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REWARD MANAGEMENT

# MANAGING HR 1

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## INTRODUCTION

In this paper we will be looking at Reward Management and different methods used by organisation in developing their Reward Systems. We will also assess the feasibility, advantages and disadvantages of these methods.

## 1.

## REWARD

“Reward is the desired outcome of a task as stated by Leopold (2002)”. A much more comprehensive understanding is given by Armstrong as he suggests “Reward Management deals with the strategies, policies and processes required to ensure that the contribution of people to the

organisation is recognized by both financial and non financial means. The overall objective is to reward people fairly, equitably and consistently in accordance with their value to the organisation in order to further the achievement of the organisations strategic goals. Reward Management is not just about pay and employee benefits, It is equally concerned with non financial rewards such as recognition, learning and development opportunities and increased job responsibility".

*(Armstrong. Employee reward Management and Practise, 2nd Edition).*

## 1.1

## FINANCIAL AND NON-FINANCIAL REWARDS

There two types of rewards; Financial (extrinsic) and Non-Financial (intrinsic). Porter and Lawler suggest both are necessary for generating job satisfaction related to performance[1].

1. *(John Leopold, Human resources in organisation)*

Financial rewards

Base Pay is a certain payment connected with a job, usually given on a time basis (hourly, weekly, monthly or yearly).

Variable Pay is dependent on performance of individual, team or organisation and cannot become a part of the basic pay.

Employee Benefits are made up of options like insurance, stock options, company cars, pension-schemes and holidays.

Non Financial Rewards

One of the most important aspects of intrinsic rewards is Job satisfaction. If a person is not satisfied from what he does, his performance gets affected thus damaging the performance of whole team and in turn, the organization.

Feedback and recognition; the praise and recognition given to an employee for any good work is viewed positively and for some employees, existence of responsibility and autonomy in their jobs is a form of intrinsic reward. Development, both at personal level and career level are important forms on intrinsic rewards.

**A model of total reward developed by Tower Perrins**

Transactional (Financial)

| **Pay** | **Benefits** |
|---|---|
| – Base Pay | – Pensions |
| **Learning and development** | **Work Environment** |
| – Work place learning and development<br>– Training<br>– Performance and | – Core value of organization<br>– Leadership<br>– Employee voice |

Relational (Non Financial)

The upper two quadrants; pay and benefits represents financial rewards and are essential to recruit and retain staff but can be easily copied by competitors. The lower two quadrants represents Non-financial rewards which are essential in increasing the value of upper two quadrants.

*(Perrins T, Reconnecting with employees: Quantifying the value of engaging your work force. 2005)*

**1.2**

**INDIRECT FINANCIAL REWARDS**

Indirect reward refers to that part of total reward package provided to employees in addition to the the base or performance pay. It consists of

options like private health care, dental and eye care, insurance, career breaks, pension plans, stock options, subsidized meals, entertainment vouchers and company cars etc.

**1.3**

**EMPLOYEE REWARDS LINKING WITH AN ORGANIZATIONAL STARTEGY**

Reward strategies can be linked with organisational strategies as vertical alignment (fit between the reward strategy and the business strategy) and horizontal alignment (fit between reward strategy and HR strategies and policies.

Vertical alignment

It means that business and reward strategies are in line with each other and reward strategy is defined in a way which clearly explains how they will contribute to the achievement of the business plan. There are also some problems in achieving vertical alignment for example, it may be

possible to establish the strategic goals of organisation but it may be more difficult to identify reward strategies that are specifically related to them or it could be that business strategies are not clearly defined.

| BUSINESS STRATEGY | REWARD STRATEGY |
| --- | --- |
| – Achieving competitive advantage through innovation<br>– Achieving competitive advantage through quality | – Provide financial incentive and reward and recognition for innovation<br>– Link reward to quality performance<br>– Review all reward practises |

| HR Strategy | Reward Strategy |
| --- | --- |
| – Resourcing | – Total reward approaches that help to make the organisation a great place to work<br>– Competitive pay structure that helps to retain high quality employee |
| – Performance management | – Variable pay schemes that contributes to the motivation of the people<br>– Performance management process that promotes continuous improvement |
| – Learning and development | – Performance management processes that identify learning needs and how they can be satisfied<br>– Career family structure that defines knowledge and skills requirement |
| – Work | – Total reward approaches that emphasize the importance of enhancing the work environment |

