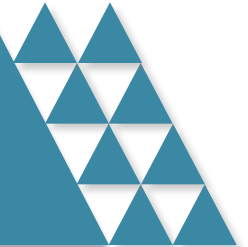
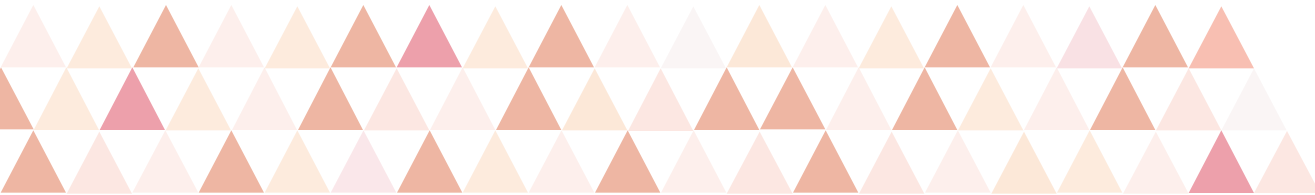


# Contemporary HRM



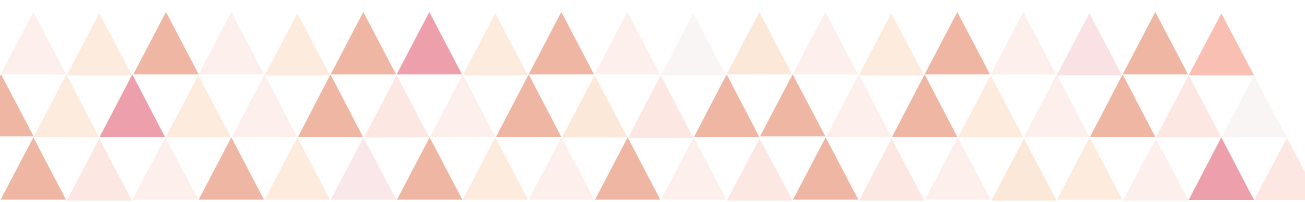
## Reward Management

Laura Gerard



# Learning objectives

- Explore rewards, reward strategies and their use in organisations
- Outline how business and reward strategy relate to one another
- Discuss characteristics of reward strategies and analyse what contributes to their effectiveness
- Consider fixed versus variable payment systems and critically evaluate the advantages and disadvantages of the total reward approach



# What is reward?

- Reward refers to all of the monetary, non-monetary & psychological payments that an organisation provides for its employees in exchange for the work they perform (Armstrong, 2004)
- All the financial returns and tangible services and benefits employees receive (Milkovich and Newman, 2004)
- The rewards people receive are in accordance to their value to an organisation and represent a core aspect of the employment relationship



# Why are rewards important?

- Motivation and performance levels
- Commitment to the organisation
- Job satisfaction and engagement



## Hygiene Factors

- Salaries, Wages & other Benefits
- Company Policy & Administration
- Good Inter-personal Relationships
- Quality of Supervision
- Job Security
- Working Conditions
- Work/Life Balance

### When in place, these factors result in...

- ✓ General Satisfaction
- ✓ Prevention of Dissatisfaction

## Motivator Factors

- Sense of Personal Achievement
- Status
- Recognition
- Challenging/stimulating Work
- Responsibility
- Opportunity for advancement
- Promotion
- Growth

### When in place, these factors result in...

- ✓ High Motivation
- ✓ High Satisfaction
- ✓ Strong Commitment

# Terminology related to Reward Management

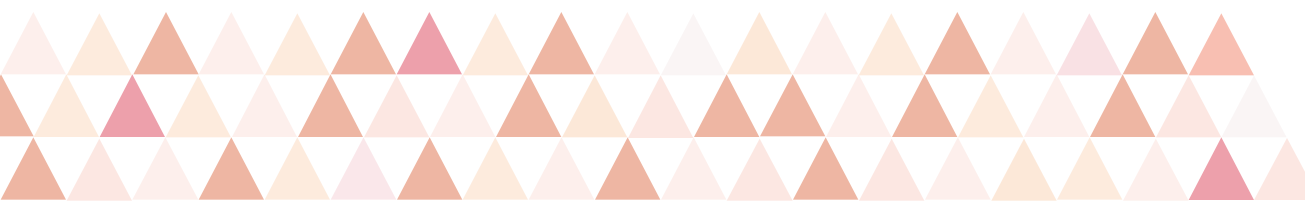
- Compensation – sometimes used to refer to pay, but more commonly in relation to payment for injury
- Reward – broad definition; applies to both monetary and non-monetary payments
- Remuneration – same as pay
- Pay – monetary and non-monetary payment
- Wages – paid weekly/hourly
- Salaries – Usually based on a yearly payment amount (paid monthly)

