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Management of Human Resources

1. **"Borderless world, Diversity, and Knowledge Power are the three broad phenomena of 21ˢᵗ century, posing challenges to the corporate world and culminating into fierce competitive environment".**

Elaborate this statement and discuss the underlying concepts, specifically in respect of the challenges faced by the corporates in managing Human Resources.

Draw examples from the cases you are aware of. Briefly describe the situation and organizational limitations you are referring to.

Answer. The responsibilities of HR manager have gradually become broader and more strategic since the organisation realised the importance of HR. The Globalisation put together the world as a Global village. The concept of global village resulted in exchange of cultures across the globe as a single country, producing the components in one country, assembling the products in second country, market the product in the third country, the banks in the fourth country to finance the operations, insurance companies in the fifth country to provide insurance facilities, all the countries provide human resources and so on so forth. Thus, the global businesses employ the people from various countries and manage the people of multi-cultures and multi-skills.

The 21st century has the following inter-related phenomena emerging, posing challenges to the corporate world and culminating in Olympian competition.

- Borderless world
- Diversity
- Knowledge power.

Knowledge Power: In the knowledge economy, human resource management faces new challenges set by the new business environment. It requires new ways of thinking and acting, new policies and practices, new technologies and new job

requirements. The growing importance of knowledge influences the functions of HRM. Knowledge is increasingly claimed to be a key critical resource and source of competitive advantage in the modern global economy, especially with the rise of the service economy, the growth in the number of 'knowledge workers', the increasingly rapid flow of global information, and the growing recognition of the importance of intellectual capital and intellectual property rights. It is also increasingly claimed that all organisations will have to excel at creating, exploiting, applying and mobilising knowledge to create and maintain sustainable competitive advantage. The resource-based view of the firm suggests that organisations will need to be able combine distinctive, sustainable and superior assets, including sources of knowledge and information, with complementary competencies in leadership and human resource management and development to fully realise the value of their knowledge. Issues for HRM include how organisations should be structured to promote knowledge creation and mobilisation, and how to develop a culture and set of HRM policies and practices that harness knowledge and leverage it to meet strategic objectives.

Managing Workplace Diversity: Diversity is generally defined as acknowledging, understanding, accepting, valuing, and celebrating differences among people with respect to age, class, ethnicity, gender, physical and mental ability, race, sexual orientation, spiritual practice, and public assistance status. There are challenges to managing a diverse work population. Managing diversity is more than simply acknowledging differences in people. It involves recognizing the value of differences, combating discrimination, and promoting inclusiveness. Managers may also be challenged with losses in personnel and work productivity due to prejudice and discrimination and complaints and legal actions against the organization. Negative attitudes and behaviors can be barriers to organizational diversity because they can harm working relationships and damage morale and work productivity. Negative attitudes and behaviors in the workplace include prejudice, stereotyping, and discrimination, which should never be used by

management for hiring, retention, and termination practices (could lead to costly litigation).

Borderless World: The biggest challenge the organization around the globe facing is to know the social classes and categories from which the new global workers are recruited, and to understand the systems of education and training that shape them so that they can be made socially and culturally fit to serve customers. Educational institutes are particularly crucial in this context, not only in providing the raw material for the virtual service economy, but also in producing social networks (such as old boys networks) that form an important basis for sociality and upward mobility among the new professional classes. For this we require to redefine the employee status. Talented people will be unwilling to sign on as employees hence companies will have to maintain a fine balance between career planning and free agent ship.

The borderlessness is evident in the way various aspects get done in different parts of the world. For example, the launch of products of organizations like Microsoft, LG, Samsung and FORD simultaneously world wide including India is a testimony to this. The boundaries of organizations are also getting increasingly porous with organizations increasingly outsourcing their all activities except core activities. Organizations are redrawing their boundaries in such a way that they are both competitors and collaborators in various segments of world markets. The cross-cultural, cross-border mingling has resulted in the creation of a new class of employees-global citizens with global attitudes, tastes and networks. In India, the mantra of global performance and competition, the borderless world is shaking the roots of traditional business.

