



# HMThinking



## Success and Succession in Reward

On February 27th, Hedley May brought together a group of leading Reward Directors and CHROs from across the FTSE to explore Success and Succession in Reward. We partnered with 3XO, the leading advisory firm established by an experienced team of HR and reward professionals.

Research by Hedley May has shown unprecedented demand for Group Reward Directors as the previous generation retires – at a time when the demands of the role are becoming ever more complex. Against this challenging backdrop, our discussion focused on how to grow the next generation of Reward Directors through more agile HR careers and a broader approach to talent development within the HR function. Here, we summarise some key themes that arose.

### Building a great Reward function requires reflection – and candid feedback

A newly appointed Reward Director or Chief People Officer may want to stamp their mark on the function by making immediate changes – such as recreating what was effective in a previous role. But what makes a great Reward team is highly context-dependent, and can differ substantially from one business to another.

Participants in our discussion urged new appointees to take time to gather feedback on their current reward function from both internal and external stakeholders, rather than rushing in. As one noted, “it is easy to have blindness on where the gaps are”. For example, do concerns tend to be specific (e.g., the last RemCo papers were not up to standard), or more general (e.g., I find the Reward function difficult to deal with and overly technical)? What are the strengths and weaknesses of the team, and how do they match up to the key challenges it faces? Are clients and investors flagging issues that are not being raised internally?

Going back to the team with this feedback can be difficult, particularly when it challenges the status quo – and egos. While many on the team will likely be interested in this exercise, others will be reluctant to engage with it, or to trust its findings. Reward Directors are most likely to succeed if they are seen to treat this process as seriously as any other essential part of their job, setting an example to be followed. One of our participants said: “A mixture of radical change and continuity is important – understand the context and engage in an honest and candid assessment process.”

“The temptation is often to dive into your priorities, perhaps without much reflection. It’s important to not get immediately sucked into the project.”

## Bridge specialist and generalist skillsets by focusing on development

There are different routes for progressing people into senior Reward positions, each with their own strengths and weaknesses. Those who join the function as juniors tend to have the technical skills to succeed, typically being numerate and data-driven. But they often lack wider business understanding. Moreover, reward is fundamentally about people: it is not just crunching numbers on a spreadsheet, but making decisions that have a significant impact on employees' lives and plans for the future. As one participant put it: "At the junior level, you need people who are fast and accurate. But how do you develop them into a well-rounded, advisor with strong EQ?"

An alternative is to promote generalists from the wider HR function, or to bring in people with a consulting background (such as from the Big-Four). They may already possess strong advisory skills and have experience interacting with boards, as well as a broader understanding of complex FTSE markets and governance issues. The trade-off is that their technical skills may be weaker, and they might ultimately aspire to return to a more generalist role after a few years.

Each of these routes into senior Reward roles is plausible. But there was a general view in our group that new generations in the workforce often have higher expectations than their predecessors – and are willing to ask for more, even at a junior level. Key to keeping them engaged is to focus on coaching and professional development: "to make sure they know you have got their back". As one of our participants said: "A clear, articulate plan is valuable – people are sticky when part of the proposition is development potential".

**"Part of the answer is making sure jobs are fundamentally interesting – no one is going to work as hard as someone who is genuinely interested in the job. Understand that it is part of their longer-term development, not just money."**

## Demystifying the "Fortress of Reward"

Rightly or wrongly, reward is often perceived as distinct from the rest of HR – more 'science' than 'soft' skills. Both within and outside the function, this can lead to the perception of a 'Fortress of Reward', siloed from the wider organisation. One view among participants in our discussion was that Reward Directors often tend to come with big egos, perhaps reinforced by frequent exposure to the boardroom. Others challenged this characterisation, arguing that ego is often conflated with resilience – which is necessary when delivering the tough messages that Reward is often responsible for. Regardless, a perception of arrogance can cause friction with the wider HR function.

What's clear is that the Reward landscape is rapidly changing. Public scrutiny of pay is more intense than ever. Correspondingly, the line between the data-driven skills associated with Reward and the softer skills associated with

HR is blurring, especially when it comes to engaging with stakeholders. Business insight, empathy, and understanding are becoming just as important to the role as the ability to crunch numbers.

Our group explored how organizational design can help to modernise the Reward function to reflect these changes. Participants discussed how to bring the best of both worlds together by: "designing a more liquid workforce", "reimagining how we articulate roles", and "flexing generalist resources that come into the Reward team". Taking full advantage of broader HR talent may also require the adoption of new ways of working. For example, rather than bringing people into Reward for fixed-term secondments, it may make more sense to construct teams fluidly on a project-by-project basis.

**"The view of 'Reward and the rest' is outdated. HR holds a lot of untapped talent that could make the transition. The difference between the disciplines is narrowing – there is less of a distinction between data versus 'feelings' people."**

## Early exposure is key for succession planning

Potential candidates for the top jobs in Reward need board-level exposure as early as possible. There is a risk that if they are kept away from high-level conversations because of the perception they are 'above their pay grade', the most able people will self-select out of contention.

Some participants in our discussion observed that boards and the RemCo chair are often amenable to inviting junior people to the table to gain experience, but Reward Directors can be reluctant to ask permission. The transition to hybrid working could make this easier, since there may be fewer apprehensions about bringing juniors to virtual (as opposed to in-person) meetings. Regardless, as one of our participants noted: "RemCo members usually worry about succession way more than they do about the number of people in a board meeting".

**"If you adopt an 'above your pay grade' attitude, talent will soon realise that development is not on the agenda."**

From our discussion, it was clear that Reward Directors and CHROs are grappling with similar issues, regardless of sector or scale of business. Indeed, a number of the themes we covered are not just limited to reward – they are also applicable to across other roles and functions – particularly when it comes to challenges of engaging and retaining new generations in the workforce. Our conversation closed with the observation that in-house teams may soon have more in common with consultancies than ever before as they seek out increasingly agile and fungible skillsets to meet rapidly evolving demand.



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