Adapted from Foot and Hook (2005:301)



# Types of rewards

- **Extrinsic reward** – Tangible or transactional reward for undertaking work e.g. salary, incentive and benefits.
- **Intrinsic reward** - derived from work and employment e.g. environmental rewards (physical surroundings, values of the organisation) Development –oriented rewards (L&D opportunities, career advancement)

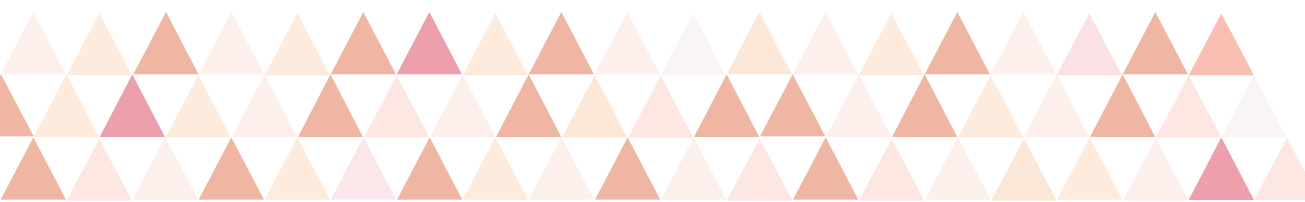


# The Reward Strategy

This is a business focused statement of the **intentions of the organisation** concerning the development of future reward processes & practices which **are aligned to the business & human resource strategies** of the organisation, its culture & the environment in which it operates (Armstrong, 2007)

When formulating reward strategy, there are 3 basic questions to answer:

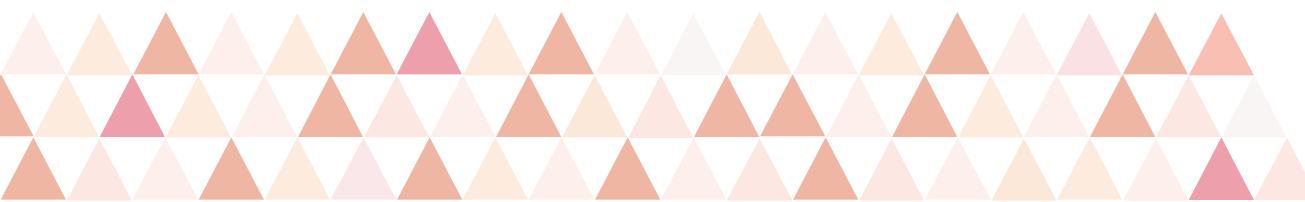
1. Where are we now?
2. Where do we want to be?
3. What's the business case?



# Management Approach to Reward

Generally, the approach to reward strategies adopted by employers takes one of three forms:

1. **Focus on service** - characterised by open-ended agreements about continuity of employment, incremental pay scales and annual reviews.
2. **Focus on skills** – produces higher rates of pay with greater skills.
3. **Focus on performance** – emphasises target setting, adapting to change and a close relationship between what the employee achieves and what the employee is paid.





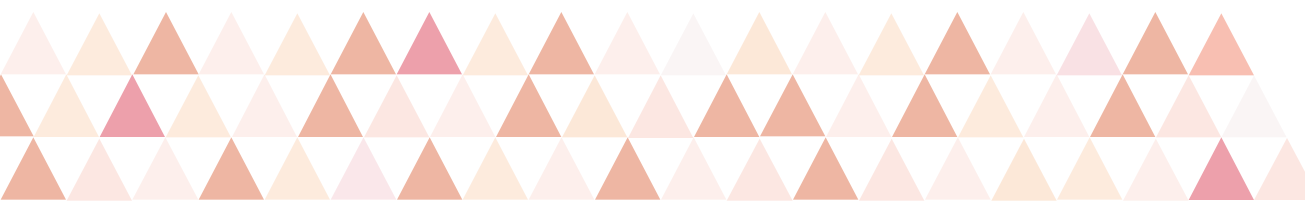
# Examples of Business Strategy linked to the Reward Strategy thereby achieving integration

