

Reward Management



The main question is:
how to achieve high work performance?

Work performance is affected by:

Job characteristics and (physical) work
environment

+

Abilities and skills

+

The willingness to perform

Rewarding Employees

- Major strategic rewards decisions:
 - What to pay employees
 - How to pay individual employees
 - What benefits to offer
 - How to construct employee recognition programs



What to pay

- Need to establish a pay structure
- Balance between:
 - Internal equity – the value of the job for the organization
 - External equity – the external competitiveness of an organization's pay relative to a pay elsewhere in its industry (compared to the median)
- These are strategic decisions with trade-offs

Definition of Reward Management

- This discipline is concerned with the formulation and implementation of strategies and policies, the purposes of which are to reward employees fairly, equitably and consistently in accordance with their value to the organization.
- It deals with design, implementation and maintenance of reward systems (processes, practices, procedures) that aim to meet the needs of both the organization and its stakeholders.

Philosophy of Reward Management

- **Strategic sense:** long-term focus & it must be derived from the business strategy
- **Total Reward approach:** considering all approaches and means of reward (financial or not) as a coherent whole; integration with other HRM strategies is important
- **Differential** reward according to the contribution
- **Fairness, equity, consistency, transparency**

Economic theories that (partially) explain pay levels

- **Supply & Demand:** labor market factors
- **Efficiency wage theory:** attraction of better employees, motivation, reducing fluctuation leads to high wages
- **Human Capital theory:** productivity differences
- **Principal – Agent Theory:** inequality in the information leads to „agency costs”
- **Collective bargaining**

Total Reward Concept (Armstrong 2009)

All types of reward:

- **Non-financial as well as financial,**
- **Indirect as well as direct,**
- **Extrinsic as well as intrinsic.**

Each element is developed, implemented and treated as an integrated and coherent whole.

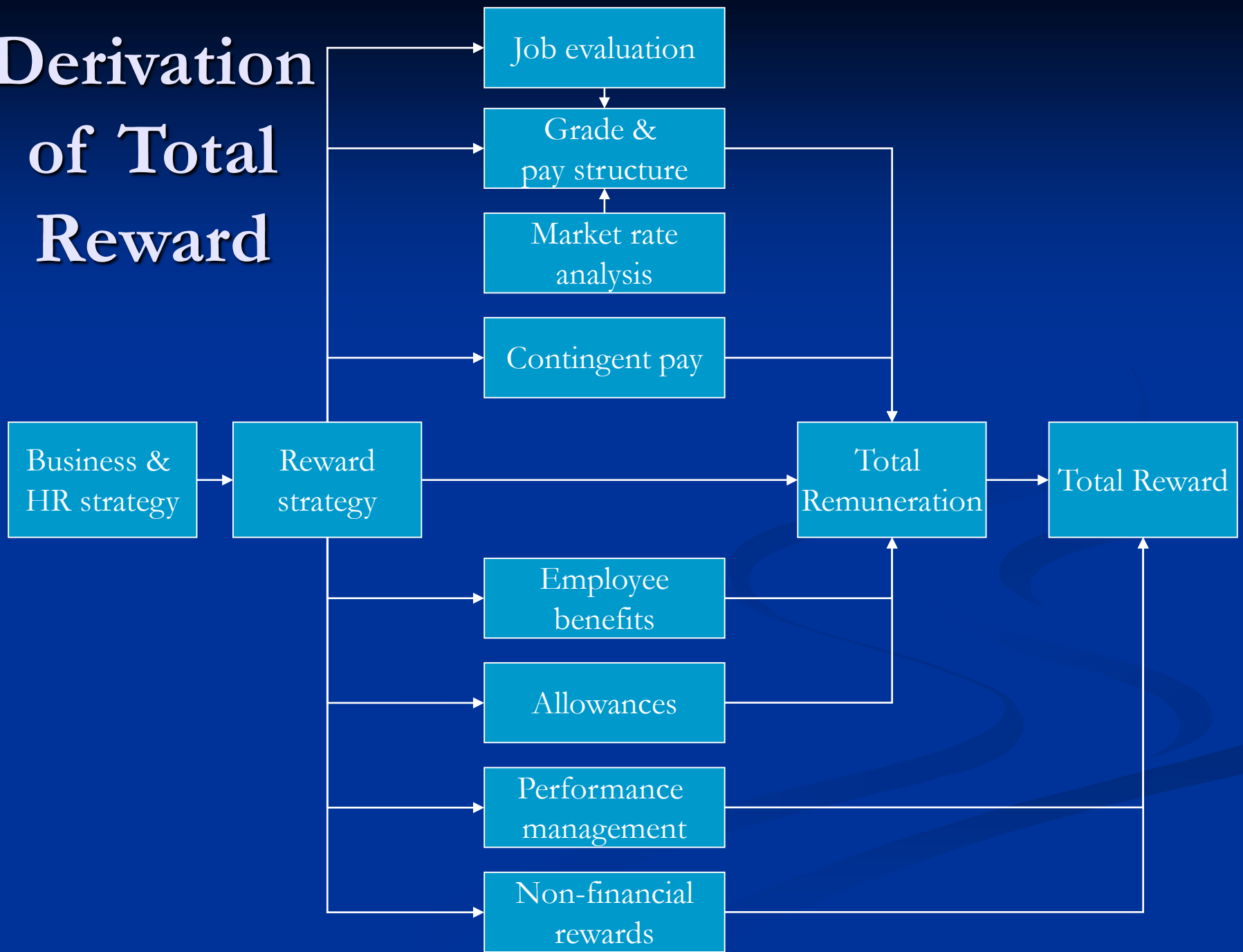
Components of Total Reward (Armstrong 2009)