Example: Diversity Management at IBM

In the year 2004, IBM was listed among the top 10 companies on Fortune magazine's list of "America's Most Admired Companies." At IBM, Watson Jr. issued the first equal opportunity policy letter in 1953. Later, it came under

government compliance under the Civil Rights Act of the US in 1964. With the onset of „globalization' in the 1980s, organizations initiated efforts to broaden their marketplace. In an attempt to sustain themselves amidst the continuously increasing competition, they started doing business across the world. This trend made it important for them to focus on diverse cultures across borders in order to offer products and services that suited the specific needs of different markets.

Recruiting people with disabilities

IBM had a well-structured plan in place for recruiting and training people with disabilities. The recruitment specialists and hiring managers are specially trained for this purpose. In each business unit, IBM had 'line champions' - the managers experienced in hiring and working with people with disabilities - to facilitate the recruitment process. The company also worked with various educational institutions for campus recruitment of such candidates .IBM has a diversity website where prospective candidates with disabilities could submit their resumes directly.

Women at workplace

IBM started recruiting women professionals well before the Equal Pay Act, 1963. A letter issued by Watson Sr. in 1935 stated, "Men and women will do the same kind of work for equal pay. They will have the same treatment, the same responsibilities, and the same opportunities for advancement." IBM's management has made efforts to find out what are the specific needs of its women employees and provided women-friendly facilities accordingly. This improved the productivity(of women) even while maintaining a proper balance between work and family life.

IBM treats diversity as a part of its business strategy. It has employees from different social and cultural strata which helps them to understand and serve its customers better.

2. Define and describe the inter-relationship between self-concept, Concept of Role and Organizational Socialization. Explain with examples, you have come across or aware of. Relate your response with the socialization factors in organizational socialization process. Briefly describe the organization you are referring to.

Answer. One's self-concept (also called self-construction, self-identity, or self-perspective) is a collection of beliefs about oneself that includes elements such as academic performance, gender roles and sexuality, and racial identity. Generally, self-concept embodies the answer to "Who am I?"

Self-concept is distinguishable from self-awareness, which refers to the extent to which self-knowledge is defined, consistent, and currently applicable to one's attitudes and dispositions. Self-concept also differs from self-esteem: self-concept is a cognitive or descriptive component of one's self (e.g. "I am a fast runner"), while self-esteem is evaluative and opinionated (e.g. "I feel good about being a fast runner").

Self-concept is made up of one's self-schemas, and interacts with self-esteem, self-knowledge, and the social self to form the self as whole. It includes the past, present, and future selves, where future selves (or possible selves) represent individuals' ideas of what they might become, what they would like to become, or what they are afraid of becoming. Possible selves may function as incentives for certain behavior.

Self-concept is critical in the process of **organizational socialization**. When the self-concept is appropriate for one's organizational role and requirements, the individual is likely to be motivated, focused to task performance, and satisfied. However, when self-concept and organizational role are not compatible, then integration is tough and motivation, performance, and satisfaction are likely to be low.

This doesn't mean that self-concept is totally fixed. Indeed, one of the significant aspects of organizational socialization is the potential modification in self-concept. Part of the organizational socialisation process could be learning how to develop a self-concept suitable for the new situation. Each of us learns to develop somewhat different selves for the different kinds of situations where we are called on to perform, and for the different types of roles we're expected to take. It is unlikely that we can change our basic personalities and value systems drastically, but we can develop new social selves with regards to new attitudes, competencies, behavior patterns and ways of associating with others in different situations. Up to a point, we can overhaul ourselves to fit the role requirements of new situations.

The central idea in **role theory is that people are socialized** or conditioned to play roles in a way that helps maintain a stable society or social order. Role theory examines (1) behaviors that are characteristic of people within situations or contexts and (2) various processes that produce, explain, or predict those behaviors.

Role theory contains five major underlying propositions. First, some behaviors are patterned and form a role, and are characteristically performed by a person within a situation or context. Second, roles often involve social positions, or are characteristic of a set of persons in the role who share a common identity, such as the role of a teacher, doctor, or nurse. Third, roles often have expectations, meaning that people know when someone is playing a role, and so have expectations about what behaviors that person will perform when playing the role. Fourth, roles persist over time because they are often embedded in larger social systems. Fifth, people must be taught roles, or be socialized into them, and may find joy or sorrow when playing different roles.