<b>BUSINESS STRATEGY</b>	<b>REWARD STRATEGY</b>
Achieve added value by improving motivation	Introduce or improve performance pay plans – IPRP or team rewards
Achieve added value by improving performance or productivity	Introduce or improve performance pay plans and performance management processes
Achieve competitive advantage by technological development	Introduce competence or skills based pay
Achieve competitive advantage by delivering better value and quality to customers	Recognise and reward individuals and teams for meeting and exceeding customer service & quality standards
Achieving competitive advantage by attracting, developing and retaining high quality employees	Ensure that rates of pay are competitive. Reward people for developing their competencies and careers.



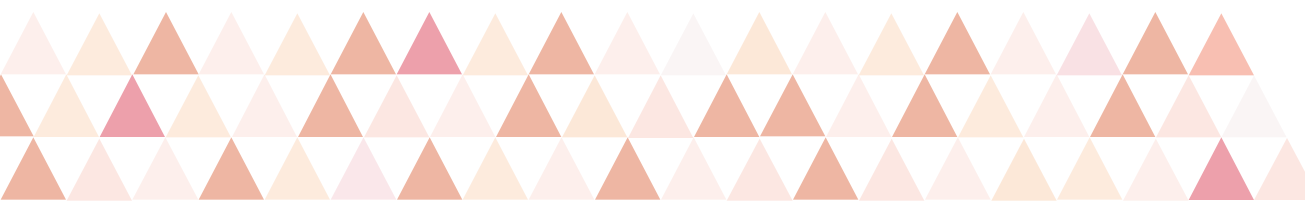
## Consider...

1. Which reward goals (when designing the company reward strategy) would be most critical for a technology based company e.g. Microsoft/Apple?
2. Which reward goals (when designing the company reward strategy) would be most critical for a non-profit company e.g. red cross?
3. Which reward goals would you value most and why?



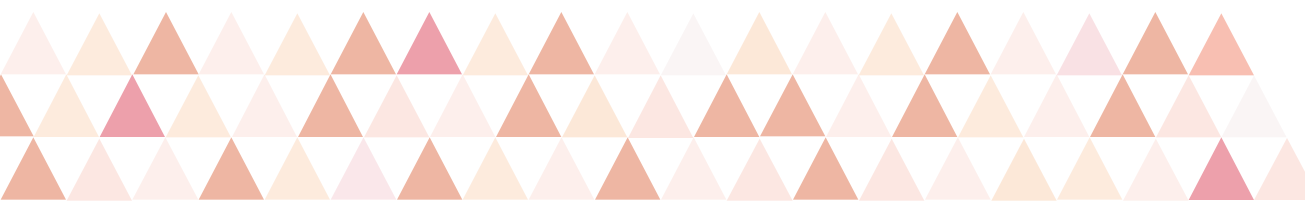
# Research evidence from the CIPD (2008)

- Drivers of reward strategy
  - Recruit & retain key talent
  - Reward high performers
  - Support business goals
- Widespread acknowledgement that there is no “right way” to manage pay.
- Individual contribution/merit is now the dominant factor in determining pay progression.
- Skills based pay continues to decline and regional rates are growing in popularity
- 30% of organisations claim a “Total Reward” approach



# Features of an Effective Reward Strategy

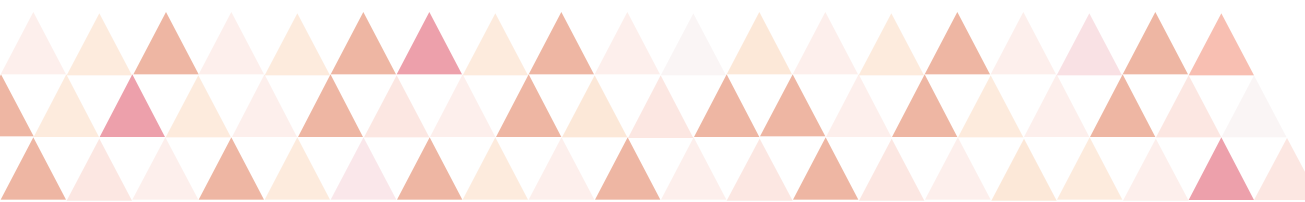
- ✓ They have clearly defined goals & well defined link to business objectives
- ✓ Well designed pay & reward programmes tailored to the needs of the organisation & its people
- ✓ Based on corporate values and beliefs
- ✓ Flows from the business strategy (contributes to it)
- ✓ Is congruent with the culture & the internal & external environment of the organisation
- ✓ Linked with business performance
- ✓ Has been evolved with consultation with key stakeholders





## Consider...

1. What the main objectives of employee reward can be from an **employer's point of view** and an **employee's point of view**?
2. What are organisations paying for (whether through pay or their reward strategy)?



