

HUMAN RESOURCE MANAGEMENT

MODULE 2: Lecture 6

Reward Management

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Business Administration

Learning Outcomes

- The fundamentals of reward management.
- Managing and developing reward systems.
- Reward systems for specialist groups.
- Evaluating jobs to measure their worth.
- Establishing competitive, fair, and competitive reward structures.



The fundamentals of reward management and managing and developing reward systems



Pause for thought

Can you think of a time when you were really happy about the way in which you had been rewarded for an achievement? If you can, why did you feel that way?



Reward management – defined

Reward management deals with the strategies, policies and practices required to ensure that the value of people and the contribution they make to achieve organisational, departmental and team goal is recognised and rewarded.

It provides answers to two fundamental questions:



How do we value
people?



How are we going to
reward them according
to that value?



How would you value these positions?



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Rewards



What factors should be included in rewarding employees for their work?



FINANCIAL



NON-FINANCIAL



Managing and developing reward systems



Reward strategy

Reward strategy aims to achieve three major objectives:

Performance

Competitiveness

Fairness

Provides answers to two basic questions:

- 1- What to do about our reward practices to ensure they are fit for purpose?
- 2 - How do we intend to do it?



Financial rewards

- Job based pay (related to value of job and individual's contribution)
- Employee (money related) benefits e.g. pensions and financial recognition schemes e.g. bonuses, stock options, commissions.

The management of job and person-based pay involves:

- 1** - Pay determination – based on market & job evaluation
- 2** - Base-pay management – pay structures by pay groups, grades etc
- 3** - Contingent pay – Pay progression based on performance, contribution, competence, skill etc



Non-financial rewards

Focus on the needs people have to varying degrees for recognition, achievement, personal growth and acceptable working conditions

- Flexible working
- Give employees time to work on their own projects
- Extra leave
- Allow time to do volunteer work
- One-on-one meetings
- Give employees chance to show appreciation for each other
- Reward employees with more responsibility
- Let everyone know who you're rewarding and what you're rewarding them with
- Give your employees the opportunity to attend educational or wellbeing events/workshops
- Recognise your employees on social media
- Collaborative message from all employees
- Ask your employees what they'd like?
- Birthday off
- Employee of the month/quarter