The **concept of 'role'** forms a prerequisite for understanding the integration of the individual with the system (organization). The roles enable the individual to interact with and get (or not get) integrated with the system. According to Pareek defines

role as a position which an individual holds in a system as determined by the expectations (of different significant persons, including himself or herself) from that position. For example, a production manager's a position which involves several functions- a set of interrelated expectations from a role.

Thus, in an organizational setting, an individual's role is determined by the expectations of significant role senders in that organization, including the individual himself or herself. The individual's expectations from the role are designated as 'reflexive role expectations' Thus, 'role set' can be viewed as a pattern of relationship between the role being considered and other roles.

Organizational socialization is defined as "the process by which a person learns the values, norms, and required behaviors which permit him to participate as a member of the organization." Organizational socialization is a key mechanism used by organizations to embed their organizational cultures. In short, organizational socialization turns outsiders into fully functioning insiders by promoting and reinforcing the organization's core values and beliefs. This section introduces a three-phase model of organizational socialization and examines the practical application of socialization research.
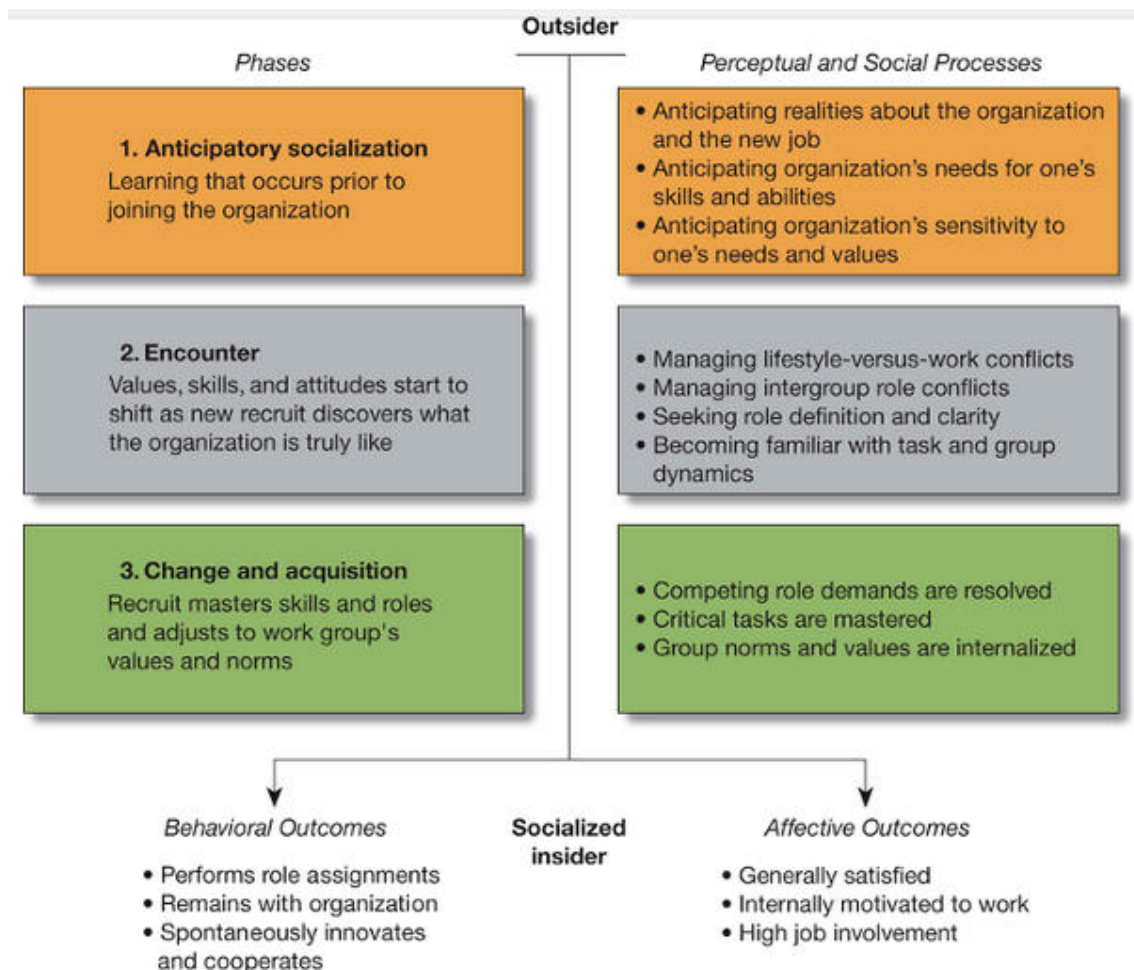
Organizational socialization factors include socialization tactics, orientation programs, training programs, and mentoring programs.