# Objectives of reward systems

## Employer Perspective

- Prestige
- Competition
- Control
- Motivation
- Performance
- Cost

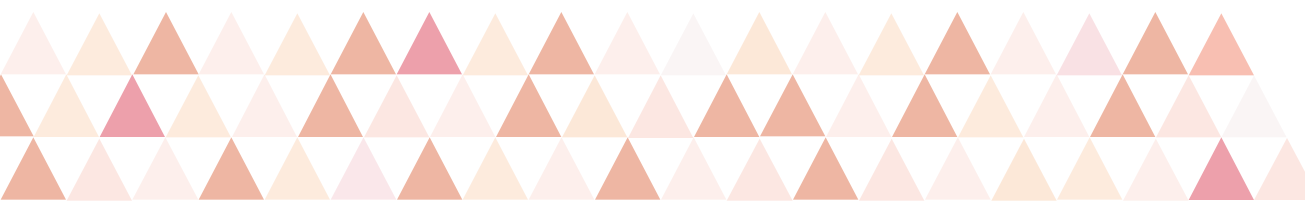
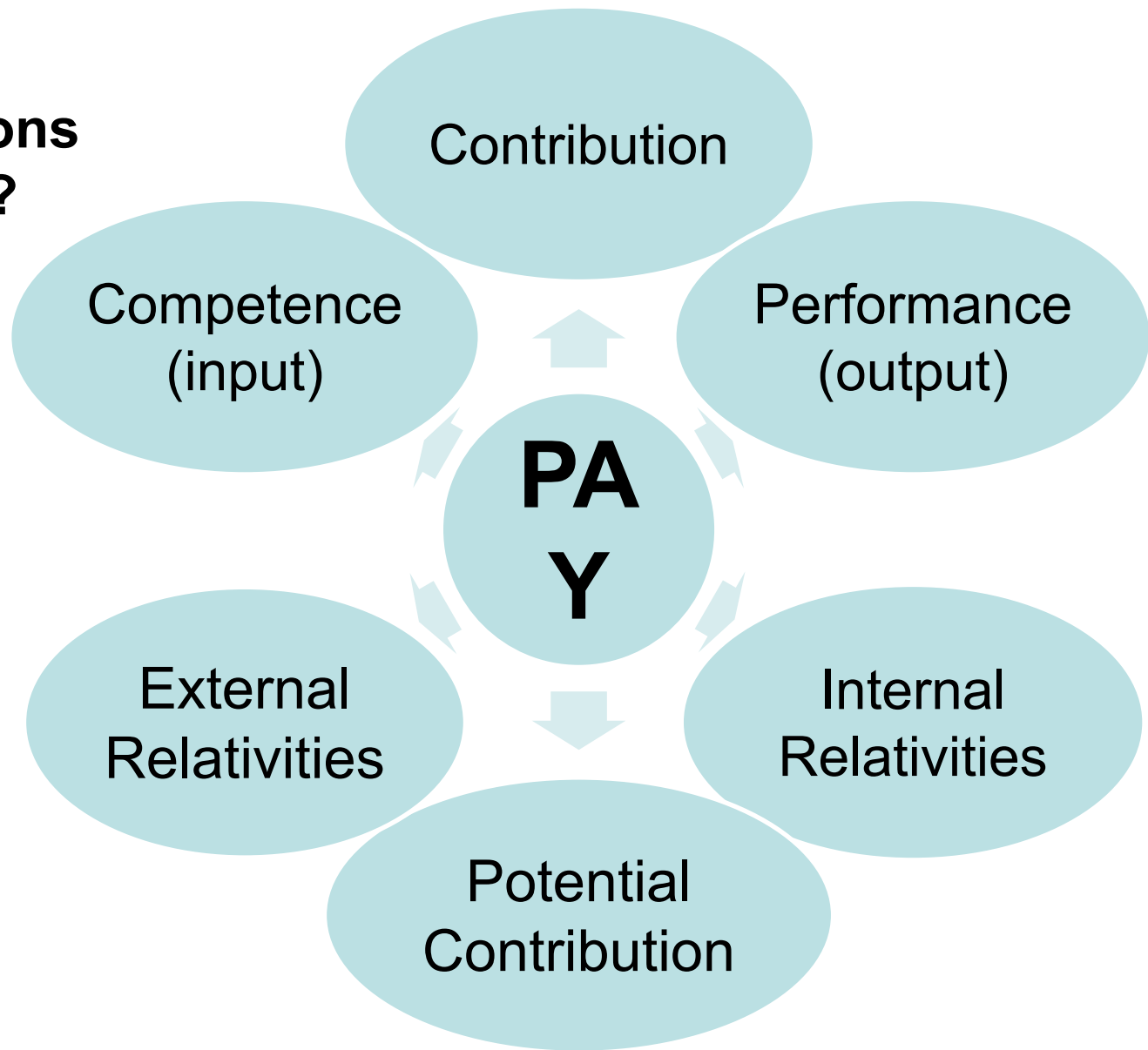
## Employee Perspective

