traditional approach of comparing the roles and skills required within a DevOps team in the FMCG sector to those roles in similar software teams against another FMCG competitor. Is it not more relevant to instead compare and benchmark them to an enterprise tech SaaS business? Or a leading professional services software development team? It is the rate for **skills** that are comparable in this example, rather than what the norm is within the industry sector.

How businesses and employees increasingly prefer to operate

The make-up of the workforce is changing. Teams based on networks are starting to replace graded hierarchies. And yet, pay levels and rewards are still tied to hierarchies of experience, seniority, tenure, and job titles. In the future, projects, and roles within those projects, will be filled with people who demand different ways of employment beyond just salaried work. FTE's, job sharers, contractors, and gig workers will be employed based on the skills they bring with them at the current market rate for their skills. And these workers move roles more frequently.

Rewards tied to rigid hierarchies for traditionally salaried employees are no longer fit for every purpose. In fact, a large proportion of those possessing the right skills find their path blocked by those rigid frameworks.

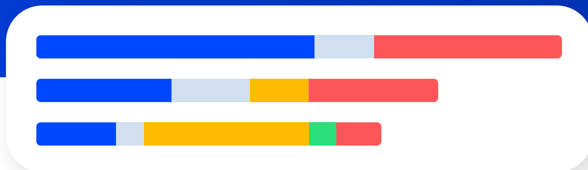
Networks and pods of teams, rather than linear line management and organization charts, are commonplace for delivering work. This is especially true across service delivery and professional services, among many other industries. People come together as a team with different skills to deliver on a project or piece of work, with line management and direction not necessarily coming from your official line manager registered in the HR Information System. That means the on-point person who often decides future progression through compensation levels requires input from various people about performance and impact, and would rarely have oversight on your work. This is a bigger shift than it might sound, and the impact on reward means it needs to be more agile and based on skills, competency within skills, and the impact those skills have had on outcomes.

Internal mobility to move from job to job within the same company is growing in prevalence. Sometimes called an internal marketplace, this is about the employer finding resources internally for short periods of time to fill a skills-gap and to enhance their EVP, and for employees to gain new experiences and to take ownership of skills acquisition and career progression inside or outside of the organization.

Of course, a huge recent trend has been the increase in flexibility and remote working, which has only sped up due to the global pandemic. While this has been on the rise in recent years, it was put into sharp focus by the crisis. As the shape of organizations change, the nature of work being carried out, particularly in office-based roles, lend themselves naturally to be location-agnostic, supported by the right technology. Where outcomes and results are the key driver of success, rather than clocking-in and clocking-off. Presenteeism rarely results in better outcomes and a work-life balance is now seen as a given for any Employee Value Proposition. We have seen organizations experiment with this further still where work-from-anywhere initiatives are being considered. This would be a game-changer for both employees and employers where opportunities to access much wider talent pools become an attractive lever for organizations, while workers would have access to a much wider portfolio of roles. The impact on reward will be huge, with internal consideration of salaries, allowances, and benefits, and external factors of taxation approaches. Like with any new initiative, it will take some early adopter organizations to see genuine success with this approach before others start to join in mass.

Organizations are increasingly reliant on contingent labor to fulfill roles. The growth in this feature is having a big impact on how reward teams need to respond with both a strategy for reward program design, as well as the technology to monitor it, given many of these workers sit outside of HR Information Systems, and maybe even core payroll systems.

Never has the term ‘transferable skills’ been more relevant. As skills become an increasingly important driver for reward progression (not just tenure and seniority), recruiting teams are increasingly on the search for current hot skills, and competency within those skills and examples of where skills have been applied. As organizations start to experiment with skills allowances as a supplement to basic salaries, the changing shape of reward in this case is actually the driver for the changing shape of the organization.



Opportunity to create reward agility

As we have seen in this session, rigid functional domains stop us from doing more with less. The traditional approach of hierarchy has made sense historically, but these frameworks are now hindering true agility in reward innovation.

One opportunity for organizations is to be driven by employee sentiment and feedback as a natural part of BAU. This can be particularly used for understanding the effectiveness of the reward programs, and therefore starting to achieve oversight on the ROI on that vast investment. This means questions such as the following can be asked and answered with evidence and confidence:

- Are reward programs having the desired effect that we set out to achieve?
- Are folks satisfied with them?
- Which ones do they rate as important to them?