Due to the fact that a new employee may face a dilemma when he/she joins the organization, the organization should concentrate on how to reduce his/her uncertainty and fear. Successful organizational socialization increases emotional attachments toward the organization. Further, social interactions with other employees are necessary in the process of organizational socialization. Role ambiguity and role conflicts can be of the outcomes of non-availability of organizational socialization. Through organizational socialization process, new

employees learn the right roles and behaviors to be more effective members in the organization.

One's first year in a complex organization can be confusing. There is a constant swirl of new faces, strange jargon, conflicting expectations, and apparently unrelated events. Some organizations treat new members in a rather haphazard, sink-or-swim manner. More typically, though, the socialization process is characterized by a sequence of identifiable steps.

It has proposed a three-phase model of organizational socialization that promotes deeper understanding of this important process. As illustrated in Figure, the three phases are (1) anticipatory socialization, (2) encounter, and (3) change and acquisition. Each phase has its associated perceptual and social processes.

Outsider

Phases	Perceptual and Social Processes
1. Anticipatory socialization Learning that occurs prior to joining the organization	• Anticipating realities about the organization and the new job • Anticipating organization's needs for one's skills and abilities • Anticipating organization's sensitivity to one's needs and values
2. Encounter Values, skills, and attitudes start to shift as new recruit discovers what the organization is truly like	• Managing lifestyle-versus-work conflicts • Managing intergroup role conflicts • Seeking role definition and clarity • Becoming familiar with task and group dynamics
3. Change and acquisition Recruit masters skills and roles and adjusts to work group's values and norms	• Competing role demands are resolved • Critical tasks are mastered • Group norms and values are internalized

Behavioral Outcomes
• Performs role assignments
• Remains with organization
• Spontaneously innovates and cooperates

Socialized insider

Affective Outcomes
• Generally satisfied
• Internally motivated to work
• High job involvement

Phase 1: Anticipatory Socialization

The anticipatory socialization phase occurs before an individual actually joins an organization. It is represented by the information people have learned about different careers, occupations, professions, and organizations. Anticipatory socialization information comes from many sources. An organization's current employees are a powerful source of anticipatory socialization. So are the Internet and social media. *For example, PricewaterhouseCoopers (PwC), the largest professional services firm in the world, uses several web-based sources to attract potential employees. "PwC's early identification strategy is supported by the pwc.tv Website, Feed Your Future magazine (downloadable through pwc.tv; it showcases the lives/careers of PwC professionals), and Leadership Adventure (face-to-face learning programs that emphasize the PwC Behaviors).*

Unrealistic expectations about the nature of the work, pay, and promotions are often formulated during phase 1. Because employees with unrealistic expectations are more likely to quit their jobs in the future, organizations may want to use realistic job previews. A realistic job preview (RJP) involves giving recruits a realistic idea of what lies ahead by presenting both positive and negative aspects of the job. Whirlpool, for example, uses its career website to post candid comments from employees about what it is like to work at the company. RJPs may be electronic, verbal, in booklet form, audiovisual, or hands on. Research supports the practical benefits of using RJPs. A meta-analysis of 40 studies revealed that RJPs were related to higher performance and to lower attrition from the recruitment process. Results also demonstrated that RJPs lowered job applicants' initial expectations and led to lower turnover among those applicants who were hired.

Phase 2: Encounter

This second phase begins when the employment contract has been signed. During the encounter phase employees come to learn what the organization is really like. It is a time for reconciling unmet expectations and making sense of a new work environment. Many companies use a combination of orientation and training programs to socialize employees during the encounter phase. Onboarding is one such technique. Onboarding programs help employees to integrate, assimilate, and transition to new jobs by making them familiar with corporate policies, procedures, culture, and politics and by clarifying work-role expectations and responsibilities. Automatic Data Processing's (ADP) onboarding program consists of a combination of online training, classroom training, meetings with employees, written materials containing guidelines on what to expect in the first 90 days, an assimilation guide, and social networking. The company believes that these efforts are helping it to turn newcomers into fully functioning employees.