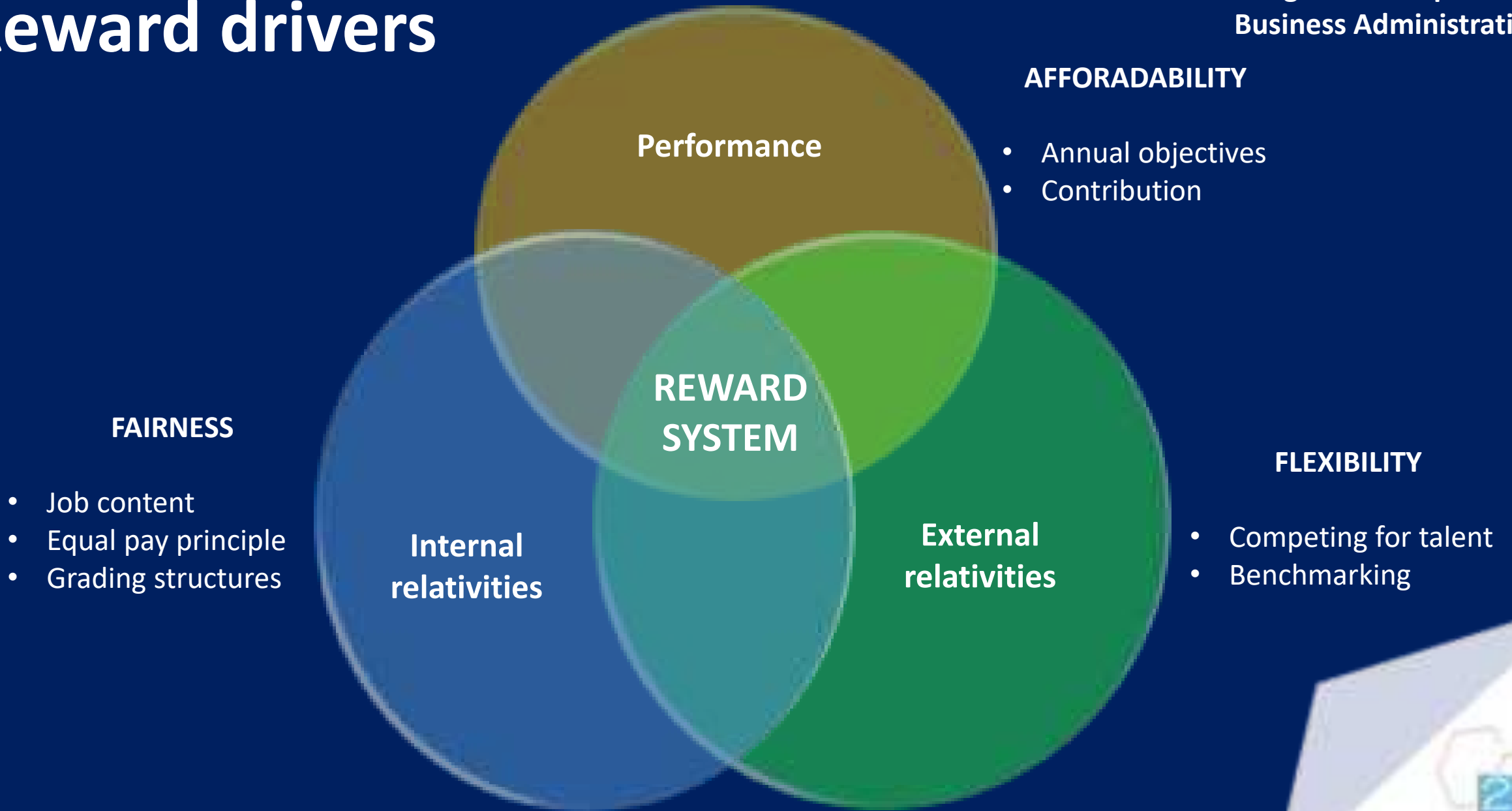
Aims of reward management

- Support the achievement of business goals based on performance
- Attract and retain high-quality people
- Motivate and win the engagement of employees
- Reward people according to the value they create
- Deliver value on the investment in rewards to employer and employees
- Align reward practices with employee needs

Reward management is ***adding value to people*** and not just attaching value to them

Ghoshal & Bartlett (1995)

Reward drivers



Theories on pay levels

Theory	Summary of theory	Practical significance
Law of supply and demand	Surplus of labour = salaries down / shortage of labour = salaries up	Labour market affects rates of pay
Efficiency wage	Pay above market rates = increase in productivity / retention	Pay policies placing firms above average
Human capital	Skills, education and training = generates stock of capital	Pay fixed at level as a return on investment
Agency (or principal agent)	Owners (principals) are separate from employees (agents) creating "agency costs" (owing to lack of productivity)	To have a system of incentives to motivate and reward (based on measurable results)
Tournament	Motivation of employees through lucrative prizes through promotions	Large pay differential between jobs
Effort / reward bargain	Employees strike a bargain between what they believe is reasonable and what employer is prepared to pay	Management needs to assess type of inducement for contribution it requires from employees

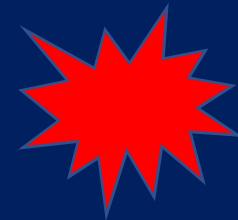


The total reward model

	Common examples	Reward elements	Definition		
INTRINSIC (CONTRIBUTES TO INTERNAL VALUE AND MOTIVATION)	Quality of work	Engagement factors			
	Work/life balance				
	Inspiration/values				
	Enabling environment				
	Growth opportunity				
EXTRINSIC (HAVING A MONETARY VALUE)	Tangible benefits e.g. cars	Active benefits	TOTAL REMUNERATION		
	Memberships				
	Discounts				
	Retirement	Passive benefits			
	Health & welfare				
	Holidays				
	Stock / equity	Long-term rewards / incentives			
	Performance shares				
	Annual incentives	Short-term variable			TOTAL DIRECT COMPENSATION
	Bonus / awards				
	Team awards				
	Base salary	Base cash			TOTAL CASH
	Hourly wage				
			TOTAL REWARD		



Total compensating package



Video on Total Compensation

<https://www.youtube.com/watch?v=WBja2kIDnxM>

Establishing competitive and fair reward structures



Reward management practices

Market pricing
(salary surveys)

Base pay
management

Pay progression
through
contingent pay

Team pay

Pay for
performance
(PRP)

Bonus schemes

Recognition
schemes

Employee
benefits



Market pricing

Market pricing
(salary surveys)

- Decisions based on salary rates within the industry
- Policy on where to benchmark (average, upper quartile, lower quartile, median, mean)
- Helps to develop pay structure
- Adjustments to remain competitive and enhance retention
- Availability of such market and reliable data (specialists / available information / intelligence / direct feedback etc)
- Exact market rates are difficult to have as no two companies are the same (but there could be a range as a benchmark)