Transactional (tangible) rewards	Base pay	Total remuneration	Total reward
	Contingent pay		
	Employee benefits		
Relational (intangible) rewards	Learning and development	Non-financial rewards	
	The work experience		
	Recognition, achievement, growth		

The 4Ps of Reward

- Pay
 - Salary, bonus, shares, etc.
- Praise
 - Positive feedback, commendation, staff-of-the-year award, etc.
- Promotion
 - Status, career elevation, secondment, etc.
- Punishment
 - Disciplinary action, withholding pay, or criticism, etc.

Derivation of Total Reward



Strategic Reward Management

- Where do we want our reward practices to be in a few years time? (vision)
- How do we intend to get there? (means)

Reward Strategy

- A declaration of intent that defines what the organisation wants to do in the longer term to develop and implement reward policies, practices and processes that will further the achievement of its business goals and meet the needs of the stakeholders.
- It gives a framework to other elements of reward management.

The structure & content of a Reward strategy

- Environment analysis:
 - Macro-level: social, economical, demographic
 - Industrial level
 - Micro-level: competitors
- Analysis of the „inner environment”: strategy, job evaluation, financial conditions...
- Gap-analysis
- Guiding principles
- Broad-brush reward strategy
- Specific reward initiatives

Job-evaluation

A systematic process

- For defining the relative worth/size of jobs/roles within an organization
- For establishing internal relativities
- For designing an equitable grade structure and grading jobs in the structure



- To give an input for reward considerations

Dimensions of job evaluation

- **Relative** or measured to an **absolute** scale
 - **Relative:** compares jobs to one another within the company
 - **Absolute:** compares to an „independent”, external measure
- **Analytical** or **non-analytical** (global)
 - **Analytical:** measures factors or elements of the jobs
 - **Non-analytical:** measures the job as a whole

Types of Job Evaluation (Armstrong 2009)

Analytical job evaluation (point-factor rating or analytical matching) – decisions on the relative value or size of jobs are based on an analysis of the degree to which various defined elements or factors are present in the form of demands on the job holder

