

LECTURE 7

REWARD MANAGEMENT

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LEARNING OUTCOMES

On successful completion of this lesson, the learner will be able to:

- LO1:** Define and describe Reward, Total Reward and Reward Management.
- LO2:** Understand the aims, principles and different approaches to reward management.
- LO3:** Understand the importance of a reward strategy in an effective reward management system.
- LO4:** Discuss theories that underpin reward management.
- LO5:** Discuss challenges and the main points to consider when designing a reward system.

REWARD DEFINED

Reward is the core of the employment relationship

- A thing given to someone in recognition of service, effort, or achievement (Oxford English Dictionary).
- Reward refers to all the monetary, non-monetary and psychological payments that an organization provides for its employees in exchange for the work they perform (Armstrong, 2004).
- Something an employee is willing to accept in exchange of service and at the same time an employer is willing to offer in recognition of service.

REWARD MANAGEMENT DEFINED

- A continuous process of formulation and implementation of **strategies and policies** for rewarding employees fairly, equitably and consistently in accordance with their value to the organization.
- Reward management is an HR practice that businesses use to reward employees for their achievements and success.
- Reward management is a **tripartite system** consisting of pecuniary rewards, non pecuniary intrinsic rewards and non pecuniary extrinsic rewards that can positively effect on employee attitudes, satisfaction and motivation (Hajnal & Dibski, 1993)

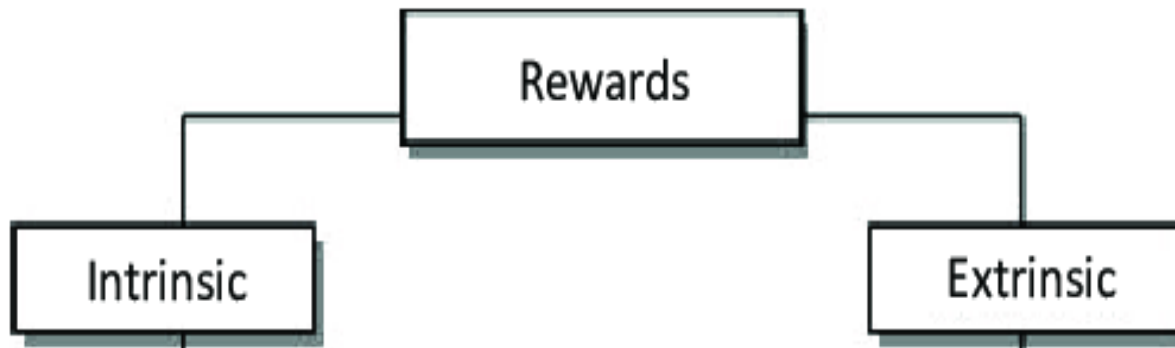
AIMS OF REWARD MANAGEMENT

- Become an employer of choice
- Motivate and retain employees
- Promote employees' relational contract
- Boost business performance

TOTAL REWARD

Transactional rewards	Base pay	Total remuneration	Total reward
	Contingent pay		
	Employee benefits		
Relational rewards	Learning and development	Non-financial intrinsic rewards	
	The work experience		

REWARD CLASSIFICATION (1)



Relational Reward

Transactional Reward

REWARD CLASSIFICATION (2)



REWARD CLASSIFICATION (3)

➤ Financial rewards

- ✓ All monetary payments



➤ Material rewards

- ✓ All types of physical objects



➤ Psychological rewards

- ✓ All types of recognition



TRANSACTIONAL REWARD

- Also known as **Extrinsic reward**
- **Both Financial & Non-financial /tangible:** value of all cash payments and benefits received by employees for the work they perform.
- It includes:
 - base pay or salary, contingent pay, cash bonuses, long-term incentives, shares, profit sharing and employee benefits (pensions, holidays, health care, other perks, flexibility)