Phase 3: Change and Acquisition

The change and acquisition phase requires employees to master important tasks and roles and to adjust to their work group's values and norms. This will only occur when employees have a clear understanding about their roles and they are effectively integrated within the work unit. Being successful in phase 3 also necessitates that employees have a clear understanding regarding the use of social media. It is easy for you to create problems for yourself by not being aware of expectations regarding surfing, texting during meetings, and sending personal messages on company equipment. Experts suggest setting ground rules on the first day of employment, coaching employees on norms, and discussing how guidelines have changed over time. Additionally, organizations such as Schlumberger, a large multinational oil company, use incentives and social gatherings to reinforce the new behaviors expected of employees.

Example

The company is gradually changing its old Soviet culture of blame. Luc Ollivier, a 50-year-old Frenchman, was installed as the boss of regional operations Siberian Geophysical. He's trying to reward performance and, more critical, systematically eliminate mistakes rather than simply punish the people who make them. Ollivier says the company's veteran drillers have immense experience, "but they don't like to teach the young people." So he is working to forge better ties through daylong get-togethers that conclude with a beer bash. Ollivier says the pace of work is up by more than 30% in the past two years., and Siberian Geophysical's drilling revenues reached about $250 million last year, about double their level in 2006.

TACTIC	DESCRIPTION
Collective vs. individual	Collective socialization consists of grouping newcomers and exposing them to a common set of experiences rather than treating each newcomer individually and exposing him or her to more or less unique experiences.
Formal vs. informal	Formal socialization is the practice of segregating a newcomer from regular organization members during a defined socialization period versus not clearly distinguishing a newcomer from more experienced members. Army recruits must attend boot camp before they are allowed to work alongside established soldiers.
Sequential vs. random	Sequential socialization refers to a fixed progression of steps that culminate in the new role, compared to an ambiguous or dynamic progression. The socialization of doctors involves a lock-step sequence from medical school, to internship, to residency before they are allowed to practice on their own.
Fixed vs. variable	Fixed socialization provides a timetable for the assumption of the role, whereas a variable process does not. American university students typically spend one year apiece as freshmen, sophomores, juniors, and seniors.
Serial vs. disjunctive	A serial process is one in which the newcomer is socialized by an experienced member, whereas a disjunctive process does not use a role model.
Investiture vs. divestiture	Investiture refers to the affirmation of a newcomer's incoming global and specific role identities and attributes. Divestiture is the denial and stripping away of the newcomer's existing sense of self and the reconstruction of self in the organization's image. During police training, cadets are required to wear uniforms and maintain an immaculate appearance; they are addressed as "officer" and told they are no longer ordinary citizens but representatives of the police force.

3. What is the role and purpose of Human Resource Accounting? Explain with suitable examples, citing the limitation this process has in organizational situations. Draw from your own experience or the ones you are aware of. Briefly describe the organization, situation and organizational dynamics you are referring to.

Answer. Human resource accounting (HRA) uses current accounting and finance principles covering the capitalization of expenses and applies those concepts to first quantifying the cost and then valuing the human resources employed. Fundamentally, the HRA has a two-pronged conceptual basis:

- The quantification of the cost of human resources: Covers all the expenses an organization incurs for acquiring, motivating, retaining, maintaining, developing, and redeploying its HR assets.

- The valuing of human resources: An analysis of the return on investment (ROI) received from HR investments. HRA suggests that the value can be measured by calculating the present value of an employee's total compensation income earned over the employee's service period.

Role and purpose of Human Resource Accounting

- It furnishes cost value information to facilitate the management to take effective decisions on manpower acquisition, allocation development, and retention to sustain cost-effective competitiveness in the organization.

- It ensures effective utilization of human resources.

- It facilitates human assets control duly tracking its appreciation or depreciation.

- It helps in the development of management principles.