Has that changed over the course of the year? (COVID has changed what’s important to people, for instance)

As we discussed earlier, another opportunity available for organizations to take an agile approach with reward is to experiment with and embed a skills-based reward program, either across individual skills or more likely starting with a skills allowance approach. This means paying for skills and competency within those skills, the market rate for which will vary depending on demand for those skills. It means organizations can acquire the skills they need when needed, while keeping an attractive EVP. A well designed and healthy combination of a base salary and skills allowance would likely work well for both employee and employer.

The really exciting innovation this results in is the democratization of reward. This means the opening-up of access to high levels of compensation to anyone willing to acquire and utilize in-demand hot skills. By removing some of the traditional barriers to high levels of compensation such as tenure and seniority, it places less of an emphasis on promotion being the only way to achieve compensation goals. Triggering a promotion

just to move into the next payscale, often negates the value of the promotion in the first place. While of course new roles and responsibilities will likely come with it, very often compensation has been one of the major factors.

Many of us in HR are familiar with flexible benefits windows and open enrollment seasons. Calling them seasons and windows suggests one thing: a structured, once-a-year opportunity for employees to make some choices, or when a big life-event occurs for them. The opportunity for more frequent personalization is growing because of some of those changes to organization design and worker demographic mentioned earlier. One size does not fit all, we can nearly all agree. This is especially true as different worker profiles come into the business. And so hyper-personalization is the big opportunity confronting organizations right now. To what extent can we offer true flexibility across all reward, including trading fixed pay for variable pay? What will employees do given that opportunity? This will see growth over 2022 and beyond.

There is also a real trend-growth in porting benefits from one employer to the next. There is lots of wastage in the current system of leaving Job A on the Friday (and thereby exiting the private medical scheme) to join Job B on Monday and enrolling right away in broadly the exact same program on day 1. With employees moving organizations more frequently than ever before, this is suboptimal for both employee and employer. As long as Employer B seeks evidence that the employee is already covered as a part of their role as a good and responsible employer, why continue with this wastage? And instead use a hyper-personalization approach to allow the employee to opt-out and take the cash-equivalent value instead? These are the types of questions we are seeing organizations grapple with right now as the war for talent and the fundamentals for a compelling EVP become ever more important.

Another lever organizations can pull while addressing the changing shape of organization design is quite literally removing unnecessary and over-complex graded hierarchies. This means reducing the number of grades in the pyramid, which flattens the hierarchy. This then has a positive impact on the tools for reward such as target bonus percentages and pay scales. These can be tightened up to a smaller set, making career progression much clearer and more attainable. We have seen clients strip out a whole mid-tier management grade with the feedback they received later on that employees now have a clear path to management grades, having a positive impact on total reward packages as well.

By taking this approach, coupled with being more driven by skills, the knock-on effect of reducing the number of job profiles within the business can be another positive outcome. Fewer numbers of rigid job descriptions and profiles actually provides another aspect for the business to increase agility in workforce planning.

In summary, the core people who are the secret sauce will become more important - they are the ones who make the difference – and their contracts and reward will be very tailored to the business' needs. Outside of this group, many more roles will move over to that contingent and contract labor market we described earlier. The difference these days is that contingent labor now includes many premium professionals as well as lower paid commodity labor. Both types are not traditionally given benefits because we still need to motivate and retain them. While markets put us under pressure to reduce FTEs, cost control and margin improvement are economic drivers that listed companies are tracked against to show proof of quarterly improvements. More agile companies with agile reward offerings are more likely to stay on top of these changes. Ultimately within total rewards, we are not just dealing with rules, values, and formulas, we are dealing with people, emotions, and business strategy. While hierarchy power is diminishing, we need to digitize reward wholly and fully or we risk every employee becoming a separate, individually disconnected reward entity.

Use of technology to support these new concepts

Change is constant, so having a base to start from is key. Before implementing any changes to the job architecture, an organization should gather an inventory of what the total reward provision and investment currently is, enterprise wide, so that they create visibility and establish a complete index. This should include all rewards: salary, allowances, wellbeing investments, bonuses, share plans, insurances, benefits, pensions, spot recognition, and other micro or local rewards. This can form a real-time database that supplements the existing technology stack across HRIS, payroll, regional tech, spreadsheets, as well as external benefit vendors and consulting solutions, all of which when consolidated provides real-time cost data for the total reward investment being made.