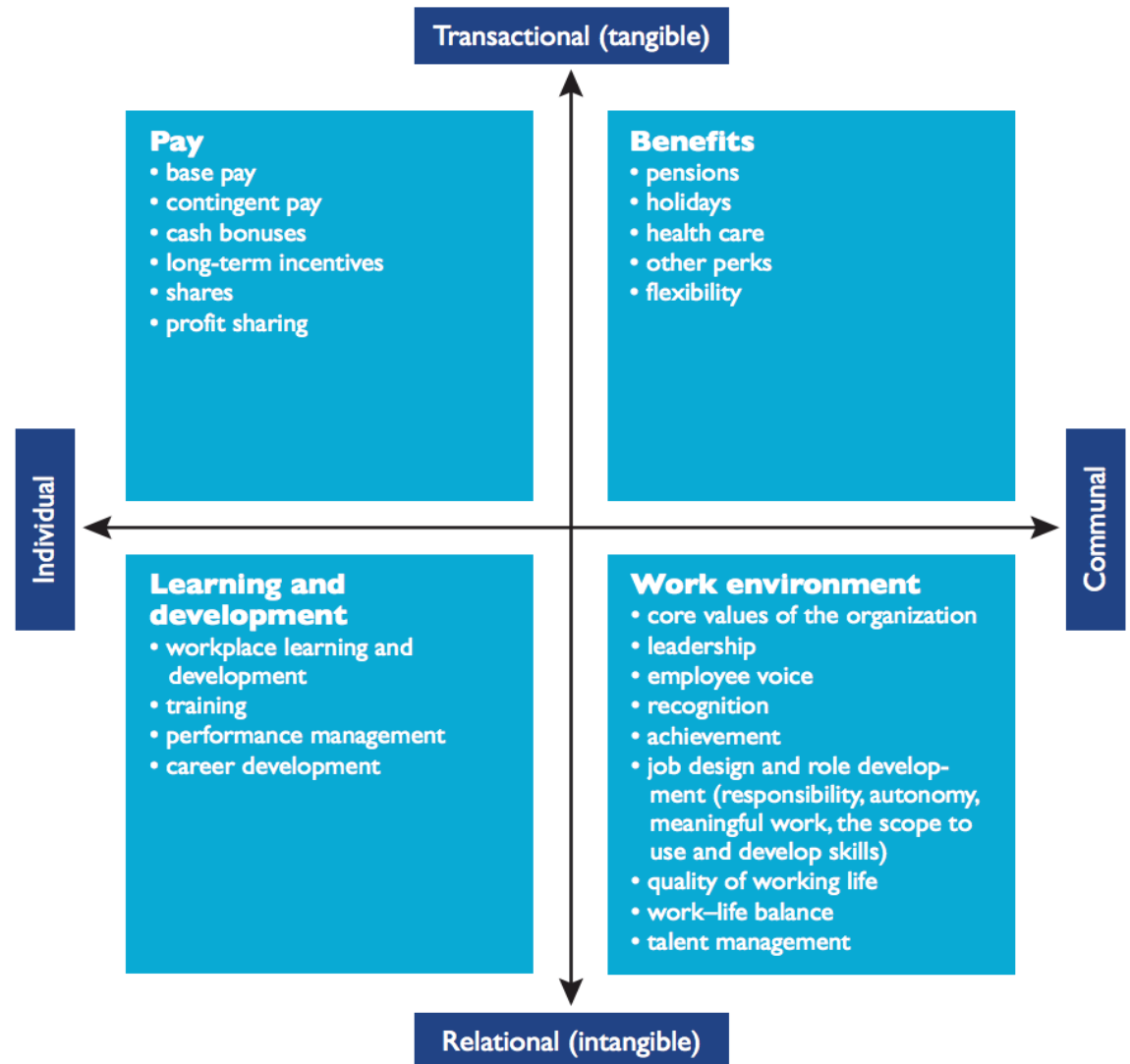
RELATIONAL REWARD

- Also known as **Intrinsic Reward**
- **Non-financial & intangible:** These are mostly based on the psychological contracts with the work situation.
- These help better use of their talents and promote interaction with others in a supportive manner.
- It includes:
 - quality of working life, leadership, work-life balance, recognition, learning and development etc.

THE TOWERS PERRIN MODEL

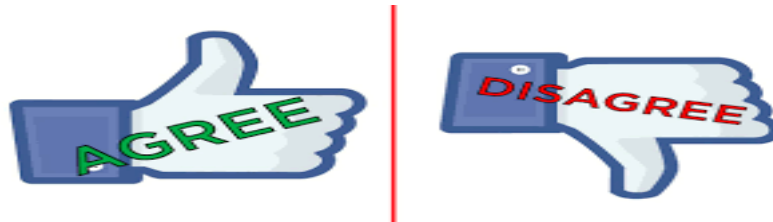
REWARD POWER

The real Reward Power comes when organizations combine relational rewards and transactional rewards