Base pay management (1/2)

Base pay management

- The base rate (the rate for the job or the person) is based on information from market pricing and job evaluation
- Leads to pay structures (including pay levels)
- Establishment of job hierarchy and associated pay levels



Base pay management (2/2)

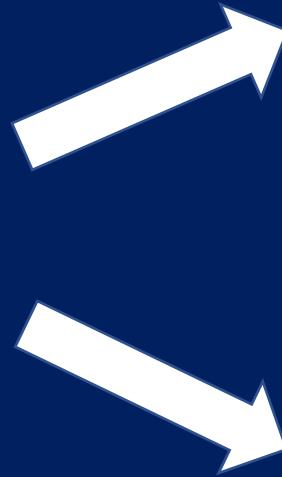
Sample Career Ladders within a Global Job Leveling System

Business Leadership	Executive	Management	7	Vice President	Professional	6	Principal	Support
	Grade 11		8	Sr. Director		5	Expert	
	Grade 10		9	Director		4	Advanced	
Management and Professional	Grade 9	4	Sr. Manager	3	Expert	Support		
	Grade 8	3	Manager	4	Advanced			
	Grade 7	2	Sr. Supervisor	3	Center			
	Grade 6	1	Supervisor	2	Developing			
Entry Level and Support	Grade 5			1	Entry	Support		
	Grade 4			4	Highly Skilled			
	Grade 3			3	Senior			
	Grade 2			2	Intermediate			
	Grade 1			1	Entry			

Grade	Salary Range			Business Functions	Operations	Engineering
	Minimum	Midpoint	Maximum			
9	\$114,900	\$149,400	\$183,900	Human Resources Management Level 4	Operations Management Level 3	Senior Engineer Level 4
8	\$91,900	\$119,500	\$147,100	Human Resources Management Level 3	Operations Management Level 2	Engineer Management Level 1
7	\$76,500	\$96,600	\$114,700	Human Resources Representative Level 4	Manufacturing Management Level 1	Project Manager Level 2
6	\$63,000	\$79,700	\$95,000	Human Resources Representative Level 3	Manufacturing Engineer Level 2	Engineer Level 1
5	\$53,100	\$66,400	\$79,700		Inventory Control Analyst Level 2	
4	\$44,200	\$55,300	\$66,400		Manufacturing Technician	

Pay progression (contingent)

Pay progression through
contingent pay



- Individual increases based on performance, competence, contribution, skill, length of service
- Progression through a pay scale

- Cash bonuses to individuals or teams
- Referred to as *variable pay*

Team pay



Team pay

- Payments to pay based on a preestablished formula or exceptional circumstances
- Encourages team working
- Lose or win together
- Enhances flexibility
- Encourages low performers to improve
- Develops self-managed teams
- May create unfairness against the high vs low performers
- People may stick to the minimum to achieve reward
- Pressure from employees to move with high performing teams



Pay for performance (PRP)

Pay for performance (PRP)

Profit sharing

Share schemes

Financial gain sharing



Recognition schemes

Recognition schemes
(in appreciation of
achievements)

Less formal

Non-financial

*“Well done” / “Thank
you” /
“Congratulations”*



Employee benefits

Employee benefits

- Enhances employees' wellbeing
- Referred to as "perks"
- Holidays and extra leave arrangements
- Pension scheme
- Health / life insurance cover
- Cars
- Childcare
- Medical care
- Staff canteen
- Parking
- Travel vouchers
- Gym membership



