BK School of Business Management

1. An Overview of Reward Management
2. The Reward System
3. Total Rewards

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1. An Overview of Reward Management

Defination

- **Reward management defined:** Reward management is concerned with the strategies, policies and processes required to ensure that the value of people and the contribution they make to achieving organizational, departmental and team goals is recognized and rewarded.

Characteristics of reward management

- Reward management is fundamentally about people. It is ***stakeholder orientated***, ***integrated***, ***strategic*** and ***evidence based***.
- **Reward management and people:** Reward management is concerned with people – especially the employees who are rewarded for their efforts, skills and contribution but also the directors, managers and reward specialists who plan, manage and administrate rewards.
- **A stakeholder approach:** The purpose of human resource management (HRM) is to meet the needs of all the stakeholders in the business – employees, customers, suppliers and the public at large as well as management and shareholders.

- **Integrated reward management:** Integration takes three forms:
  - Strategic integration: the vertical integration of reward strategy with business strategy.
  - HRM integration: the horizontal integration of reward strategies with other HR strategies, especially those concerned with high performance, engagement, talent management and learning and development.
  - Reward integration: the internal integration of reward to ensure that its various aspects cohere and that a total reward philosophy is adopted that means a full range of mutually supporting financial and non-financial rewards is used.

The integrated approach adopted by Aegon UK is:

- •• Reward: market driven, with overall performance dictating rate of progress of salaries within broad bands rather then existing grades.
- •• Recruitment: competency based, with multi-assessment processes as the basic approach.
- •• Performance management: not linked to pay, concentrated on personal development, objective setting and competency development.
- •• Training and development: targeted on key competencies and emphasizing selfdevelopment.

Aims of reward management

- In the words of Ghoshal and Bartlett (1995) the overall aim of reward management should be to ‘add value to people’. It is not just about attaching value to them. More specifically, the aims are to:
- support the achievement of business goals through high performance;
- develop and support the organization’s culture;
- define what is important in terms of behaviours and outcomes;
- reward people according to the value they create;
- reward people according to what the organization values;
- align reward practices with employee needs;
- help to attract and retain the high-quality people the organization needs;
- win the engagement of people.

The reward management framework

- Reward management is a complex process with many interconnecting elements and underpinning concepts. The reward management framework expressed as a concept map is shown in Figure 1.1. (Page 10)
- This model of reward is indeed complex but it can be analysed under the headings of aims, strategic reward, contextual factors and reward concepts.

Achieving the aims in general

- The overall approach to achieving reward aims is based on a philosophy and takes into account factors related to distributive and procedural justice, fairness, equity, consistency and transparency.
- It is also concerned with achieving strategic alignment and cultural/contextual fit, developing a high-performance culture and segmentation.
- **Reward philosophy:**
- Reward management is based on a well-articulated philosophy – a set of beliefs and guiding principles that are consistent with the values of the organization and help to enact them. The philosophy recognizes that if HRM is about investing in human capital from which a reasonable return is required, then it is proper to reward people differentially according to their contribution (ie the return on investment they generate).

Achieving the specific aims

- Support the achievement of business goals and high performance
- Support and develop the organization's culture
- Define the right behaviours and outcomes
- Reward people according to the value they create and what the
- organization values
- Align reward practices with employee needs
- Help to attract and retain high-quality people
- Win the engagement of people
- Factors influencing the achievement of the aims

Contextual factors

- **Internal context:**
- *The organization's culture*
- *The organization's business or sector*
- *Work environment*
- *People*
- *Business strategy*
- *Political and social climate*

Contextual factors…

- **External context:**
- *Globalization*
- *Rates of pay in the market place*
- *The economy*
- *Societal factors*
- *Employment Legislations*
- *The trade unions*

Fundamental concepts

The following fundamental concepts influence the aims of reward management, reward strategy and how people are valued.

- **The resource-based view:** This is the view that it is the range of resources in an organization, including its human resources, that produces its unique character and creates competitive advantage.
- **Human capital management:** The concept of human capital is often associated with the resource-based view. Chatzkel (2004) observes that 'it is human capital that is the differentiator for organizations and the actual basis for competitive advantage'.

- **Human process advantage:** Boxall (1999) notes that a distinction should be made between ‘human process advantage’ and ‘human capital advantage’. The former results from the establishment of ‘difficult to imitate, highly evolved processes within the firm’, while the latter follows from employing people with competitively valuable knowledge and skills.

Motivation theory:

- ***Instrumentality theory:*** 'Instrumentality' is the belief that if we do one thing it will lead to another. In its crudest form, instrumentality theory states that people only work for money.
- ***Content (needs) theory:*** This theory focuses on the content of motivation in the shape of needs. It provides guidance on what needs should be satisfied by the reward system if motivation is to occur.
- ***Process theory:*** Expectancy theory, Goal theory, Equity theory
- ***Cognitive evaluation theory:*** Cognitive evaluation theory (CET) as devised by Deci (1975) and Deci and Ryan (1985) argues
- that placing strong emphasis on monetary rewards decreases people's interest in the work
- itself, thus dampening a powerful alternative source of motivation. In other words, extrinsic
- rewards erode intrinsic interest.