To easily consume that big data set, dashboards can be configured to monitor the spend in real-time across all defined jobs, business units, grades, and through regions, countries and individual employees using BI tools. That way, an understanding of the scale and reasons for the exceptions and outliers to those policies and structures is established. This approach also allows the organization to be ready for any future business acquisitions, instead of taking a “bolt-on” approach to new frameworks that require integration and cause more chaos to the system.

As we talked about earlier, organizations should then ask and listen to their people. That means requesting employee feedback to understand employee sentiment towards their current reward plans, in order to spot wastage in the spend and further opportunity in the offering. Aligning that data against the real cost to the

company that the database monitors can provide a better understanding of the current ROI.

Unsurprisingly, employees place a high value on total rewards, as well as job titles. Therefore, any proposed changes to the status quo needs to have employee sentiment underpinning it. The whole organization, including HR and Finance, will then be in an informed position to consider the appropriate future-state job architecture accordingly.

Taking this approach allows the organization to have a hybrid approach between “structure and architecture”, versus “mass personalization and democratizing of reward potential”, especially when considering that increased internal mobility is becoming a standard as much as an exception.

This agile approach to structure ensures the entire worker pool is available to the organization, including those seeking flexibility, part-time, remote work, and contracting work, and allows current workers to become more fluid. Therefore, organizations can take an agile approach to reward personalization. Within legislative parameters, they can experiment with more choice for employees taking ownership over how they receive their total reward.

As we talked about earlier, this could be a once-a-year open enrollment and flexible benefits approach with budgets to spend, salary sacrifice mechanisms, allowing employees to swap one undervalued reward for another more valued reward at any time, or even complete freedom around how their total reward is received. This could include experimenting with implementing a skills allowance that reflects a price-per-skill and is available to anyone who acquires and showcases a competency within hot skills. This means the earning power at more junior levels increases and is not restricted by promotions, tenure, and hierarchy.

By adding peer spot recognition, and other forms of social recognition, reward can increasingly move away from rules, eligibility, limits, and hierarchies towards being based on achievements, outcomes, and skills. This means tearing up the linkage with traditional hierarchy. Grades, locations, and tenure would play a diluted role in eligibility for reward. No two individuals are the same and motivations and incentives differ from person to person, and where they are in life.

While this hybrid between providing clarity and frameworks alongside increased personalization sounds like an ideal mix, there are some important reward considerations.

The most important of these is to ensure compensation equity is measured. More choice and personalization with evolving and agile approaches to 'jobs' could lead to inequity if not monitored regularly, beyond the statutory minimum that many countries are now adopting.

Red flagging areas of potential imbalance before they happen should form part of the monitoring process. Setting up pay equity dashboards across all reward and all territories in real-time is straightforward if organizations underpin this process with that real-time database of complete total reward. Therefore, the equity impact of joiners, movers, and leavers is fully understood before and after the transaction has occurred.

Other important factors include getting the right skills matrix in place to ensure the relevance of the skills in the ecosystem, and to ensure that they are 'priced' appropriately from a compensation perspective. So as organizations ensure their total rewards philosophy is fit for the future, they would be well advised to do so with an agile and open approach, and not necessarily be led by the current job architecture and its inherent frameworks. This should include allowing employee sentiment to help craft what that hybrid approach will look like and experiment with new ways of rewarding.

Conclusion

The move towards skills-based compensation as a major driver of reward will change the way people look at earning potential. It will likely lead to employees focusing on what skills they need to acquire and use, which are then rewarded in-year, rather than looking at the job architecture and what they need to do just to tick the box for promotion.

It will be fascinating to see how this whole topic evolves over 2022 and beyond as the changing shape of organizations has a profound effect on total rewards. And conversely, how compensation demands, driven by the skills-market, will impact the shape of organizations in the future.

The impact this is having on all of us on total rewards is exciting, and the opportunity for innovation and increased agility is vast, as organizations prepare themselves for the present and the future of work.

(We always enjoy hearing more from you and would love to hear your feedback and thoughts on this. So please get in contact with us for more information on how uFlexReward technology can support this exciting change.)

