

# Partnering with a Total Rewards Provider

Terry Lister • *IBM Business Consulting Services*

**C**hanging market expectations place businesses under constant pressure to raise performance. So all eyes often turn to human resources (HR) to increase the productivity of knowledge workers. HR leaders today play a pivotal role in translating business strategies into performance through people. And as HR leaders know, attracting and retaining the talent needed to deliver high performance requires excellence in total rewards.

Faced with an increasingly diverse workforce and a highly competitive labour market, HR leaders have to be creative in fashioning total rewards. Careful thought must be given to the combination of comprehensive benefits and compensation packages, including tangible and intangible rewards.

IBM research shows that salary ranks relatively low as an employee satisfier — with health benefits and other work-life balance factors providing greater differentiation. But there are significant differences across employee segments. No longer does one size fit all, if it ever did. Young recruits want cash compensation to pay off student loans. Experienced staff members want a full range of health, dental and insurance benefits. But some want to mix and match so that their spouses can optimize the combination. Employees want family-friendly policies. Some want sabbatical leaves. Others prefer different work-life balance options. Many want rewards for performance and better access to learning. Total rewards for optimal talent management include compensation and benefits, as well as career development and work-life programs.

## EMPLOYEE VALUE PROPOSITIONS

The days of a simple compensation strategy are long gone. HR leaders have had to take a page from the books of their marketing colleagues and develop employee value propositions that allow for a wider range of choices, enhance performance and yet remain fair and equitable. And, managing total rewards takes more and better information. It is necessary to track uptake by employees, and constantly modify and improve the package.

The challenge is that the creativity in total rewards seems to run into direct conflict with goals of cost-effective administration. The dilemma seems to be that the old-fashioned simple compensation regimes are easy to communicate and administer, yet they are not the approaches that will attract and retain a diverse array of talent. The rewards that align to individual employee performance and personal situations are complicated to communicate, deliver and manage.

Delivery alone is insufficient. Innovative total rewards must be clearly communicated to staff so that they can make the best choices and appreciate the rewards. HR leaders need quality information to manage the programs.

Fortunately, there is a way to reconcile the dilemma. By partnering with a total rewards provider, HR leaders acquire delivery service, package design, expertise and insight to improve the delivery and management of total rewards for better talent management.

## TOTAL REWARDS OUTSOURCING

A growing number of Canadian and global companies already

outsource elements of their HR activities — most commonly pay and/or benefits administration. Outsourcing total rewards is much more than a simple benefits delivery arrangement. It changes the delivery of one of the most intimate working relationships an employee can have with his or her employer.

According to a 2003 survey by *The Globe and Mail*, 46 per cent of Canadian organizations expected outsourcing of HR clerical transactions to increase as companies sought potential cost savings by contracting out functional tasks such as handling payroll and information about dental plans and pensions.

HR leaders have found that as total rewards became more complex, with more individual choice, the risks of inconsistent communication and delivery increase. The approach to delivery is under pressure.

In the past, when a company decided to outsource HR functions, including pay or benefits administration, executives generally expected considerable cost savings. In the context of total rewards and talent management, cost is only part of the equation. Still, outsourcing is expected to yield a significant cost advantage, commonly in the 15 to 20 per cent range. Savings are realized because transactional work can be done cheaper, better and faster by an organization that specializes in these services.

But in the context of talent optimization, cost savings are no longer the prime motivating factor in outsourcing HR, particularly in outsourcing total rewards. In almost every survey and study, HR leaders report they are working to transform their function from administration to strategic talent management. They want to align the HR function with the business, to help management deliver better performance.

It is this orientation to improved business performance that now prompts them to look more closely at partnering for total rewards delivery. Outsourcing total rewards means optimizing reward design, streamlining delivery processes, improving service to employees and getting the most from the rewards. It's a huge cultural shift.

### STRATEGIC FOCUS

Freed from routine paperwork and time-consuming transactions, HR

professionals are able to adopt strategic roles more suited to their skills and training, and make a difference to the enterprise. They can focus on senior recruiting, succession planning, identifying and promoting top talent, performance measurement, management and alignment in the marketplace, training, coaching and talent development.

Most organizations find the key to successful HR outsourcing is in deciding what activities are core to their business and keeping these in-house. Knowing why outsourcing is an option — whether it is to reduce costs, improve service or enhance technology — will help in essential decision-making.