- Purchasing power
- 'Felt-fair'
- Right to fair pay
- Internal & external relativities
- Recognition
- Composition

Source: Torrington *et al.* (2005:596 – 601)



# What are organisations paying for?



# Factors affecting the strategic reward system

## Internal factors

Compensation  
policy  
of organization

Worth of job

Employee's  
relative worth

Employer's ability to  
pay

## External factors

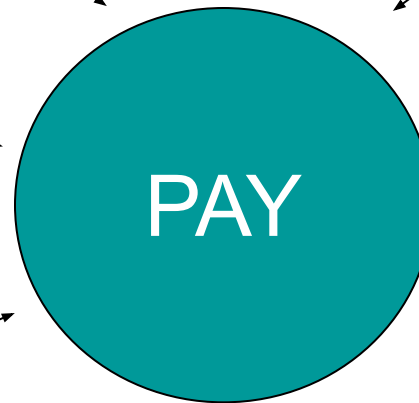
Conditions of the  
labor market

Area wage rates

Cost of living

Collective  
bargaining

Legal requirements

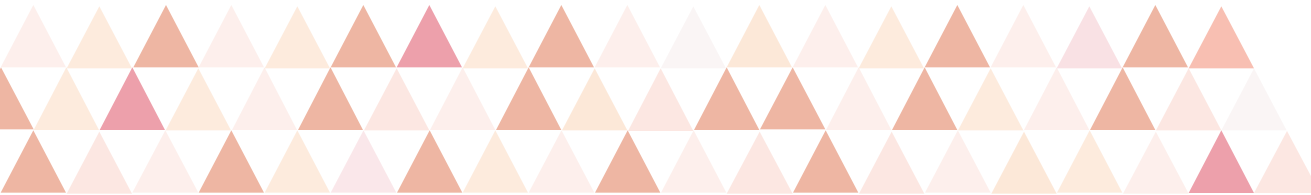




# In your opinion...

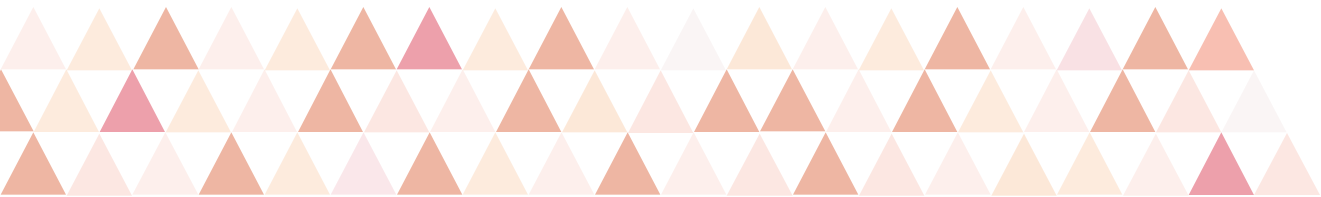
## Are these statements correct? Why?

- Diverse organisational strategies and cultures require different reward strategies.
- The usefulness of different reward strategies, policies and practices varies according to context.
- It cannot be assumed that any one reward practice will have an equal effect on all those who experience it, as not everyone is motivated in the same way.



