

Reward Management and Strategy

The term 'reward' covers all of the provisions offered to employees – including cash payments, the wider benefits package, and other non-monetary provisions, such as flexible working.¹

Reward's importance as a motivator of performance can't be underestimated, but it is also a key part of an organisation's wider strategy. The right combination of rewards can attract employees who possess the skills and experience to make an immediate impact. Desirable reward packages may then ensure that these valuable people stay with the organisation to benefit it in the long run.

For example, a solicitor is more likely to join a firm that offers higher salaries than its competitors, offers better work-life balance, and provides an attractive benefits package. But the firm will have to work to maintain this advantage – if, five years on, the solicitor's pay has not increased, they may leave for a rival firm anyway.

Indeed, companies need to be attractive to prospective employees, even when they are not actively recruiting. This is because every organisation will need new people to join it at some point. If an employer offers generous pay and benefits, and embraces flexible working now, they will build a good reputation and find it easier to recruit in the future. In this sense, reward can be part of a company's 'employer brand'.

Of course, the organisation will want to not only attract and retain employees, but have them perform to the best of their ability as well. This may require deployment of various reward strategies. For instance, employers might offer bonuses on top of 'base pay' to all employees who meet their individual annual goals, or if the company reaches a certain level of revenue or profit.

It's important, however, that the reward approach is tailored to individual roles. Different jobs and functions could emphasise either quantity or quality in their performance assessment criteria. For example, a research scientist's reward package may be based on quantitative aspects, such as the number of articles published or grants secured. Conversely, the head of quality assurance in a confectionary factory might be rewarded for maintaining a consistent taste in every chocolate bar. Of course, it could also be beneficial to reward the scientist and the factory employee for both the quantity and quality of their output. The desired result is that neither would rush their work in the quest for higher volume, nor would they become so distracted by the pursuit of quality that their output goes down.

Employers may also use reward to target areas that are unrelated to production or output but still of importance to the organisation. For example, if a company operates in a specialised field for which it's difficult to recruit and train new staff, keeping its most experienced workers will be a priority. This may lead managers to tie some rewards to factors such as length of service, for example, by offering loyalty bonuses or increasing holiday allowance in line with time served.

¹ CIPD (2024). Reward: An introduction. Available at: <https://www.cipd.co.uk/knowledge/fundamentals/people/pay/reward-factsheet#ref> [Accessed 7 October 2024]

Total reward

While the concept of reward includes all the provisions offered by a company in exchange for an employee's work, traditionally, employers have emphasised the financial aspects of the package to attract talent and motivate staff.

However, this has changed with increased understanding of what motivates people. Many employers today offer a balance of rewards that employees find valuable. This is sometimes called 'total reward' – an approach which puts equal emphasis on all types of rewards in supporting motivation and, ultimately, performance. There are a number of ways of arranging these rewards, but it's often simplest to group them in relation to money – into the categories of 'financial' and 'non-financial' reward.

Financial reward

Financial reward comprises all rewards that have a monetary value.² These include 'cash' items, like the fixed pay that employees receive each month, and variable pay, such as bonuses and one-off awards. It also covers non-cash items that have a monetary value – such as employee benefits³ like private healthcare or pension packages.

Non-financial reward

Meanwhile, the 'non-financial' category covers all rewards that don't have a direct monetary component. This includes praise and recognition – for example, publicly acknowledging employee efforts or accomplishments.

Non-financial reward would also be enjoyment derived from the job itself. For instance, you might provide meaningful work that aligns with your team members' interests and motivations, as well as give them the autonomy to make their own decisions. These factors are likely to appeal to their sense of ownership and increase their job satisfaction.

This category also encompasses policies and any associated potential benefits. For example, a policy that provides remote work options or flexible working hours to allow employees more freedom in how they organise their working time.

Together, these financial and non-financial elements make up an employee's total reward.⁴ Research shows that the concept resonates with a broad range of organisations,⁵ and that managers – and team members – have a crucial role to play in its implementation. Senior managers may be responsible for shaping the overall reward framework, aligning it with the company's strategic goals,

² Armstrong, M. (2019). Armstrong's handbook of reward management practice: Improving performance through reward. 6th edition London: Kogan Page.

³ Armstrong, M. (2019). Armstrong's handbook of reward management practice: Improving performance through reward. 6th edition London: Kogan Page.

⁴ Armstrong, M. (2019). Armstrong's handbook of reward management practice: Improving performance through reward. 6th edition London: Kogan Page.

⁵ Incomes Data Services (2008). Total reward. Study. 871.

and ensuring it supports long-term objectives, such as talent retention and employee development. At the same time, line managers are crucial in communicating and carrying out reward initiatives, and tailoring rewards to meet the specific needs and motivations of their teams.

There is also some evidence that a total reward approach can assist managers in driving engagement and performance. Research by the Institute of Employment Studies found that the more financial and non-financial rewards are combined, “the more significant the potential impact on employee engagement appears to be”. This was also linked to higher levels of performance.⁶

⁶ Brown, D., Callen, A. and Robinson, D. (2016). The relationship between total reward and employee engagement: An evidence-based review. London: IES/NHS Employers. Cited in M. Armstrong (2019). Armstrong’s handbook of reward management practice: Improving performance through reward. 6th edition London: Kogan Page, pp.29–30.