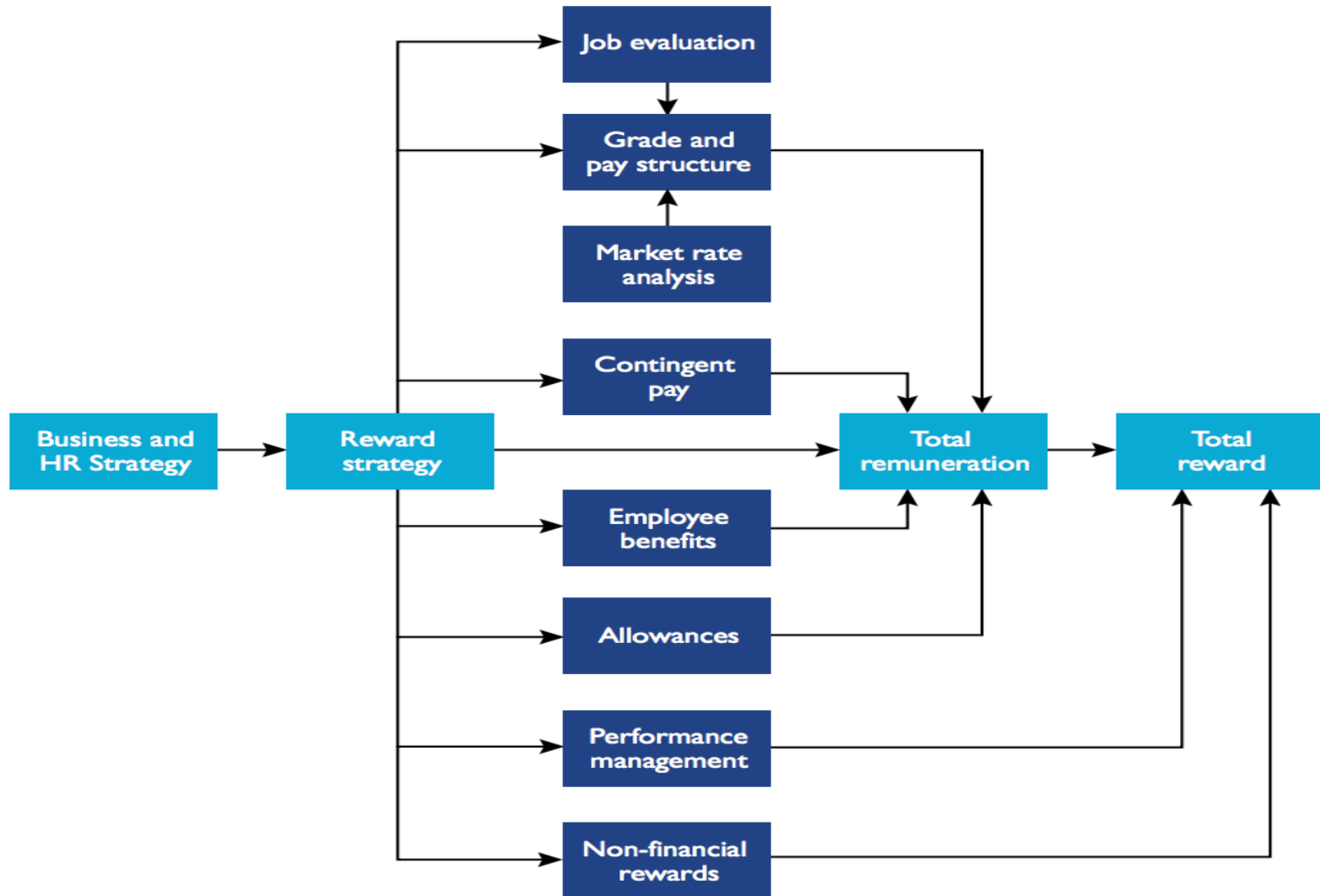


CRITICAL ANALYSIS 1

“A well crafted reward strategy leads companies to superior business results.”