- **Principal agent theory:**
- Principal agent theory, sometimes known as agency theory, is based on the supposition that the separation between the owners (the principals) and the agents (the managers) means that the principals may not have complete control over their agents.
- **The psychological contract:**
- A psychological contract is a set of unwritten expectations that exist between individual employees and their employers. As Guest (2007) noted, it is concerned with: 'The perceptions of both parties to the employment relationship of the reciprocal promises and obligations implied in that relationship'.

Pay level concepts

- There are a number of explanations of how levels of pay are determined and, therefore, the factors that need to be taken into account in deciding on the value of jobs and the design of grade and pay structures. Economic theories of pay and efficiency wage theory are perhaps the more influential ones but there are other concepts such as human capital, principal agent theory, tournament theory and the effort bargain.

Effective reward management

- is fit for purpose – the contribution it makes to achieving organizational objectives and recognizing the needs and wants of stakeholders;
- is appropriate – fits the culture and context of the organization;
- is designed in accord with what is generally regarded as good practice in the particular context of the organization, subject to the requirement that it must be appropriate;
- functions in line with well-defined guiding principles, which include the need to achieve fairness, equity, consistency and transparency in operating the reward system;

Effective reward …

- has produced an attractive employee-value proposition;
- provides rewards that attract and retain people and enlist their engagement;
- maintains competitive and equitable rates of pay;
- incorporates successfully a total rewards approach;
- manages reward processes carefully and obtains value for money;
- provides for the evaluation of reward processes and taking corrective action as necessary;
- communicates to all concerned how the reward system operates and how it affects them;

Effective reward in the best performing firms:

- The best-performing firms as established by Watson Wyatt (2002) view their reward programmes differently from the lower-performing organizations:
  - Top firms are more likely to use rewards as tools to engage people in improving business performance.
  - These firms make greater efforts than others to communicate their plans and to measure reward plan effectiveness.
  - They are more likely than the rest to link rewards to their organization's business strategies.

Reward management: six tips

- Reward people according to the value they create.
- Reward people according to what the organization values and wants to pay for.
- Take account of employee as well as business needs.
- Best fit is preferable to best practice.
- Strive to be different, even unique, when developing reward policy and practice.
- Adopt an evidence-based management approach that involves managing reward systems on the basis of fact rather than opinion, on understanding rather than assumptions, on grounded theory rather than dogma.