Reward systems for specialist groups



Methods used for specialist groups

**Directors / Senior
Executives**

**Expatriate
employees**

Knowledge Workers

Sales staff

Manual workers



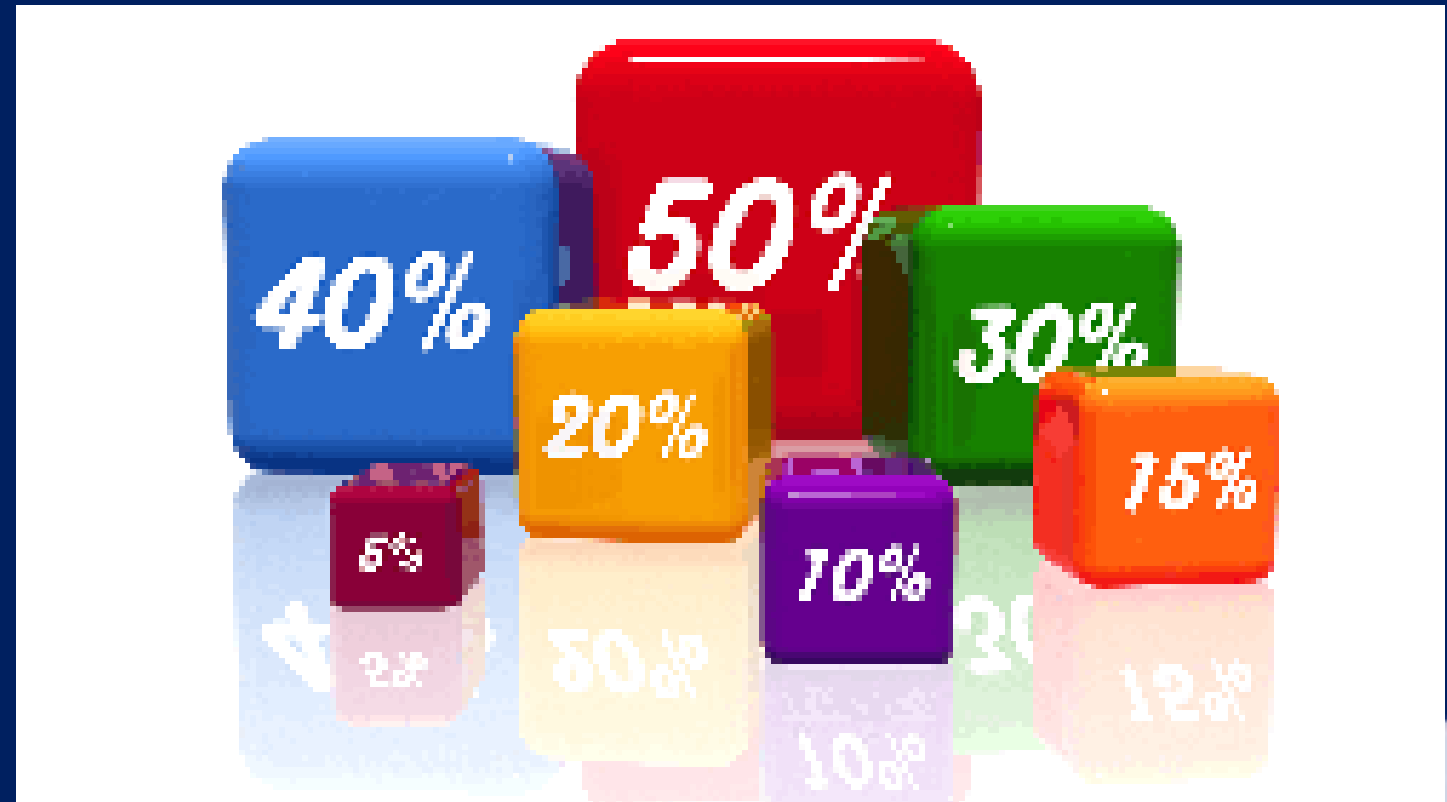
Executive remuneration

- Basic pay
- Bonus schemes
- Long terms bonuses
- Deferred bonus schemes (provided the employee is still employed)
- Share option schemes
- Performance share schemes (provisional to performance)
- Benefits
- Service contracts (linked to severance pay)



Sales & customer service remuneration

- Basic pay
- Bonus
- Commissions
- Target driven (SMART objectives)



Rewarding expatriates

(applies to employees assigned to other countries)

Home-based pay

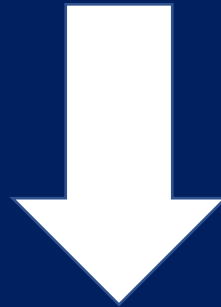
Host-based pay

Additional payments / perks such as cars, housing, schooling etc



Paying manual workers

Based on day rates, hourly rates or flat rates for work carried out



Usually applies to people who are self-employed and offering a service



Evaluating jobs to measure their worth



Job evaluation



Job evaluation

- It is a systematic and formal process to define the relative worth of a job within an organisation
- Most commonly used is the Point-factor job evaluation
- Based on analysis and scoring of jobs as related to a number of factors such as:
 - Level of responsibility
 - Knowledge and skill of position
 - Decision making and problem solving requirements and level
 - Physical and mental demands of job



Job evaluation within a restaurant



POSITIONS	Knowledge & Skill	Level of responsibility	Decision making	Physical & mental demands of job
	Score Level Range: 1 being lowest and 10 being highest			
Head Chef				
Assistant Chef				
Cook				
Dishwasher				
Restaurant Manager				
Restaurant Section Supervisor				
Waiter (a la carte)				
Waiter (buffet)				
Cleaner				
TOTAL SCORE				



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