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*(Armstrong. M, Brown. D, Strategic Reward, 2006)*

Disadvantages

- It is time consuming
- It is easier to believe that total strategy is a good thing than to put it to practise
- Cost of some intangible rewards is not quantifiable

**1.4**

**TRADITIONAL REWARD AND NEW REWARDS**

Traditional rewards:

- Based on cost of living and labour market
- Base wage or salary
- Evenly distributed between employees
- Correlated with seniority
- Based on individual performance

New Rewards:

- Variable pay
- Based on business performance
- Differentiated
- Based on individual performance
- Based on team and organisational performance
- Used as a means of communicating values

*(Bratton and Gold) Human resource Management 2007*

**1.5**

**TRADITIONAL PAY SCHEMES AND MORDERN PAY SCHEMES**

Traditional Pay schemes

Time Rates

It is usually paid on hourly or weekly basis and due to the definite nature of the reward it may not motivate all the employees. It is easy to implement and understand.

Payment by Result (PBR)

There are different types of PBR incentive schemes in practise some of which are:

- Individual time saving is the incentive is paid for time saved in performing a specified operation
- Measured Day-work is in which employees are paid a fixed amount as long as they maintain a predetermined and agreed level of working.
- Group and plant-wide incentives are in which employees in the plant or other organisation share in a pool bonus that is linked to the output
- Commission is a Bonus payment which is usually linked with sales. The reward is sometimes pre determine figure or is a percentage of the total sales figure.

Disadvantages of PBR schemes

- Operational inefficiencies may affect the incentive for the employee
- Quality of work may be put on the line in order to achieve high levels of outputs
- Quality of working life may start to diminish as PBR schemes may also de motivates employees.
- Obscurity of payment arrangement is when employees are unable to comprehend there incentive schemes properly.

Plant/Enterprise Based Schemes

These schemes tend to focus on the whole of the organisation. It comprises schemes like Gain-sharing and Productivity bonus.

PRP Individuals receive financial rewards in the form of percentage increase to basic salary which are linked to an assessment of performance in relation to agreed objective (PRP is discussed in detail in the later part of this document)

Modern Pay Schemes

Share option schemes permit companies to grant share options to directors and employees in tax- effective manner. This means that they are given the opportunity to buy shares in their own companies at a future date, but at the current price.

Types of shares schemes:

- Employee share ownership plan (ESOP) is an employee benefit trust linked to share participation scheme. The trust receives contributions from the company or borrows money and then buys shares in the company, which are allocated to the employees.
- All employee share schemes
- Executive share incentive scheme

Advantages

- They are common and they are well understood by executive and shareholders alike
- In some tax regimes (historically, including UK) they have enjoyed significant tax advantages

Disadvantages

- They are often unsuitable for well established companies
- They tend to use up shares more quickly than other types of scheme, hence creating dilution difficulties for a company with a smaller capital base

Cash-Based awards

The traditional and most common profit-sharing arrangement is simply to pay employees a cash bonus. Calculated as a proportion of the annual profits, on which employee incurs both a PAYE and a national insurance liability.

Advantages

- Increases identification with the firm
- Recognises that everyone contributes to creating profit

Disadvantage

- Does not provide an individual incentive
- Amounts distributed are take for granted

*(Armstrong, Brown (2006) Strategic Reward), (Torrington, Hall, Taylor (2008) Human Resource Management)*

**1.6**

**INDIVIDUAL PERFORMANCE RELATED PAY**

Individuals receive financial rewards in the form of increases to basic pay or cash bonuses, which are linked to an assessment of performance usually in relation to agreed objective.
Scope is provided for a joined pay progression within the pay bracket. High level of achievement may be rewarded by cash bonuses that are not consolidated. Individuals are eligible for such bonuses when they have reached the top of the pay bracket and have completely progress along their learning curve.

<u>Advantages</u>

- It acts as a monitor
- It encourages and supports desired behaviour
- It delivers the message that performance, competence and skill are important

- It provides a mean for defining and agreeing performance and competence expectation
- It can reinforce the organisation value
- It can help to achieve culture change

**1.7**

**PROBLEMS WITH INDIVIDUAL PERFORMANCE RELATED PAY**

- The extent to which IPRP motivates is questionable.
- The requirements for success are difficult to achieve
- Money by itself does not result in motivation
- It cannot be assumed that money motivate everyone equally
- Financial rewards may motivate them who receive it but it may also de-motivate those who haven’t.
- IPRP can create more dissatisfaction than satisfaction if they are perceived to be unfair
- Schemes depend on the existence of accurate and reliable methods of measuring performance.
- Employees can be suspicious of schemes because they might fear that performance standards will be raised continuously.