- This method attaches money estimates in the value of manpower of an organization. The process is somewhat like estimating the goodwill value and can be appraised by developing a procedure to undertake periodic measurement of certain variables. Such variables are either categorized as key variables or intervening variables. Key variables are policies and decisions of an organization, its leadership strategies, skills, behaviour of an employee, etc. Intervening variables are loyalties, attitudes, motivations, interpersonal

relations, communication, and decision-making. Measuring such variables over several years, quantification of human assets are difficult for the obvious problem in developing the accounting procedure. It is not a very popular method of performance appraisal. However, this system is more appropriately used for evaluating the collective performance of an organization, rather than individual appraisal of an employee. This method is useful for organizational development, as it helps in identifying the changed areas more scientifically than any other method. We have discussed this method in a separate chapter. HR is the valuable asset and HR accounting helps to understand the relative value of HR. While doing the HR accounting, it is important to account for quantitative value of employees' performance. From such determined quantitative value, all forms of employees' costs are deducted, to accurately understand the value addition by the employees. This forms the basis of human resource accounting.

- Certain information on the human capital can be reported by an organization in their annual reports. In the process of developing such information, organizations can address to the requirements of HRP integrating their HRIS.

The biggest challenge in HRA is that of assigning monetary values to different dimensions of HR costs, investments and the worth of employees. The two main approaches usually employed for this are:

1. The cost approach which involves methods based on the costs incurred by the company, with regard to an employee.
2. The economic value approach which includes methods based on the economic value of the human resources and their contribution to the company's gains. This approach looks at human resources as assets and tries to identify the stream of benefits flowing from the asset.

Limitations
1. Not easy to value human assets:

There are no guidelines differentiating the "cost" and "value" of human resources. The existing valuation system suffers from many drawbacks. After valuing human resources in a specific way, many of them may leave the organisation.

Human life itself is uncertain and hence valuing the asset under such "foggy" conditions is not proper. Like physical assets, human assets cannot be owned, retained and utilised at the sweet will and pleasure of an organisation.

Hence, treating them as "asset" in the strict sense of the term would not be appropriate. The so called "asset" – after getting enriched within a company – may simply disappear, causing irreparable loss to the company.

2. Results in Dehumanising Human Resources:

There is a possibility that HRA may lead to dehumanising and manipulation employees. For example, a person having a lower value may feel discouraged and this, in itself, may affect his competence in work.

3. No Evidence:

The much needed empirical evidence is yet to be found to support the hypothesis that HRA as a managerial tool facilitates better and effective management of human resources.

4. HR is full of measurement problems:

There is no agreement among the accountants and financial professionals regarding the measurement process. In what form and manner should their value be included in the financial statements?

To compound the problems further, there is the question of deciding the recovery rates. If a valuation has to be placed on human resources, how should it be amortised?

Should the rate of amortisation be decreasing, constant or increasing? Should it be the same or different for different categories of personnel?

5. Employees and Unions may not like the idea:

There is constant fear of opposition from trade unions. Placing a value on employees would prompt them to seek rewards compensation based on such valuation.

HRA may lead to division among the ranks of employees. A group of employees may be valued lower than their real worth owing to manipulative practices on the part of the management. Unions may fight such manipulative practices.

EXAMPLE: HRA IN PRACTICE AT INFOSYS

In the financial year 1995-96, Infosys Technologies (Infosys) became the first software company to value its human resources in India. The company used the Lev & Schwartz Model and valued its human resources assets at Rs 1.86 billion. Infosys had always given utmost importance to the role of employees in contributing to the company's success. Analysts felt that human resources accounting (HRA) was a step further in Infosys' focus on its employees. Narayana Murthy (Murthy), the then chairman and managing director of Infosys, said: "Comparing this figure over the years will tell us whether the value of our human resources is appreciating or not. For a knowledge intensive company like ours, that is vital information."

It was only in the mid-1990s, after Infosys started valuing its employees, that the concept gained popularity in India. By 2002, HR accounting had been introduced by leading software companies like Satyam Computers and DSQ Software, as well as leading manufacturing firms like Reliance Industries.

Infosys have used the Lev & Schwartz model to compute the value of human resources. The evaluation is based on the present value of future earnings of employees and on the following assumptions:

a) Employee compensation includes all direct and indirect benefits earned both in India and overseas.

b) The incremental earnings based on group / age have been considered

c) The future earnings have been discounted at the cost of capital of 10.60% (previous year – 12.18%).