2

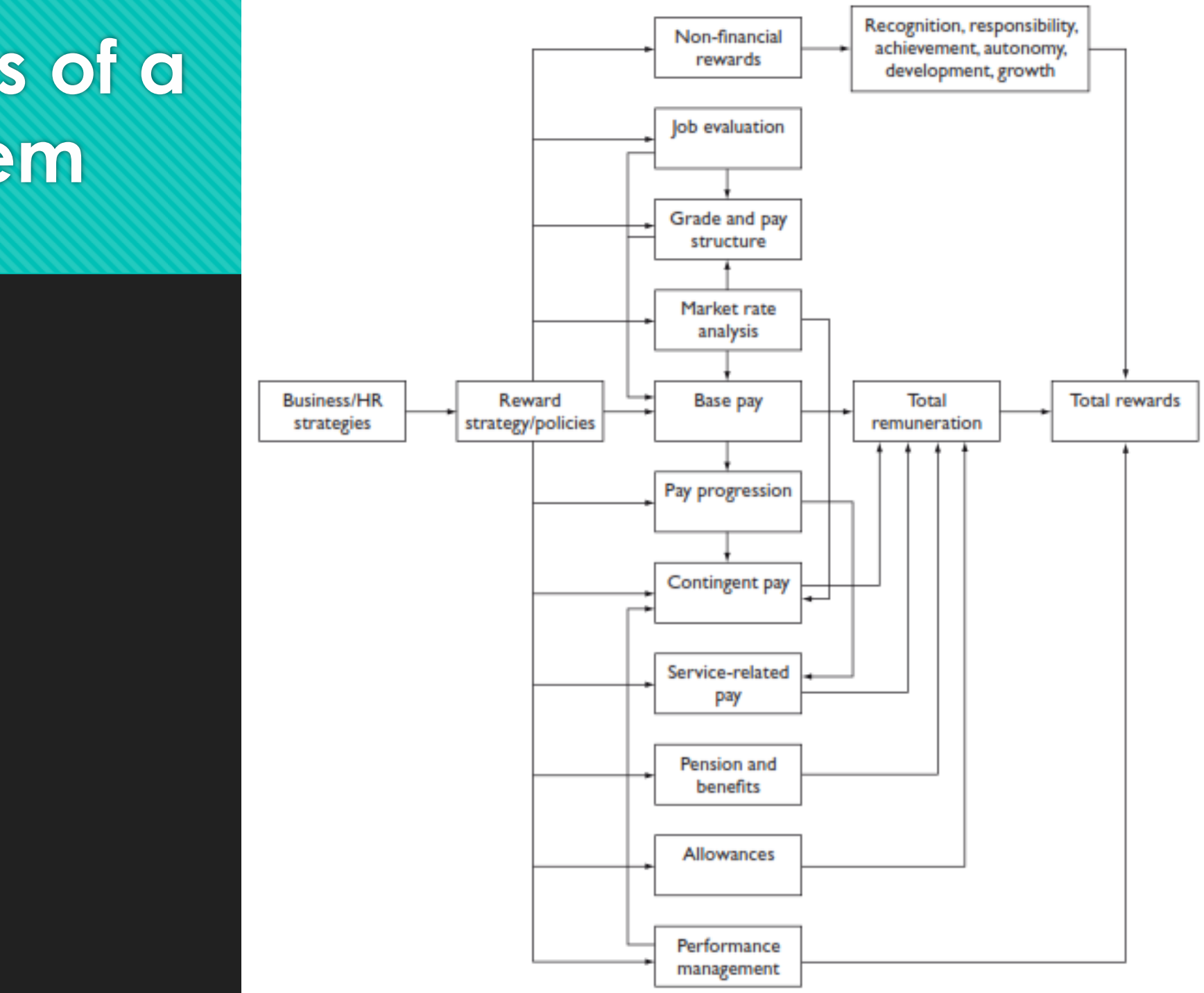
Reward system

How a reward system operates

Figure 2.1 How a reward system operates

Components of a reward system

- Page 29



Why Rewards Are Given

- Express appreciation
- Recognize value
- Provide encouragement
- Compensate for taking and sharing risk
- Provide choices
- Simply make things fun

Types of Rewards

Extrinsic

- External to the employee
- Usually tangible and monetary
- Satisfaction tends to be short lived

Intrinsic

- Internal and values based
- Employee focused
- Motivation can be long term

Extrinsic Reward Programs

Short Term

- Bonus plans with periodic payouts
- Project rewards
- Cash and cash equivalent prizes
- Sales incentives
- Service recognition
- Hiring incentives
- On the spot awards
- Prizes, gifts, etc

Extrinsic Reward Programs

Long Term

- Succession planning
- Stock options
- Training and development
- Retention incentives

Intrinsic Reward Programs

- Time off for charity, community or education
- Special training opportunities
- Assignment to a special project/team or assignment
- Participation in organizational restructuring or job re-design
- Access to child/elder care
- Access to recreational facilities

The Google Effect

- In today's corporate environment, the organization's bottom line is to make the most profit long term by attracting top talent, retaining top talent, and motivating top talent for maximum performance. The way companies can do that is by offering the best rewards in the industry.

- Google, Inc. was ranked by *Fortune* magazine as the best place in the U.S. to work in 2009, and most popular Web site
- It has even become a verb in the dictionary
- Google, Inc.'s goal of providing benefits and rewards is to "strip away everything that gets in our employees' way"

Google, 2009

- (Google, 2009). Google, Inc. provides a standard package of fringe benefits, but on top of that are first-class dining facilities, gyms, laundry rooms, massage rooms, haircuts, carwashes, dry cleaning, commuting buses – just about anything a hardworking employee might want.

Intrinsic and Extrinsic Rewards

- Google believes in providing both intrinsic and extrinsic rewards. They understand that many humans are not motivated by pay incentives alone. Google Inc. believes in administering rewards and that good company culture is vital to company success

Extrinsic Rewards

- Along with its compensation and traditional extrinsic benefits such as:
- free health and dental benefits
- insurance
- tuition reimbursement
- vacation packages

Other unique benefits:

- maternity benefits up to 18 weeks off at approximately 100% pay

Extrinsic Rewards…

- new mothers and fathers get Take-Out Benefits to help make things easier
- They are provided with expenses up to $500 for take-out meals during the first three months that they are home with their new baby.
- Free lunch and dinner from gourmet chefs create a wide variety of healthy and delicious meals every day.
- snacks to help satisfy you in between meals.
- free shuttles

Intrinsic Rewards

The key to success at Google, Inc., beyond the incredible perks and the compensation is simple: work process. These are the intrinsic rewards Google offers:

- no real hierarchy
- tiny work groups, and purpose
- Their structure is flat to maximize creativity

Intrinsic Rewards…

- There are no official channels, so ideas can flow within groups. Instead, they focus on multiple smaller workgroups that may have a project manager overseen by committees.
- The basic concept inspired by the founders is to maintain an entrepreneurial culture.
- One example is that if a Googler wants to work with another team, he or she can switch teams anytime they want without asking permission

- ***Reward systems: six tips***
- Ensure that the system is developed and operated in accordance with a clearly defined set of guiding principles.
- Provide for the system to be integrated – the separate parts are mutually supporting and contribute to achieving the overall aim of the system.
- Take account of the views of stakeholders on the design and operation of the system.
- Do not over-complicate the system as a whole or any part of it.
- Communicate regularly to employees on how the system functions and how it affects them.
- Review and evaluate the effectiveness of the system regularly.