REWARD MANAGEMENT SYSTEM

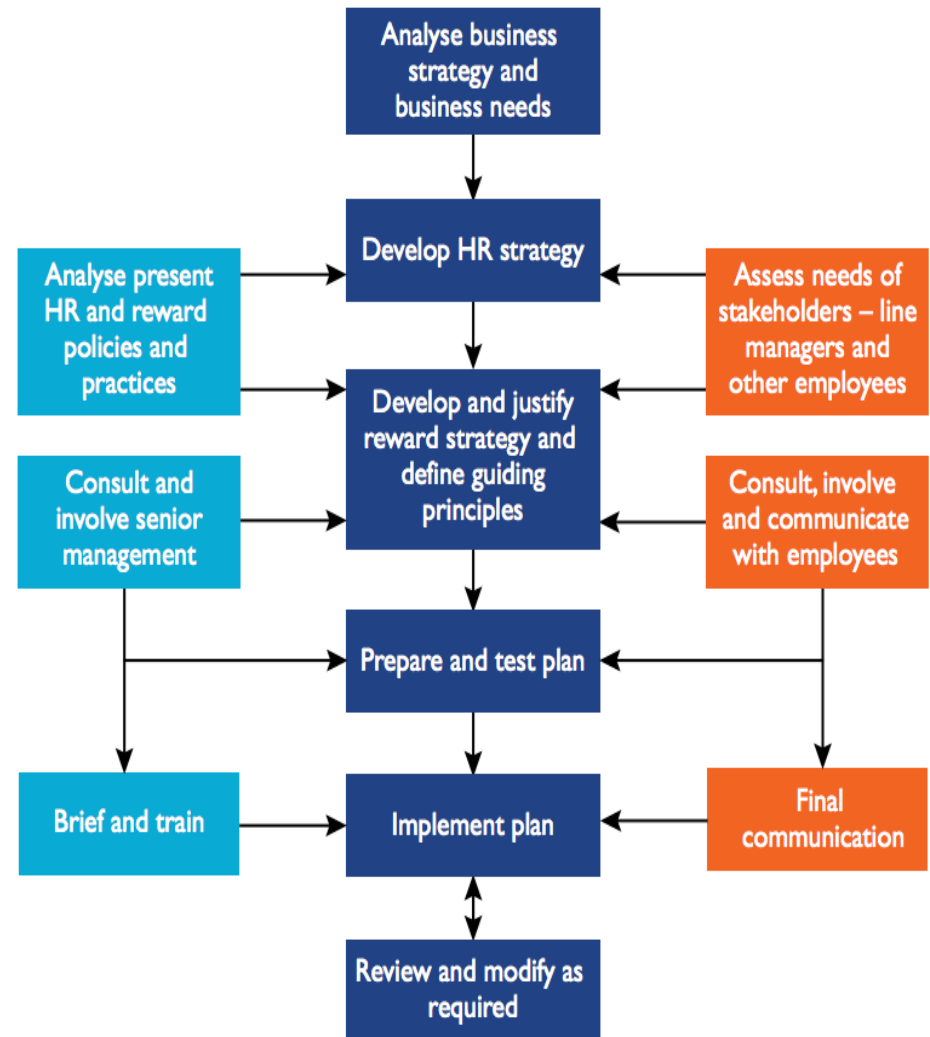


DEVELOPING A REWARD STRATEGY

Clearly defined goals
and a well-defined
link to business
objectives.

Well-designed pay
and reward programs

Effective and
supportive HR and
reward processes in
place.



PRINCIPLES OF REWARD STRATEGY

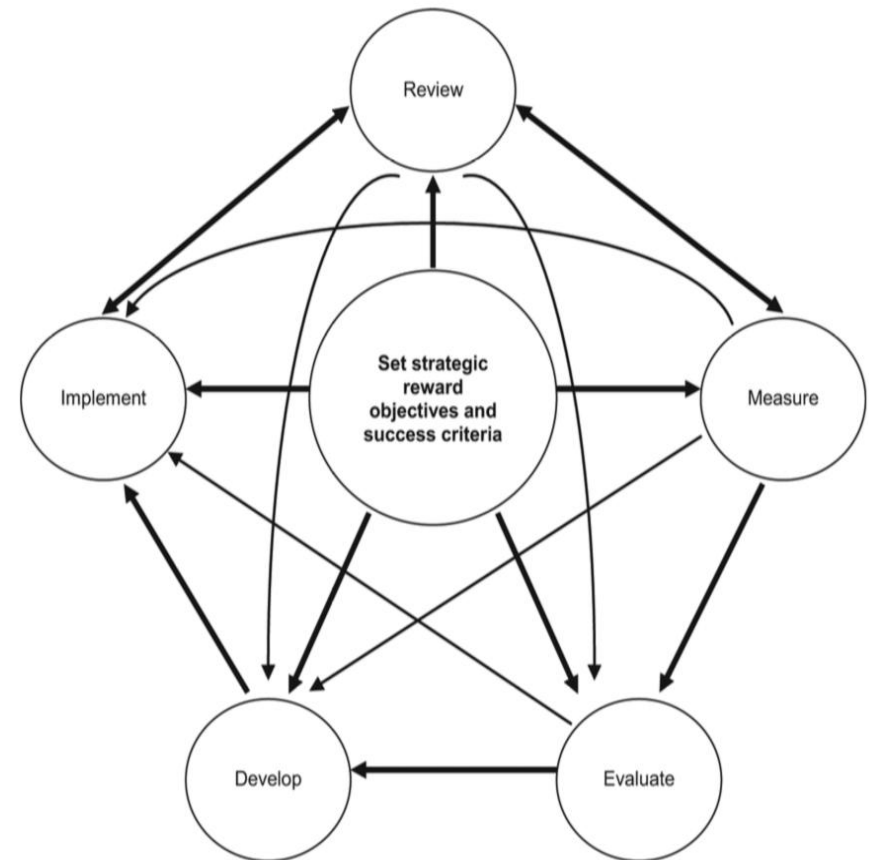
- Management and employee support to the reward system.
- Reward measurable competencies and achievements.
- Keeping group incentives clear and simple.
- Matching incentives to the culture and size of the organization.
- Aligning performance with the business goals.
- Linking rewards to other levers of organizational change.
- Recognize and reward employees for the work & contribution.
- Communicate the reward strategy properly to all relevant employees.