The benefits of adopting HRA were manifold. It helped an organization to take managerial decisions based on the availability and the necessity of human resources. When the human resources were quantified, it gave the investors and other clients' true insights into the organization and its future potential. Proper valuation of human resources helped organizations to eliminate the negative effects of redundant labour. By adopting and implementing Human Resource Accounting in the Organization,

a) Infosys could determine whether its human asset was appreciating over the years or not. This information was important for the company as its success depended solely on the knowledge of the employees.

b) The company could also use this information internally to compare the performance and productivity of employees in various departments.

c) HRA also helped Infosys to decide the compensation of employees. The company ensured that it compensated each employee according to his / her net worth.

d) HRA also helped Infosys in identifying and retaining valuable employees.

e) It helped organization to take managerial decisions based on the availability and the necessity of human resources.

f) When human resources get quantified it gave Infosys investors and other clients true insights into the organization and its future potential. It restored faith amongst shareholders.

Disadvantages of evaluation of human capital

- Companies use various HRA models and comparing two companies using two different models was difficult.
- Companies could also misuse HRA to enhance their image .A company could use this image to prop up its image in the investors mind, and change assumption to keep the values positive.
- There could be a concern of the creditability of the numbers reported.
- The model was based on assumptions and was subjective. Hence figures could be totally ambiguous.
- Some employees may be underestimated since a numeric figure did not clearly quantify what their true capabilities are.

Ethical Considerations

It cannot be considered that HRA is unethical on the part of an organization to place a monetary value on its values. In fact employees are shown as "assets" to an organization and valuing them would show their true worth which everyone should appreciate. If employees are considered as assets of an organization then why not show their productivity in the balance sheet. The company would be able to boost its investor confidence and it would be considered a great place to work (like Infosys)

Companies should make it clear that it's the employees who define the company and it also shows a highly performance based organization. There may be a downside with respect to falsified information but on the whole it cannot be considered as an unethical practice.

4. What are the key factors governing motivational aspects of Reward Management, which have substantial impact on development, implementation, maintenance, communication, and evaluation of reward process? Explain with examples from your own experience or the ones you are familiar with.

Briefly describe the organization and the situation you are referring to.

Answer. According to Armstrong (2005), one of the most important concerns of reward management is how rewards can be used to motivate people to perform better. Therefore, it is important to understand what motivates people and how. Theories concerned with motivation explains why people at work behave in the way they do and provides guidance on how to develop effective reward systems.

If organizations know how to motivate employees, they can increase productivity. This ability to boost production is increasingly important as organizations compete in the global market. While all companies make some efforts to motivate employees, a growing number of organizations are introducing new strategies including different compensation packages, as a means of motivating today's workers. **Thus rewards and motivation are interrelated**.

Reward management is about the development, implementation, maintenance, communication and evaluation of reward processes. If an organisation wishes to operate in a participative manner, it needs to change all its systems, including its reward system.

For success of participative management team performance must be rewarded. Of late, reward system practices are changing in line with participative management. For instance, gain sharing is becoming ever more popular in the last decade, and skill-based pay plans have replaced job-based plans in numerous manufacturing locations practicing participative management.

Reward systems impact attraction and retention of workers. Overall, those organisations which provide the most rewards have a tendency to attract and retain the most people. This appears to occur because high reward levels result in high satisfaction, which often results in lower turnover and more job applicants.

When certain conditions are present, reward systems have been proved to motivate performance. However, performance motivation depends upon the situation, how it is perceived, and the needs of people. The connection between performance and rewards should be visible, and an environment of trust and credibility must exist in the company. The belief that performance can result in rewards is basically a prediction with regards to the future. For people to make this kind of prediction, they have to trust the system which is promising them the rewards. Sadly, it is not always clear how a climate of trust in the reward system can be established.

Reward systems also play a role in the overall culture and climate of an organisation. Depending on how reward systems are developed, administered, and managed, they could cause the culture of an organisation to vary quite widely. For instance, they may impact the degree to which it is seen as a human resources-oriented culture, an entrepreneurial culture, an innovative culture, a competence-based culture, and a participative culture. Reward systems in many cases are a significant cost factor in companies. Without a doubt, the pay system alone represents about 40 % of an organisation's operating cost. Pay systems involve direct pay and benefit costs, as well as the expenses associated with managing and operating the system.