Core HR work — strategic hiring, executive recruitment or performance management — should be kept in-house because these functions offer distinct competitive advantages to the company. The question of how to scope the outsourcing needs to move beyond the basic dichotomy between strategic and transactional work. For effective talent management, the reality is that transactions must be performed superbly and the related data aggregated and analyzed to gather important insights on optimizing workforce engagement. Better metrics are critical to better management.

### A CASE STUDY

The following case study shows the evolution of talent management in the face of such a dilemma. Business executives had challenged HR to deliver more value for employees, and to recognize the diversity of employee expectations while continuing to reduce total costs and build a long-term talent management strategy. Since outsourcing is firmly embedded as part of this organization's overall business service delivery, it was not a huge leap for HR executives to engage a total rewards partner.

Like many companies in a turbulent economy, this company had experienced volatility in demand for its products and services. There was a significant change in its workforce composition, with more knowledge work under way. Moreover, the company faced a pending demographic shift with an aging workforce and fewer new recruits available.

In some areas of the business, the workforce was not being used to

full capacity. Other areas were experiencing high rates of unanticipated overtime. With the risk of higher turnover — both from attrition and an aging workforce — and a more challenging recruitment environment, better talent management was essential. Innovative total rewards, with flexibility to adapt to the requirements of a diverse workforce, were a critical ingredient in the talent management strategy.

At the same time, HR practitioners were continuing to process a high number of transactions that had created long queues and risked poor service. HR leaders were concerned that the positive features in their total rewards design would be dissipated as employees encountered difficulties accessing services or even in understanding the benefit packages. Rising levels of formal complaints were already evident.

The company provided service to over 20,000 active employees and 5,000 pensioners. It had four objectives for transforming talent management and total rewards delivery. First, to improve efficiency, effectiveness and customer service. Second, to decrease operational costs and establish a scalable solution platform. Third, to realign and refocus on strategic drivers required by the business. And fourth, to leverage global synergies for low-cost service delivery.

The solution began by addressing three key questions. What does talent management mean for us? How can we support employees in all phases of their life cycle? How can we optimize the impact of our innovative total rewards strategy?

The organization needed a more flexible and scalable model to support growth, a reduction in costs by leveraging economies of scale and better information for more insightful talent management. It required a vehicle to standardize processes and data, and to improve the quality of talent management services and data that would support a one-face-to-the-customer model. At the same time, it had to accommodate local and individual requirements. The aim was to leverage best practices and technology to release HR business units to focus on their core competency tasks of providing strategic guidance and value to the business.

The design adopted was an employee services contact centre that provides one-stop shopping for all employee reward inquiries and services. It includes a case manager tool to track and report on con-

tact centre transactions and an escalation handling system for exceptional cases. A redesign of business processes consolidated in-scope services and merged similar functions under single leadership, gaining increased efficiency by reducing duplication of work. A previously management-heavy organizational structure was replaced with a more streamlined model.

The result is that employee service levels improved, with consistent levels of service achieved for all employees. Strategic design stayed within the company. The tiered delivery model provides consistent quality and accuracy at a low delivery cost. Service is driven by life and business events, not by traditional functions. It ensures the right service is delivered to the right person at the right time via the right channel.

Several components remain in-house:

- Design and development of all HR programs.
- Employee relations.
- Workforce management.
- Diversity strategy and execution.
- Management development strategies and administration.
- Staffing and recruiting.
- Workforce management.
- Organizational transition support, or onboarding design and development.
- Campus relationship management and strategy.

These functions were outsourced:

- All transactional components of benefits, compensation, pension, HR administration, HR information technology, HR reporting, recruitment, talent and expenses.
- Candidate recruiting and university recruiting.
- Applicant tracking.
- Employee referral.
- Candidate screening.
- Hire and offer administration.
- Pre-employment verification.

The outsourcing transition was seamless, although it's always difficult to know if there were teething pains experienced by employees.

For the average employee, the changes were only obvious when they needed advice and had to go to a computer to access information rather than asking a staff member. Self-service puts a lot more control in the hands of the employee, but it can require more time and effort.

In a knowledge economy, companies that have the best talent win. HR executives should spend their time and skills making the most of a company's human resources — finding the best hires, nurturing the stars and fostering a productive work environment. HR should be joined at the hip to business strategy.

The delivery of total rewards and the provision of information for better analysis of the links between talent and rewards can be delegated to a partner. What's left is the more important strategic role of raising the reputational and intellectual capital of the company, linking people to business performance and having the evidence to prove it.

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