EVIDENCE-BASED REWARD

- Introduced by Michael Armstrong et al. (2010).
- It means managing reward systems:
 - ✓ On the basis of evidence (internal & external) rather than opinion.
 - ✓ On the basis of understanding rather than assumptions.

EVIDENCE-BASED REWARD MANAGEMENT

- ✓ Set reward strategy goals & success criteria.
- ✓ Conduct a reward review.
- ✓ Measure the effectiveness of reward policies & practices.
- ✓ Evaluate findings & agree on improvements.
- ✓ Pilot and develop evidence-based reward policies & practices.
- ✓ Implement and continue to review, measure, evaluate and adapt the rewards package.



REWARD ALLOCATION PRINCIPLES

- Three principles of distributive justice:
 - ✓ **The need principle:** the allocation of rewards based on individual needs.
 - ✓ **The equality principle:** the equal distribution of rewards to all individuals regardless of their differential inputs.
 - ✓ **The equity principle:** the allocation of rewards in proportion to each individual's contributions.

THEORIES FOR REWARD MANAGEMENT

- Maslow's Hierarchy of Needs
- Reinforcement Theory
- Equity Theory

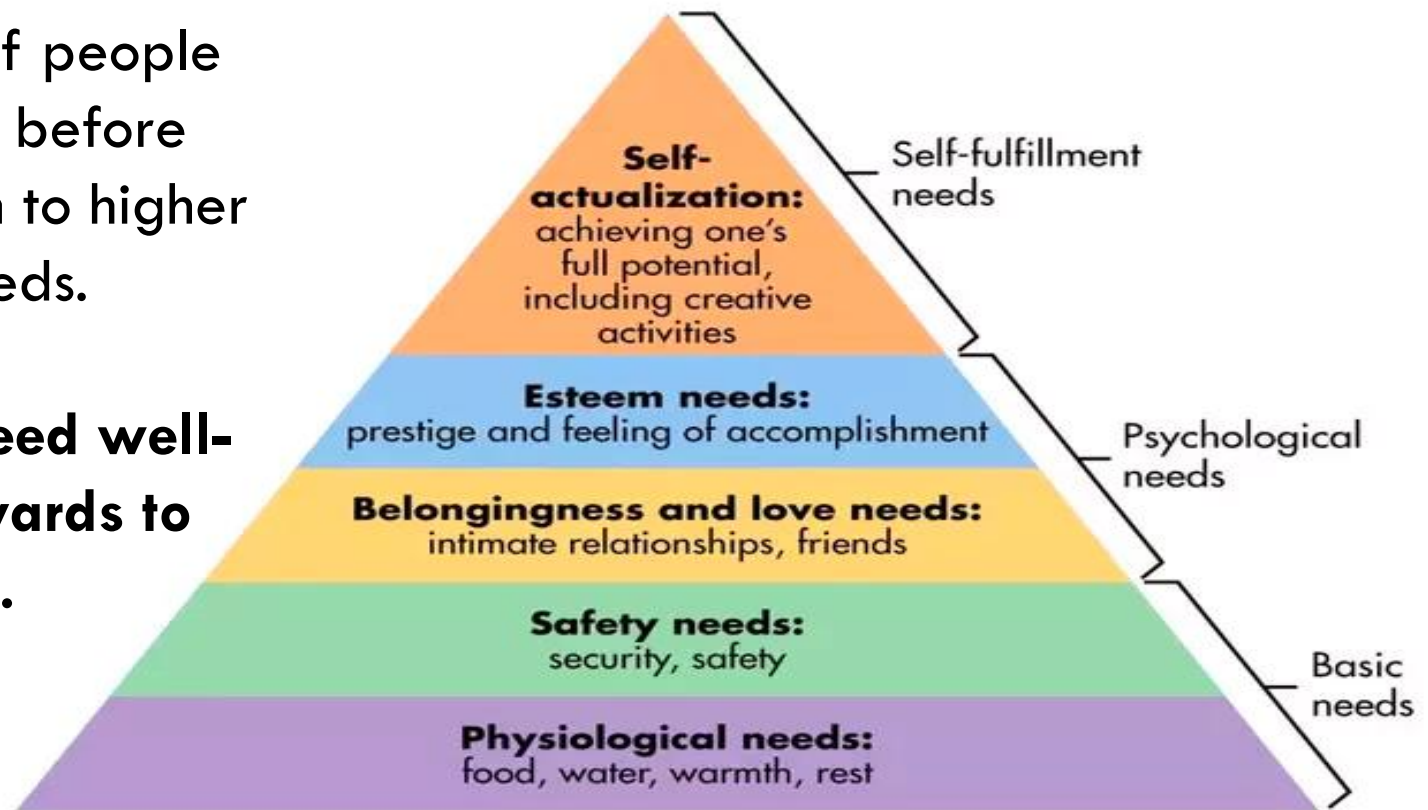
(Including but not limited to)