How motivation theories affect reward management
- Instrumentality theory provides the traditional rationale for incentive schemes, ie that financial rewards are the prime motivators. The existence of other non-financial or intrinsic motivators is ignored. Instrumentality theory influenced the philosophy underpinning the 'new pay' movement of the 1990s (Schuster and

Zingheim, 1992), which focused on the use of variable pay as a means of improving performance.

- Reinforcement theory suggests that the results expected from employees and the reward they get if they achieve the results should be clearly defined and follow the achievement closely. But reinforcement theory takes, as Shields (2007) put it, a 'depressingly mechanistic view of the human condition'. He suggests that it may possibly only be applicable to simple and routine jobs.

- Content (needs) theory indicates that rewards should focus on satisfying individual needs, especially the higher-order needs. Bearing in mind the complexity and variability of needs, it is necessary to understand what needs may be relevant and how they vary. It is also necessary to avoid crude approaches to meeting them. Motivation policies and reward practices must recognize that people are different.

- Herzberg's two-factor theory emphasizes the significance of the intrinsic motivating factors when considering reward policies. It provides the rationale for striking a balance between financial and non-financial rewards as reflected in the concept of total rewards.

- Cognitive evaluation theory also focuses on the need to consider intrinsic motivating factors when managing reward and performance.

- Expectancy theory provides a powerful conceptual basis for designing pay for performance or contribution schemes. It stresses the needs (1) to have a clear link or 'line of sight' between performance and reward which clarifies what has to be done to obtain the reward and what level of reward can be expected, (2) to provide rewards which people feel are worthwhile, and (3) to ensure that people believe that the level of performance required to achieve the reward is attainable. It also indicates that employees should be given information on what is expected of them through the performance management system and advice and support in achieving those expectations.

- Goal theory impacts primarily on performance management by indicating the impact on performance which is made when performance goals are agreed which are specific, challenging but attainable. But it is also an important factor

in reward management because it reveals the importance of relating performance payments to agreed objectives.

- Equity theory focuses on the need to achieve fairness in base pay management, the use of contingent pay schemes and the provision of employee benefits.

Reward system in Motonet-Espoo

In the past, Motonet-Espoo has had some problems in finding a suitable and functioning reward system that would motivate the employees in a proper way. One of the main problems has been the rapid change of the store manager's position. In six years Motonet-Espoo has had five different store managers. The reward types are decided by the upper management, the store manager however decides how to implement the rewards to each store unit. Hence some problems are created when the store manager changes constantly and each manager has its own way of implementing the rewards into the system. The constant change of the store manager also results in some problems with the development and learning of the employees. Development discussions between the store manager and the employees take place in the company each year. The process of learning and development is however slow due to the fact that the store manager is different almost each time a development discussion is held. The process needs to be started from zero each time the manager changes and this demotivates the employees and influences their motivation towards the reward system. (Interview with store Manager Sami Nordlund).

The reward system of Motonet-Espoo consists of three types of rewards; profit sharing, personal bonus and tangible recognition. All of these rewards have been in an out of use for the past two years, at some periods of time all three rewards have been in use at the same time. Profit sharing is paid out once a month together with the monthly salary. A sales target is pre-determined for each month and if the store unit succeeds in reaching this target a bonus is paid out to all employees. This reward was first tried out in September 2009. The trial period for

the reward was three months and it was taken in use permanently in December 2009. The reward is 0.0025% of the total sales, which is divided by the work hours. Each employee is paid out by their hours worked.

The personal bonus refers to a Christmas bonus that is paid out once a year some time before Christmas. The amount varies between 50-150 Euros, depending on the years worked in the company and whether the employee is working full-time or part-time. This reward was first implemented in Motonet-Espoo in December 2005 and has been after that in use only twice.

The tangible recognition is given out in the form of movie-tickets. Depending on the store manager, each week one or more employees are rewarded with movie tickets. The company believes this to be a great way to encourage employees to make an extra effort in their daily tasks and perform better in teams. This form of reward was implemented in Motonet-Espoo from the start. The reward has however been in and out of use many times during the past years.