# Common pitfalls of developing reward strategies

1. The organisation focuses on financial incentives and little else
2. Perks only apply to the office environment
3. Employee opinions and inputs are ignored
4. A one-size-fits-all approach is undertaken

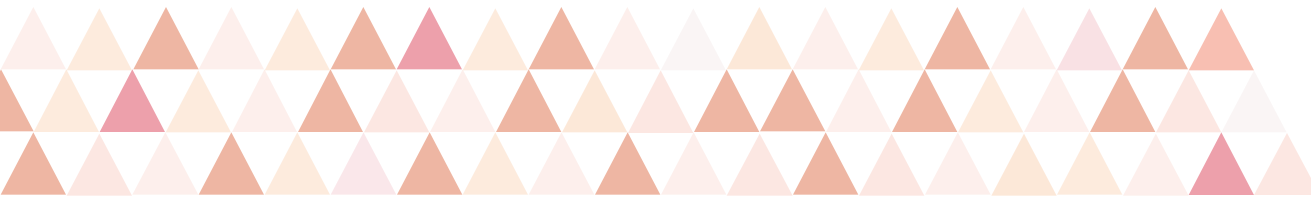


# Different types of reward system



Two main categories:

1. **Fixed payment systems** = Those that don't vary in relation to achievements
2. **Variable payment systems** = Those that vary in relation to results, profits, or performance (based on payment by results or performance related pay)



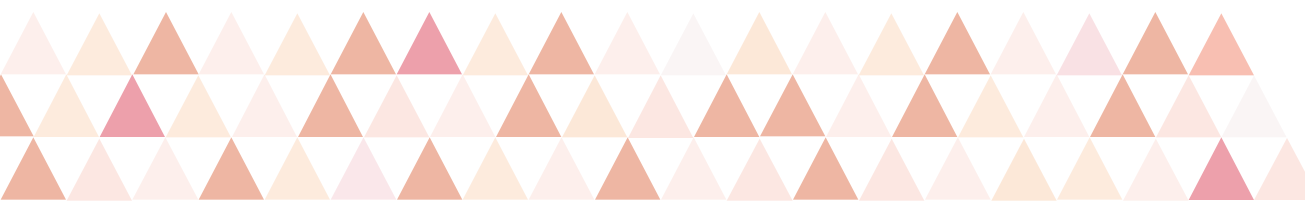
# Type 1: Fixed payment systems

Based on job/time which can involve;

- Hourly rates
- Day rates
- Weekly wage
- Annual salary

Or alternatively based on:

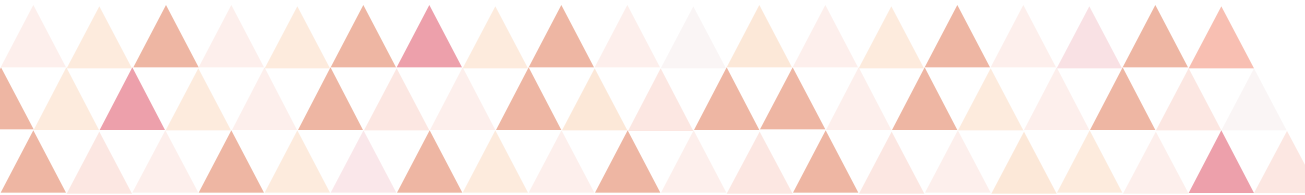
- Competence – qualifications and/experience
- Seniority – age/tenure



# Type 2a): Variable Payment Systems – Payment by results

- Piece work/commission
- Individual time saving
- Measured day work
- Small group incentives
- Large group incentives – gainsharing
- Profit sharing – cash-based/share-based

Rewards according  
to a set formula or  
output



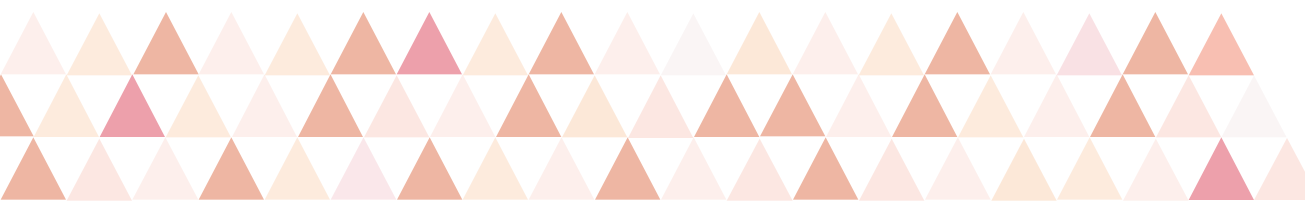
# Type 2b): Variable Payment Systems – Performance-related pay