MASLOW'S HIERARCHY OF NEEDS

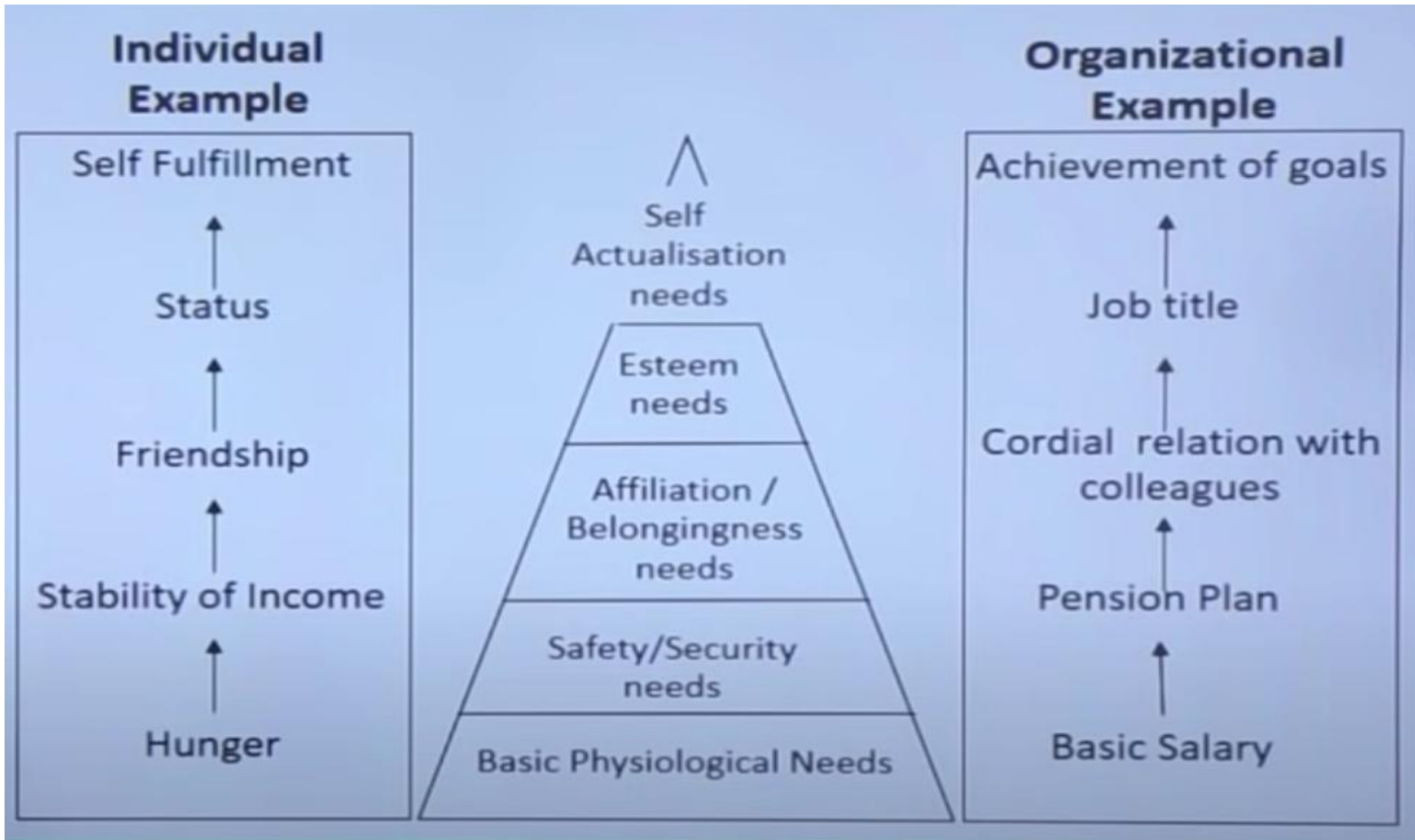
How people behave?

Basic needs of people must be met before they can go on to higher level needs.

Employees need well-focused rewards to work.