Non-analytical job evaluation (job classification or ranking) – whole jobs are described and compared to slot them into a defined grade or place them in a rank order or without analysing them into their elements

Market pricing – jobs are placed in pay structures entirely on the basis of external relativities, ie market rates (a method of pricing jobs but not job evaluation as usually defined)

Types of Job Evaluation

Non-analytical Evaluation	Analytical Evaluation
<ul style="list-style-type: none">• Whole job ranking	<ul style="list-style-type: none">• Points rating (scoring)
<ul style="list-style-type: none">• Paired comparisons	<ul style="list-style-type: none">• Factor Comparison
<ul style="list-style-type: none">• Job classification	<ul style="list-style-type: none">• Proprietary schemes
<ul style="list-style-type: none">• Job matching (= internal benchmarking)	

Job Evaluation: Scoring (Armstrong 2009)

Factor	Level 1	Level 2	Level 3	Level 4	Level 5	Level 6
Expertise	20	40	60	80	100	120
Decisions	20	40	60	80	100	120
Autonomy	20	40	60	80	100	120
Responsibility	20	40	60	80	100	120
Interpersonal skills	20	40	60	80	100	120

Total score = 360

Paired comparison (Armstrong, 2005)

Job reference	a	b	c	d	e	f	Total score	Ranking
A	–	0	1	0	1	0	2	5=
B	2	–	2	2	2	0	8	2
C	1	0	–	1	1	0	3	4
D	2	0	1	–	2	0	5	3
E	1	0	1	0	–	0	2	5=
F	2	2	2	2	2	–	10	1

Figure 2.1 A paired comparison

A proprietary scheme from the market

- A group of role analysts, working as a panel assess the role (from an agreed job description and information) against a number of factors, which are known as the Hay Guide Chart Profile.
- **1. Know – How**
 - The level of knowledge, skill and experience required to perform the job successfully.
- **2. Problem Solving**
 - The complexity of thinking required, both in the type of problems come across and the extent to which the jobholder has precedent and/or assistance in solving them (applying their Know – How).
- **3. Accountability**
 - The impact the job has on the organization (i.e. the end result) and the extent to which the jobholder acts autonomously in achieving this.

For details see: <https://www.kornferry.com/content/dam/kornferry/docs/pdfs/job-evaluation.pdf>

Wage gaps

- Wage gaps can occur in companies using international benchmarking in job evaluation.

The cause is simple:

- The market of top managers is usually international: they earn international wages, or they leave the firm
- The market of workers with little or no qualification is local in (nearly) every case: they earn local wages.
- In less developed countries this can lead to enormous wage gaps between the „top” and „bottom” employees.

Components of Total Remuneration

- **Base pay**: Base pay is the fixed compensation paid to an employee for performing specific job responsibilities. It is typically paid as a salary, hourly (or in some situations piece rate). There is a tendency towards market orientation and the increasing role of qualifications.
- **Contingent pay**: Individual contingent pay relates financial rewards to the
 - individual performance, organisation or team performance,
 - competence,
 - service,
 - contribution or
 - skill of individual employees.

Consolidated pay: built into the base pay

Variable pay: provided in the form of cash bonuses (increasing role nowadays).
- **Employee benefits**: Elements of remuneration given in addition to the various forms of cash pay.

Contingent pay

- Individual contingent pay is a good motivator (but to what extent?) for those who receive it.
- It attracts and retains better workers.
- It makes labour related expenditures more flexible.
- It can demotivate those who don't receive it (depends on performance measurement)
- Can act against quality and teamwork.