- ❖ Skill-based schemes – developing competencies
- ❖ Merit-based schemes
- ❖ Goal-based schemes

Varies depending upon actual performance

Non monetary rewards

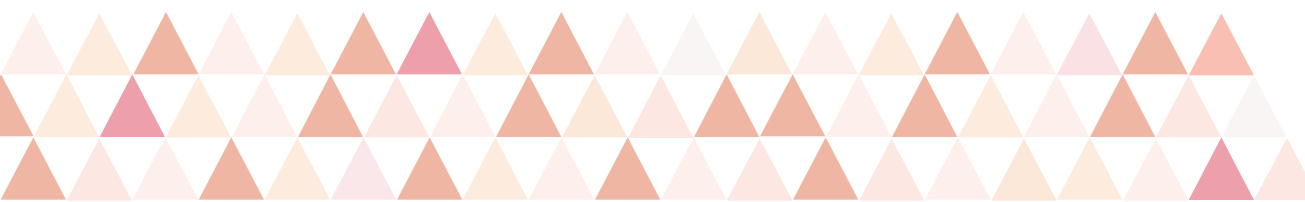
- ❖ Flexible benefits systems/cafeteria style pay



# Group Discussion...



What are the advantages and disadvantages of performance related payment (PRP) systems?



# Advantages of PRP

- Employees are able to influence performance by changing their behaviour
- The reward is clearly & closely linked to the effort of the individual or group
- Employees are clear about the targets & standards of performance needed & can measure their own performance against these targets
- Performance can be measured with fairness & consistency
- The pay system uses a clearly defined & understood formula
- Can encourage an entrepreneurial & performance oriented culture

# Disadvantages of PRP

- Encourages compliance rather than commitment
- Short-term motivation – Herzberg (1966)
- Unlikely to improve poor performance
- Stifle creativity and innovation
- Reliance on line manager's skills as assessors
- Can lead to Equal Pay claims

Source: Torrington *et al.* (2014)



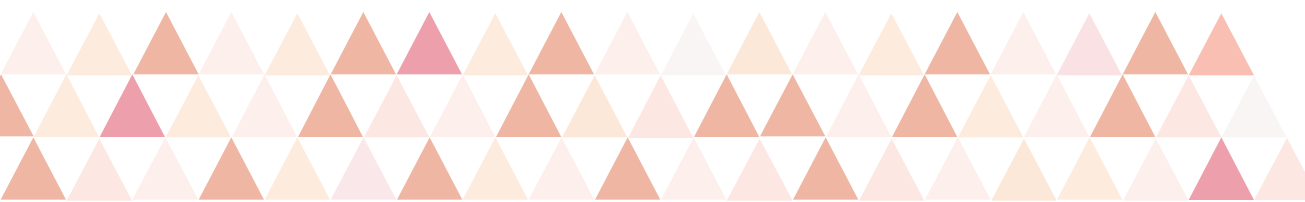


# Total Reward

- Takes a holistic approach to reward management - 'extrinsic' and 'intrinsic' rewards
- Combines a number of elements

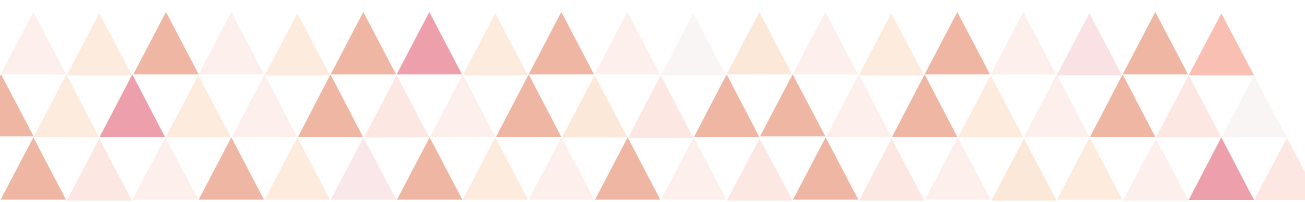
*“Combines the traditional pay and benefits elements with the other things that employees gain from employment: skills, experience, opportunity and recognition”* (Redman and Wilkinson, 2006:128)

Video containing explanations of total reward management - <https://www.youtube.com/watch?v=OuH2oWCrxmU>