- IPRP decisions depend on the judgement of the managers, which in the absence of reliable criteria could be unfair.
- IPRP is based on the assumption that performance is completely under the control of individuals when, in fact, it is affected by the system in which they work.
- IPRP has proved difficult to manage.

*(Armstrong .M, Employee Reward Management and practise, 2007)*

**1.8**

**REWARDING TEAM PERFORMANCE**

As stated by Armstrong and Murlis that “the aim of team reward processes is to reinforce the behaviours that lead to and sustain effective teamwork. The reason for developing team rewards is the perceived need to encourage group endeavour and cooperation, rather than to concentrate only on individual performance”.

The research conducted by the CIPD, Industrial Relations Services and the Institute of Employment Studies showed that the most common method of providing team pay for managerial, professional, technical and office staff was to distribute cash sum bonus related to team performance among the team members. The design for team pay will be contingent on the requirements and circumstances of the organisation, and these will always differ.

Examples

1) *Performance related to define criteria,* as at Lloyds Bank and Norwich Union, where the criteria are sales and a measure of customer satisfaction.

2) *Bonus related to overall criterion,* as at the benefits agency (now part of DWP), where team bonuses were paid if there had been ‘a valuable contribution to performance as determined by local unit managers’.

- In order for Team pay to be effective it must be in line with the organisations core value and management style- management must believe that good teamwork will make a difference.
- The characteristics of the teams themselves should be appropriate for the form of team pay chosen.
- Should be composed of people whose work is interdependent- it is acknowledged by the members that the team will only deliver the results expected of it if they work well together and share the responsibility for success
- They are composed of individuals who are flexible, multi skilled and good team players.

<u>Advantages of team pay</u>

Team pay can:

- Encourage team-working and corporate behaviour
- Act as a lever for cultural change in the direction of, for example quality and customer focus.
- Enhance flexible working within teams and encourage multi-skilling
- Provides an incentive for the group collectively to improve performance and team process
- Encourage less effective performers to improve in order to meet standards
- Serve as a means of developing self-managed or directed teams.

Disadvantages of team pay

The disadvantages of team pay are that:

- Its effectiveness depends on well defines teams- but they may be difficult to identify and, even if they can be, do they need to be motivated by a purely financial reward.
- Team pay may seem inappropriate to individuals whose feelings of self-worth could be diminished.
- Distinguishing what individual team would be rewarded may be difficult to identify

*(Armstrong and Murlis, Reward Management, 2007)*

**1.9**

## ELEMENTS OF AN EFFECTIVE REWARD SYSTEM

- Attracting staff
    - The reward package on offer must be sufficiently attractive from that of its labour market competitors.
- Retaining staff
    - Retaining effective performers should be the central aim of a reward strategy.
    -
- Driving change
    - Pay can be used specifically as one of the tools supporting change management process.
- Corporate reputation
    - Establish a positive corporate reputation
- Affordability
    - How limited resources should be deployed in order to maximise the positive impact of reward management.
- Purchasing Power

- The absolute level of weekly or monthly earnings determines the standard of living of the recipient, and will therefore be the most important consideration for most employees.

- Composition
  - How is the package made up? The growing complexity and sophistication of payment arrangements raise all sorts of questions about pay composition.

*(Torrington, Hall, Taylor, Human Resource Management 2008)*

**CONCLUSION**

According to my research I have concluded that employees can be rewarded in many different ways but I personally believe Team Rewards which are much under-emphasised in the organisations these days should be given more preference but it should be decided after

careful consideration of what job entitles as different reward schemes work better in different situations

Armstrong (2007) says: “All reward strategies are different, just as all organisations are different. Of course, similar aspects of reward will be covered in the strategies of different organisation but they will be treated differently in accordance with variations in their contexts, business strategies and cultures. But the reality of reward strategy is that it is not such a clear-cut process as some believe. It evolves, it changes and it has sometimes to be reactive rather than proactive.”

**REFRENCES**

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