Types of individual contingency pays

- **Performance-related:** increases basic pay or bonuses related to assessment of performance
- **Competence-related:** Pay increases related to the level of competence
- **Contribution-related:** pay is related both to inputs and outputs
- **Skill-based:** pay is related to acquisition of skills
- **Service-related:** pay is related to service-time

Team based pay

- Pay is related to team performance
- It can encourages teamwork, loyalty and co-operation
- It can be demotivating on individual level (encourages social loafing)

Organisaton-wide schemes

- **Profit-Sharing**– organization-wide programs that distribute compensation based on an established formula designed around profitability
- **Gain Sharing** – compensation based on sharing of gains from improved productivity
- **Employee Stock Ownership Plans (ESOPs)** – plans in which employees acquire stock, often at below-market prices

Employee benefits

- Can contribute to an attractive and competitive total remuneration
- Can be provided for the personal needs
- Increase commitment toward the organisation
- Tax-efficient (depends on the government's sovereign decision)

Main types of Employee benefits

- Pension schemes
- Personal (and family) security: different types of insurances
- Financial assistance: loans, house purchase schemes, discount on company services...
- Personal needs: holidays, child care, recreation facilities, career breaks...
- Company cars and petrol
- Intangible benefits: quality of working life...
- Other benefits: mobile phones, notebooks...

- Cafeteria systems: the employee can allocate a given sum among many available benefits

Total remuneration in recession

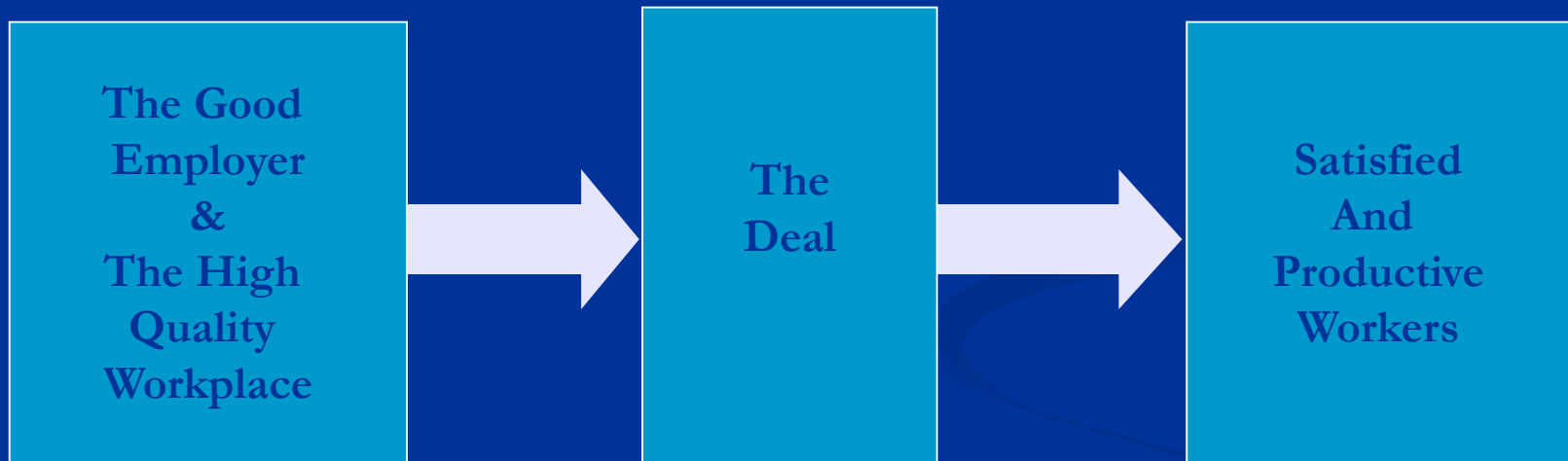
- It is a good chance to rethink and renew the remuneration system
- Share of contingency payment should increase
- Employer benefits, that do not need short term expenditure will increase:
 - Company car
 - Saturday-year or sabbatical (free time)
 - Share-options

Definition of the psychological contract

“The perceptions of both parties to the employment relationship, organization and individual, of the reciprocal promises and obligations implied in that relationship”

The *state* of the psychological contract is concerned with whether the promises and obligations have been met, whether they are fair and their implications for trust.

The Psychological Contract Framework (David Guest)



**Thank you for your
attention!**