3. Total Rewards

Total rewards defined

- A total rewards approach links all aspects of reward together and treats them as an integrated and coherent whole. It means that when developing the reward system employers must consider all aspects of the work experience that employees value. One of the first people to write about total rewards after Adam Smith (O'Neal, 1998) commented that: 'Total reward embraces everything that employees value in the employment relationship.' As defined by Manus and Graham (2003), total rewards 'includes all types of rewards – indirect as well as direct, and intrinsic as well as extrinsic'. Kantor and Kao (2004) define total rewards as 'Everything an employee gets as a result of working for the company'.

Underpinning concepts

- Two concepts underpin total rewards: intrinsic motivation and integration.
- **Intrinsic motivation**
- The philosophy of total rewards is strongly influenced by the concept of intrinsic motivation, which arises from the work itself and its impact on the self-generated factors that influence people's behaviour.
- Integration:
- A total rewards strategy involves the horizontal integration of reward and other HR strategies to achieve greater impact and internal consistency. This is the process of 'bundling' – the development and implementation of several HR practices together so that they are interrelated and therefore complement and reinforce each other (also referred to as configuration or the use of 'complementarities').

The elements of total rewards

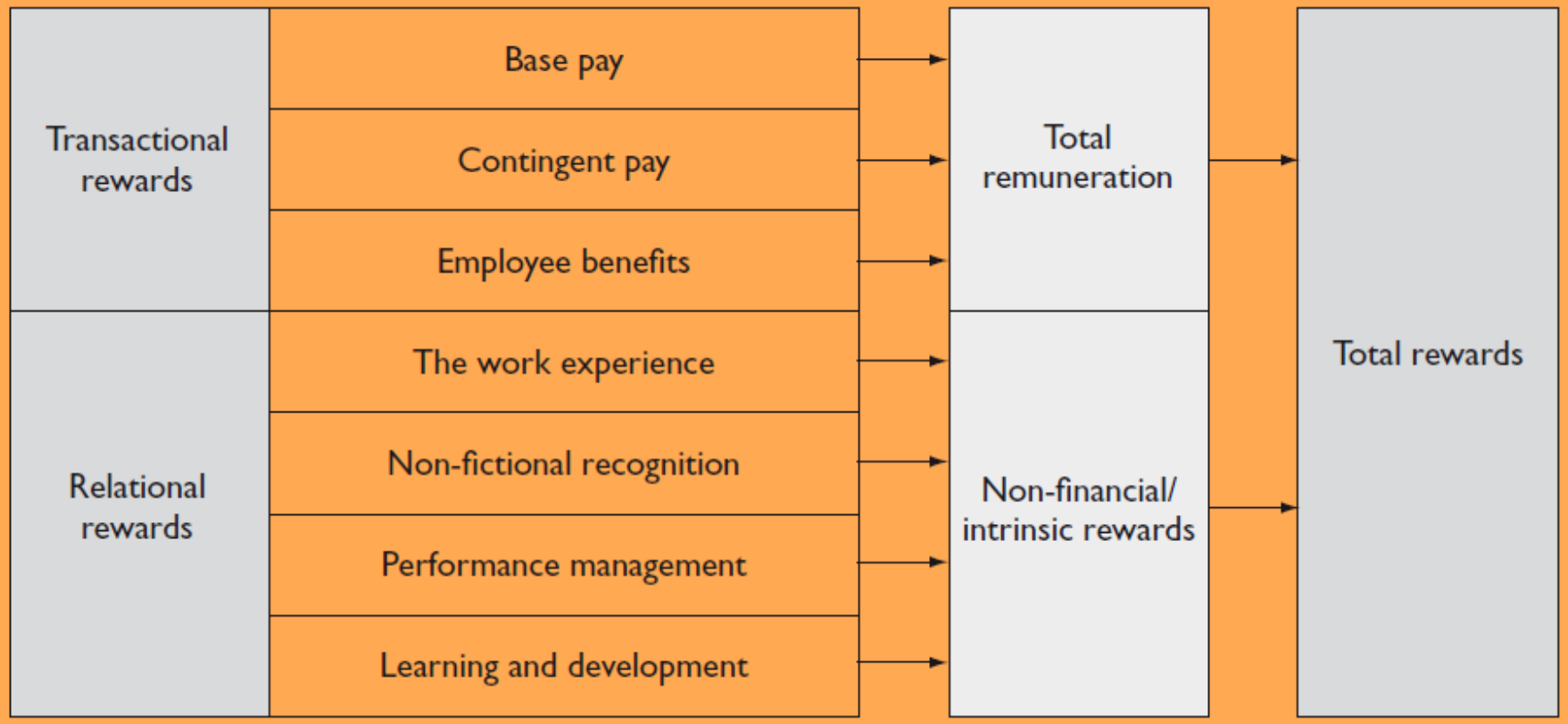


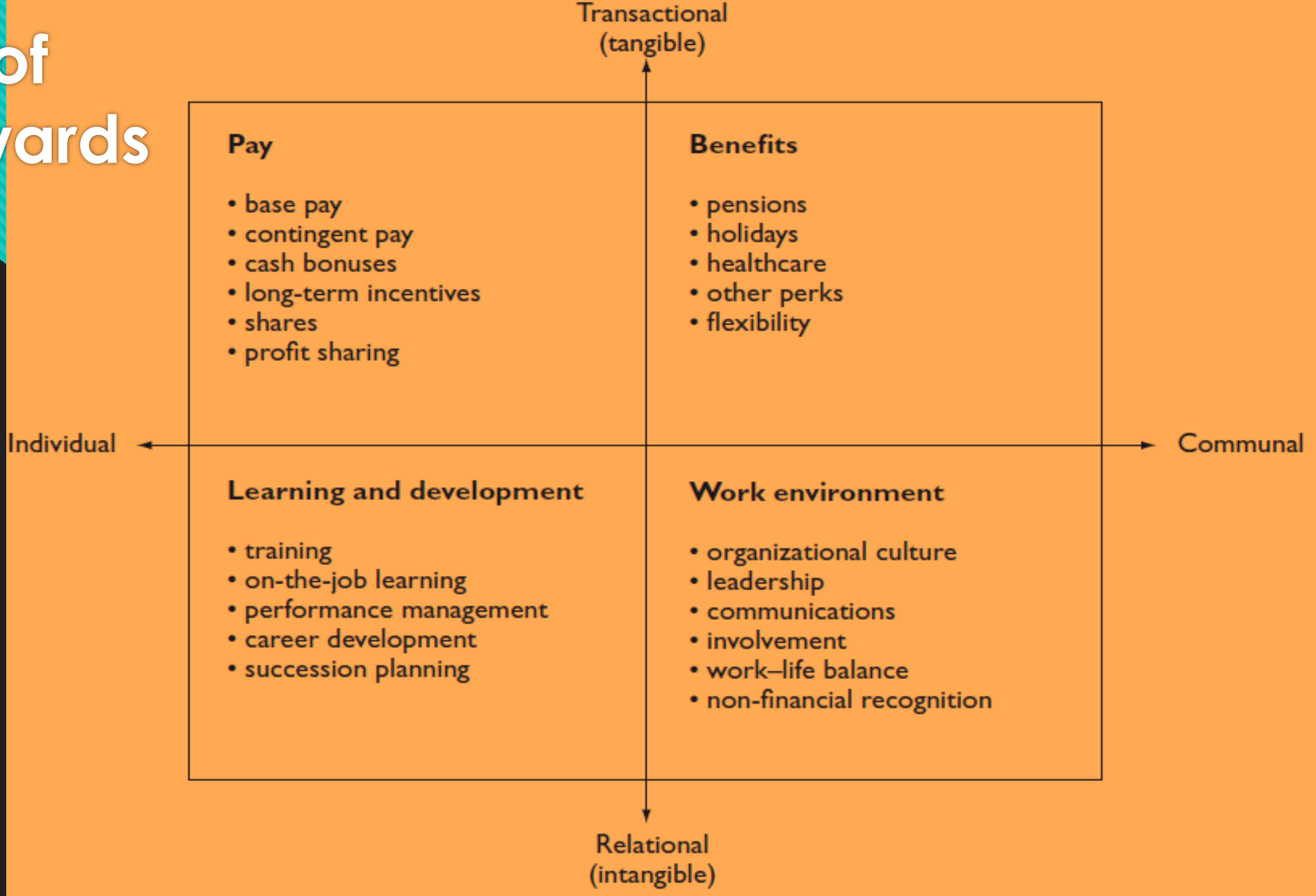
Figure 3.1 The elements of total rewards

The significance of total rewards

- The basic premise of total rewards is that there is more to rewarding people than throwing money at them. As Giancola (2008) notes, 'It is effective because it focuses on the big picture.'
- **Benefits of total rewards:**
  - Greater impact:
  - Enhancing the employment relationship:
  - Flexibility to meet individual needs:
  - Attraction and retention:

- **The benefits of a total rewards approach are:**
- Greater impact: the combined effect of the different types of rewards will make a deeper impact
- Enhancing the employment relationship:
- Flexibility to meet individual needs: as pointed out by Milkovich and Bloom (1998):'Relational rewards may bind individuals more strongly to the organization because they can answer those special individual needs.' Kantor and Kao (2004) comment that: 'Companies today are managing a much more heterogeneous population. For the diverse workforce, no single component becomes a value driver. Employees have choices to make and a need for greater flexibility.'
- Attraction and retention:

Models of total rewards



- Worldat Work:
- Worldat Work, formerly the American Compensation Association, introduced the concept of total rewards in the 1990s. Their first model was produced in 2000 and revised in 2006 (Christopherson and King, 2006).
- The five elements of total rewards in the 2006 model are compensation, benefits, work–life balance, performance and recognition, and development and career opportunities. These are influenced by the external environment, the work experience, organizational culture and the business and HR strategies.

Pay	Benefits
Now • Secure • Below average • 'One size fits all' *Future* • Aligned to business goals • Market rates • Flexible	*Now* • Family friendly • Paternalistic • Secure *Future* • Individually tailored • Flexibility • Valued by employees
Learning	**Environment**
Now • Good learning opportunities • Spoon fed • Structures *Future* • More targeted training • Focused on business goals • Good opportunities as before	*Now* • Comfortable • Family • Formal *Future* • Challenging • Responsive • Enjoyable

Figure 3.3 Current and required reward strategy

Zingheim and Schuster

The total rewards model developed by Zingheim and Schuster (2000) expresses total rewards as four interlocked and directly related components as shown in Figure 3.4.

Individual growth • Investment in people • Development and training • Performance management • Career enhancement	**Total pay** • Base pay • Variable pay (cash and stock) • Benefits or indirect pay • Recognition and celebration
Compelling future • Vision and values • Company growth and success • Company image and reputation • Stakeholdership • Win–win over time	**Positive workplace** • People focus • Leadership • Colleagues • Work itself • Involvement • Trust and commitment • Open communications

Figure 3.4 Model of total rewards: Zingheim and Schuster

Hay Group
The Hay Group's total rewards framework is illustrated in Figure 3.5.

IDS
IDS (2008) places pay and benefits at the heart of its total rewards model and, in ncreasing
degrees of intangibility, adds personal development, career progression, work–life balance, environment and culture.