MASLOW'S THEORY INTO PRACTICE



REINFORCEMENT THEORY

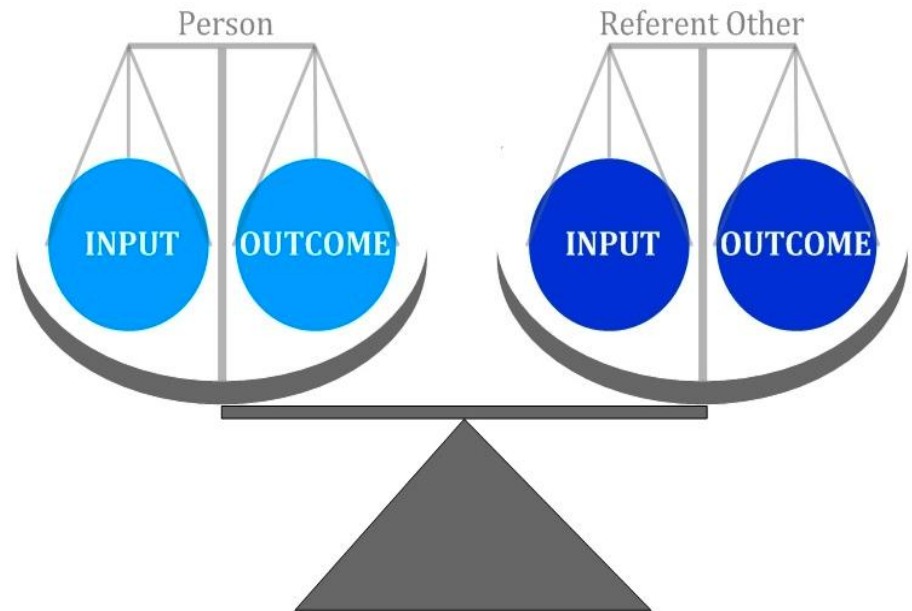


Money, Performance Feedback and Social Recognition are most influential reinforcers towards employee motivation to work

EQUITY THEORY

How people behave?

People become demotivated whenever they feel their inputs are not being fairly rewarded.



