

Optimising reward spend

Faced with increasingly volatile operating environments, organisations are under pressure to manage costs, including human capital investments. In the face of this challenge, it is more important than ever to invest reward spend for maximum return. By driving effective reward management and providing a strategic perspective on how cost savings can be delivered, HR and remuneration functions can help to deliver this outcome without compromising the organisations human capital objectives.

For most organisations, reward spend is the most significant expense line, and also represents a significant investment in organisational capability and performance. In times of economic uncertainty, this presents a dilemma for business and HR leaders. On the one hand, reward spend presents a significant opportunity for cost savings. On the other, any reduction in reward spend could potentially impact the ability of the organisation to defend or acquire market share, and to position for future growth and profit when economic conditions become more favourable. To successfully reconcile these two considerations, organisations must adopt a strategic approach to reward management that delivers improved return on spend, and identifies opportunities to reduce expense in areas that will not adversely impact on human capital and business objectives.

To drive this outcome, HR and remuneration functions must provide the business with a framework for understanding the current investment in reward, and how that investment supports business and human capital strategic objectives. This is predicated upon having a relevant and clearly articulated reward strategy, and the ability to influence key decision makers in the business.

Based on recent research within the Australian market, it is clear that many HR and remuneration leaders are constrained by budget and headcount when addressing these challenges, necessitating a more effective approach to reward management. By improving the capability, capacity and supporting infrastructure, remuneration team members will be able to focus on strategy, analysis and advice to support effective decisions about how reward spend is invested.

In this article, we explain how HR and remuneration leaders can go about delivering cost savings to the organisation while continuing to support the organisations short and long-term business objectives. We then go on to examine the importance of having effective reward management practices in place to enable the remuneration function to deliver the support required to optimise reward spend.

The role of the reward strategy




In the past, organisations have made the mistake of cutting reward spend without understanding the link between reward and achievement of business objectives. The real prize lies in understanding how to manage reward spend in a way that reduces overall expense, continues to drive organisational performance and builds organisational capability.

Successfully optimising reward spend requires:

- Understanding of the productivity drivers for the business
- A reward strategy that links to those drivers
- Design and deployment of reward programs that support delivery of the strategy
- Deployment of appropriate capability and infrastructure to support reward programs.

Lessons we have learned about effective reward cost reduction

A key learning from past economic downturns is that cutting costs without accounting for the impact on human capital objectives is counter productive. By taking a more considered and strategic approach, not only can costs be reduced, but the return on the remaining spend can be improved and the capability of the organisation maintained.

Key lessons learned about effective reward cost reduction			
	Today's dynamics		Presenting issues
1. Take less invasive approaches to control or reduce costs	"The last downturn, our management terminated people and it was sort of arbitrary...lo and behold, half of them ended up coming back on consulting contracts. Some of them are actually still around. The work does not go away."		<ul style="list-style-type: none"> ■ Control expenses but avoid major retrenchments. ■ Need to restructure; 'delayering'. ■ Broad scale reduction in workforce is highly likely.
2. Focus on pay and performance management differentiation	"We missed our financial target, so we only paid out at 30% level, which was probably one of the lowest payouts we ever made in the history of the company."		<ul style="list-style-type: none"> ■ Manage executive reward costs. ■ Improve employee productivity. ■ Need to optimise the sales force.
3. Recruit, retain and engage key talent, particularly high-impact employees	"Important to see a pipeline and continue to keep filling it, especially for critical jobs that are tough to fill. We need to find people that 'push the needle' – don't just get the work completed."		<ul style="list-style-type: none"> ■ Attrition in critical areas. ■ Low employee morale due to uncertainty.