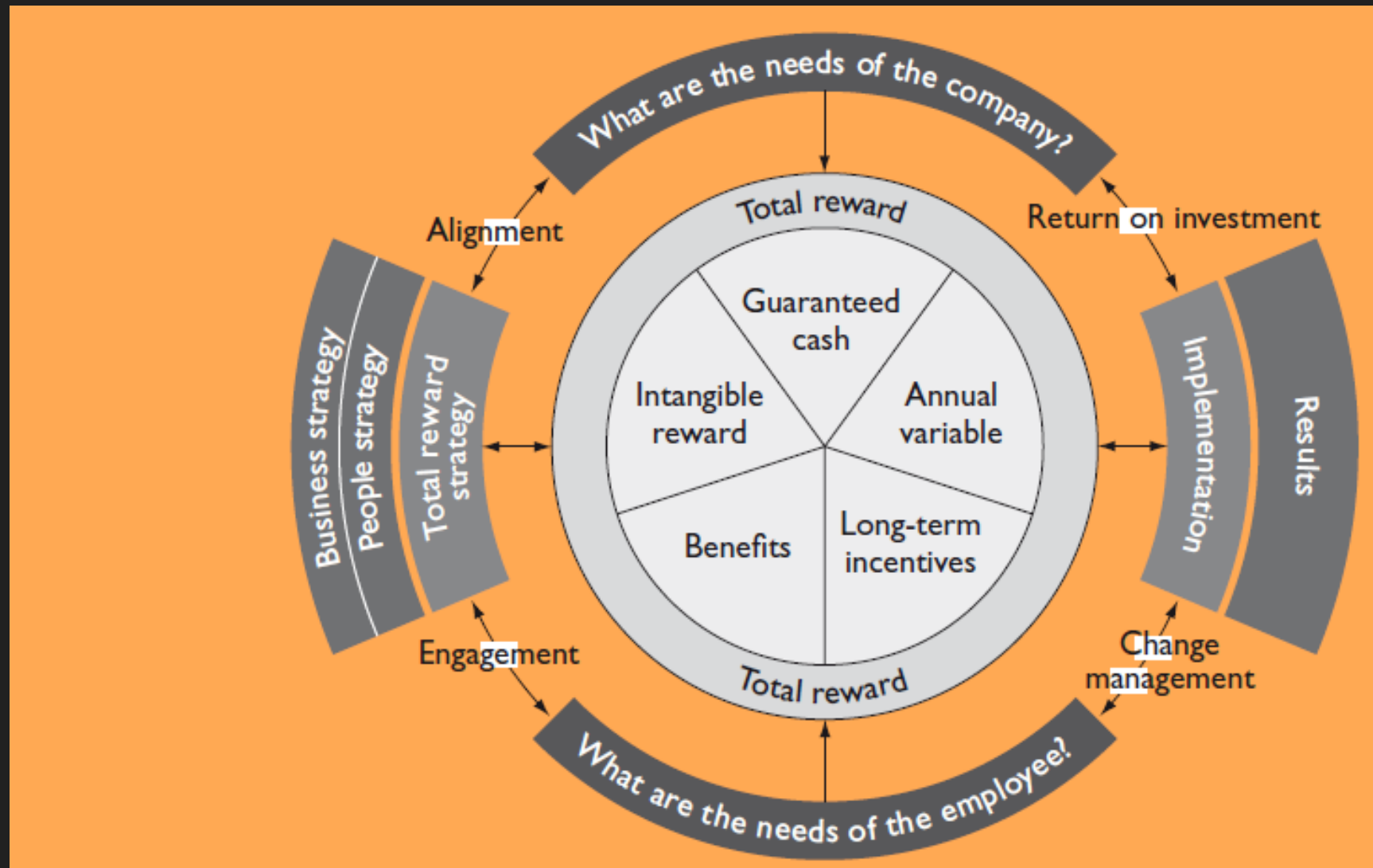


Figure 3.5 The Hay Group total rewards model

Introducing total rewards

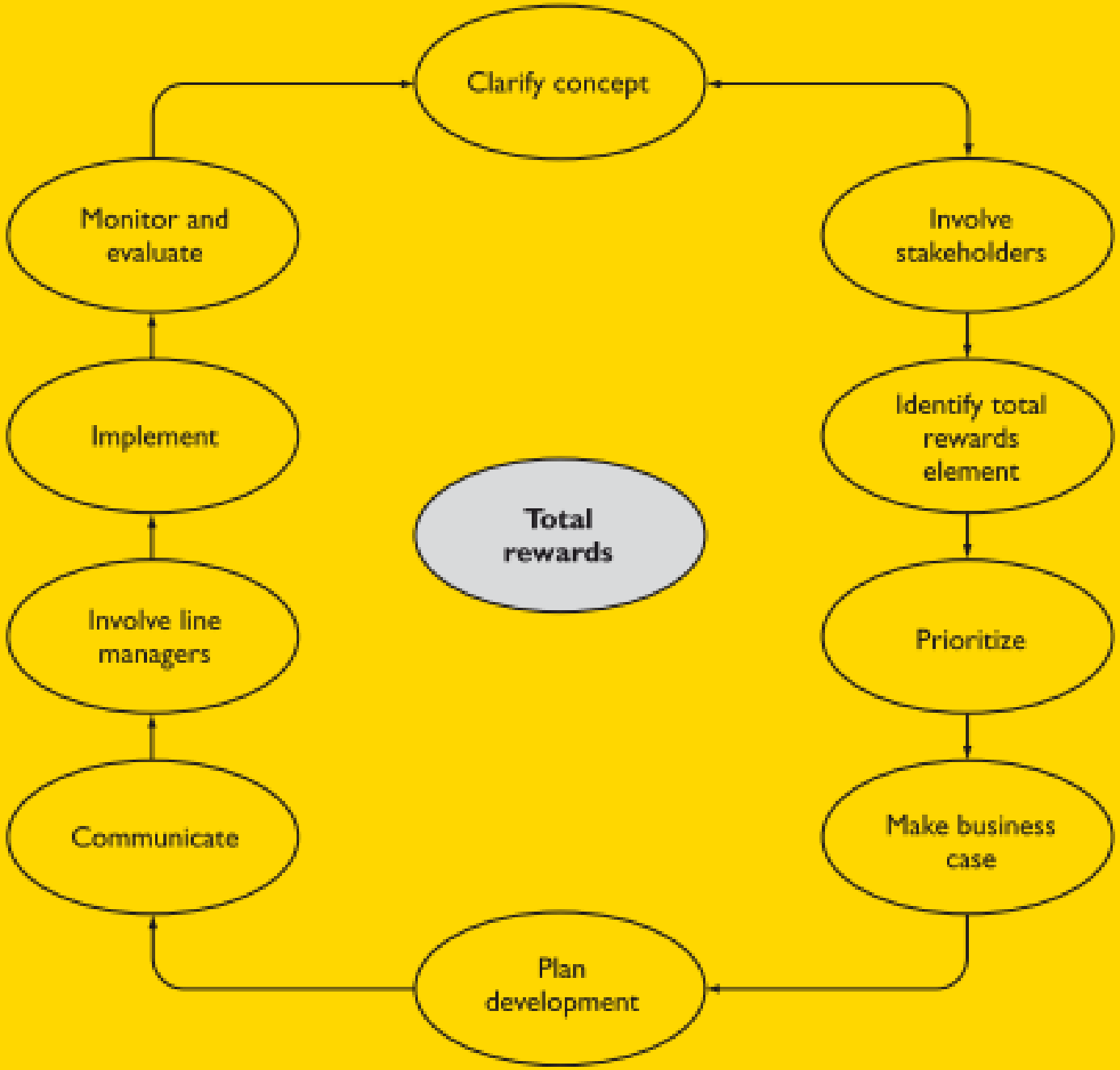


Figure 3.6 Introducing total rewards

Total rewards in practice

Agon (formerly Norwich Union Insurance)

A model of the total rewards policy developed by Agon is shown in Figure 3.7.

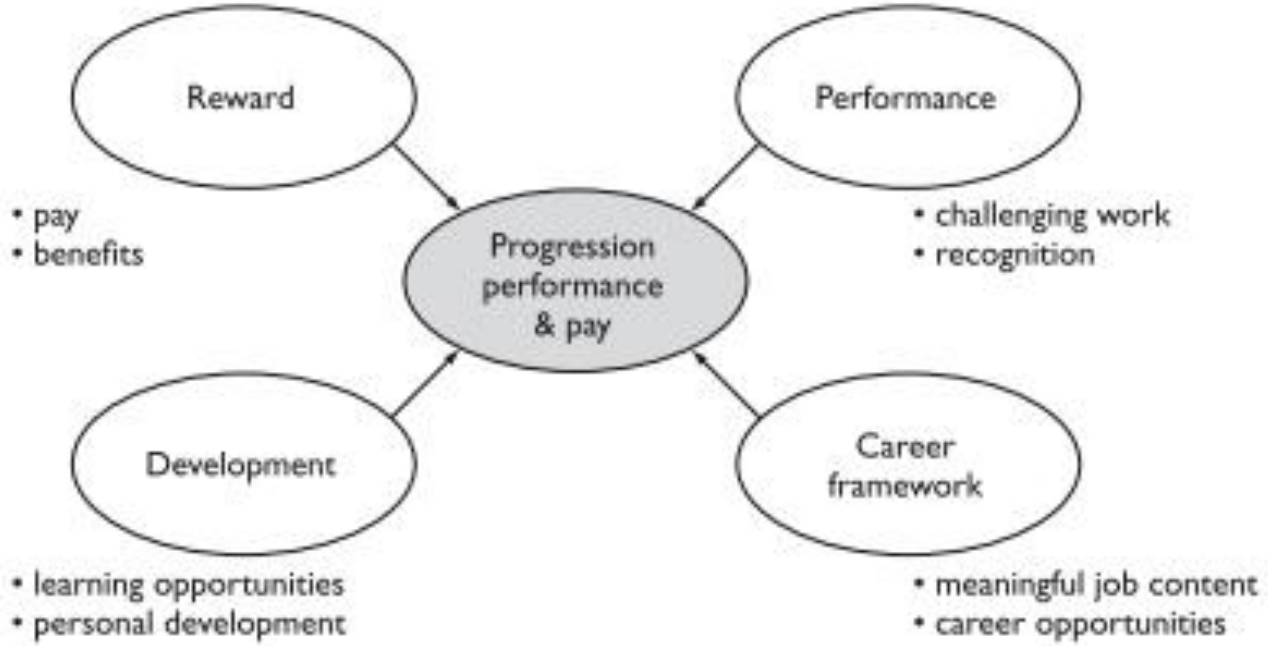


Figure 3.7 Model of total rewards at Agon

Conclusion

- The rhetoric of the total rewards concept is compelling. The reality of total rewards – making it work – is much more difficult. It requires a lot of effort on the part of top management and line managers, with the determined encouragement and guidance of HR.

Six tips for introducing total rewards

- Review the work environment and analyse current reward policies and practices.
- Research different approaches (models) and benchmark total rewards practices elsewhere, especially those to do with selecting and defining the elements of total rewards and methods of introduction.
- Involve stakeholders – senior management, line managers, employees and their representatives – both in developing the concept of total rewards and at later stages as appropriate.
- Select or develop the total rewards model to be adopted, prioritize the introduction of elements as necessary, integrate the total rewards strategy with the HR strategy, and plan and implement the programme.
- Ensure that line managers are equipped to play their part in the total rewards programme.
- Communicate throughout the programme about what is happening and how people will be affected.

Refference

- Armstrong's HAndbook of REWARD MANAGEMENT PRACTICE

  Improving performance through reward

3RD EDITIoN

Michael Armstrong

Thank You