# Benefits of the Total Reward Approach

- **Increased flexibility** – tailored to particular challenges and circumstances
- **Recruitment and retention**
- **Reduced cost**
- **Heightened visibility** in a tight labour market to attract critical talent
- **Enhanced profitability** – direct links can be forged between employee motivation and product/service quality

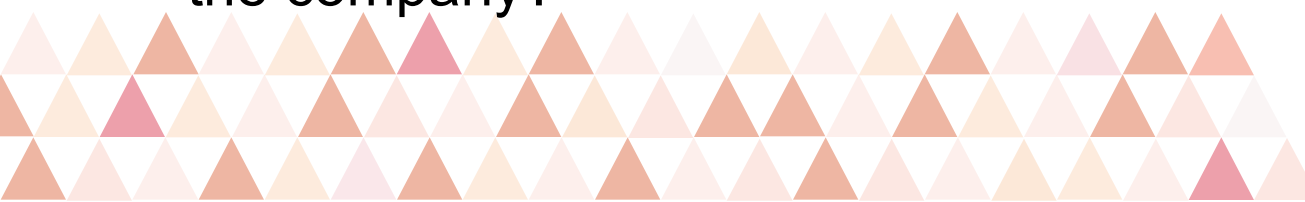


# Activity...



Review case study – Designing reward systems (Redman and Wilkinson, 2009:170)

1. Are the above companies utilising the appropriate reward scheme? Should they be using other rewards as part of their overall package? What would you advise these companies?
2. Take an example of a company you know and design a reward system, explaining the reasons for your design and ensuring that it incorporates the company's culture, strategy, employees etc. Would you use the same system for all employees within the company?



# Current trends in UK reward management

- Organisations are looking at pay structures that promote:
  - Acquisition of new skills
  - Increased flexibility
  - Greater awareness of business requirements
  - Linking individual/team pay to organisational well-being
- Linking pay to performance
- Harmonisation
- Flexible or 'cafeteria' style benefits
- Total reward

Source: ACAS (2006)



# How do you make the most of limited reward budgets to keep employees engaged?

## Leadership

Applying focus to line managers, acknowledging their difficult situation in motivating employees. Supporting them to think through how best to engage their team.

Creating clear accountability for engagement processes, so that managers understand what is required of them and performance against objectives is clearly measured.

## Development

Providing international opportunities and project assignments to ensure staff feel that they are progressing and challenged.

Source: HayGroup (2011)

# How do you make the most of limited reward budgets to keep employees engaged?

## Benefits

Employee **staff discount schemes** – the challenge is in **reminding staff** of what's available and offering the right type of discounts to appeal to different earnings levels.

Focusing on **high impact benefits that don't cost much**, e.g. free breakfast for employees on a Monday, petrol vouchers. **Publish the monthly savings** staff make through discount schemes.

**Recognising long service** with meaningful awards that employees really value.

Greater use of **voluntary benefit schemes** e.g. childcare, cycle to work, discounted car parking at work, travel loans for trains, green lease car scheme.

Providing a **breadth of benefits choice** and allow employees to take control of selecting the benefits that suit their lifestyle.

**Creating alliances between organisations** to access more attractive flexible benefits, complementary services.

Source: HayGroup (2011)

# How do you make the most of limited reward budgets to keep employees engaged?

## Flexible Working

Increasing use of **flexible working** as a way of giving employees 'more' when pay levels have been frozen or reduced.

**Capitalising on technology** to support the organisation in introducing flexible working practices and changing the culture of 'presenteeism'.

## Communications

Increasing employee control of their choices and communication. Using **online interfaces** so employees can log in at any time to see their **individual benefits package**.

**Acting transparently** to explain to employees what their reward package is and how it compares internally and externally – providing a **clear statement of reward positioning** against the market.

Using "**roadshows**" to explain to employees what they are offered – rather than taking for granted that it is understood.

Consistent and clear communications so that reward package is understood. **Open follow up** with employees so they know where they stand – use of message boards, forums.

Source: HayGroup (2011)

# Conclusion

- Contemporary organisations are looking for ways to use rewards as a means of attracting and retaining their employees
- Reward strategies are influenced by a wide range of internal and external factors with increasing focus being placed on rewarding employees for their performance and a flexible total reward approach
- Reward strategies need to be linked to organisational strategies but this can often be complex as rewards are contractual and difficult to change when organisational strategies change