CRITICAL ANALYSIS 2

**What factors determine the reward mix
in the state-owned organizations of Sri
Lanka?**

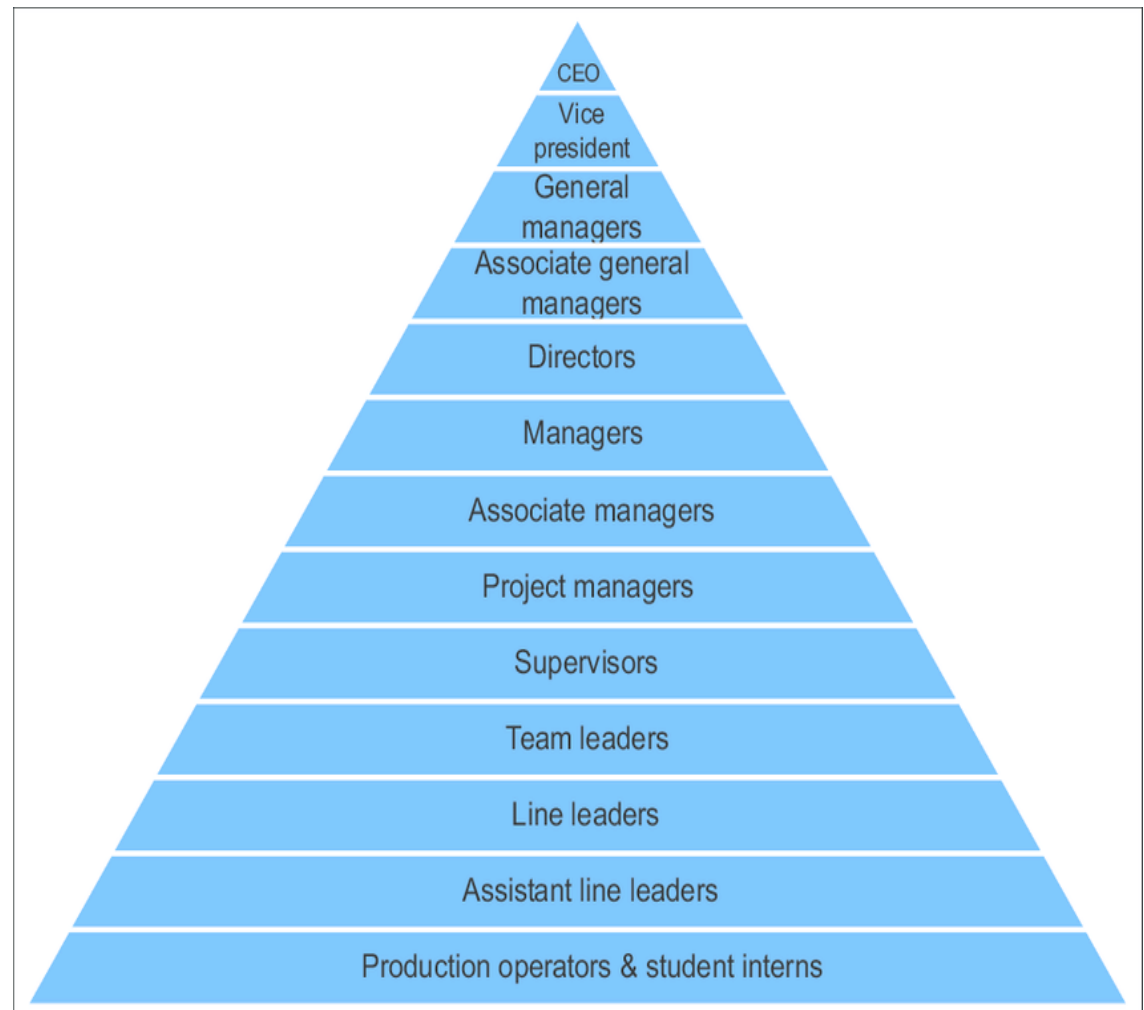
REWARDING STRATEGIES

There are several approaches to rewarding employees in the current era.

- Job status based rewarding
- Job based rewarding
- Competency based rewarding
- Performance based rewarding
- Experience based rewarding

JOB STATUS BASED REWARDING

The Hierarchy of Management shows the relative worth of each person in comparison with the other personnel of the organization.



JOB BASED REWARDING

- A reward structure that considers an employee's:
 - Job range
 - Job depth
- It does not consider job title or position.
- Why job-based rewarding:
 - Promote job enlargement & job enrichment

COMPETENCY BASED REWARDING

- A pay structure that considers an employee's:
 - Types of knowledge, skills and abilities/behavior
- Why competency-based rewarding:
 - Encourage innovations
 - Enhance effectiveness & efficiency
 - Compete over rivals
 - Promote good work relations

PERFORMANCE BASED REWARDING

- A pay structure that considers an employee's:
 - Level of job performance

- Why performance-based rewarding:
 - Encourage discretionary effort at work
 - Support high performance work systems
 - Support continuous performance management
 - Achieve targets

EXPERIENCE BASED REWARDING

- A pay structure that considers an employee's:
 - Experience at work
- Why experience-based rewarding:
 - Encourage green behavior at work
 - Support risk management
 - Support change management

VARIABLE PAY PLANS

- Reward systems that pay cash bonuses to a defined group of employees based on predetermined measures of group or organizational performance.
- **Profit sharing:** profit-sharing programs offer rewards based on company profitability.
- **Gain sharing:** gainsharing plans reward employees for achieving specific performance metrics.
- **Goal sharing:** goal sharing rewards employees for meeting specific goals.

VALUE-ADDED REWARD SYSTEM

- Rewards in which components of the remuneration package, both separately and in combination create value for the organization and its employees.
- Total reward when offered together as a whole package is worth than just offering them separately at different stages through a piecemeal approach.
- Value-added reward system makes employees more motivated and thus willing to go an extra mile at work than that of a piecemeal approach to rewards.

DESIGNING A REWARD SYSTEM

Some points to ponder:

- Involve employees in the decision making process.
- Prioritize monetary rewards that change employee behavior.
- Pay employees with a reasonable market level base salary.
- Provide job security at best.
- Communicate organizational strategy and direction.
- Recognize employees for their achievements.
- Empower employees to make certain decisions.
- Involve employees in the changes, challenges and issues.
- Promote a healthy competition towards performances.
- Form a confidential mechanisms to forward employee grievances.

KEY CHALLENGES

- Employees are not aware about the reward system.
- Employees do not understand the total rewards.
- Reward strategy is not linked with the business strategy.
- Rewards not linked with employee performance.
- Rewards not linked with the job market.
- Rewards not consistent with the job.
- Rewards not linked with individual expectations.
- Rewards not revised appropriately.

SUMMARY

- Appropriately rewarded employees are pivotal to a successful business.
- An organization's reward system has been the major cause of employee motivation.
- The effectiveness of total rewards determines an organizations capacity to attract and retain talented workforce.
- Reward system is closely linked with the performance management system of an organization.
- Without a reward system, it is dubious that how could the performance management system could be managed.
- Effective reward system should bring value to both employees and the organization as a whole.
- An organization's reward system interprets employee value preposition which is similar to the employer brand.

RECOMMENDED READING & IMAGE SOURCES

- Armstrong, M. (2009) Armstrong's Handbook of Human Resource Management Practice. 11th Edition, Kogan Page Limited, London.
- Boxall, P., Purcell, J. and Wright, P. (2007). The Oxford Handbook of Human Resource Management. Oxford: OUP .
- Gibb, S. (2007). Human Resource Development: Processes, Practices and Perspectives. Basingstoke: Palgrave.
- Marchington, M. & Wilkinson, A. (2011). Human Resource Management at Work: People Management & Development. 5th Edition. London: CIPD.

In addition to the above sources, some of the illustrations of this lesson have been taken from the Internet only for the teaching-learning purpose with an immense gratitude.