Reward management theories

Reward management has been described as a key function in HRM systems in modern organizations, and it is often designed to attract, retain and motivate employees (Milkovich and Newman, 2004 cited in Yu, Ying ying and Angeles, 2011, pp 2). Because of the strategic nature of human resource in the attainment of corporate goals and organizational competitiveness (Wright and McMahan, 1992), many authors have discussed the subject of reward management from different perspectives. Some of these perspectives focus on dividing reward systems into two categories; Extrinsic and intrinsic rewards. Extrinsic reward systems generally focus on offering performance-linked salary increases, monetary rewards, long term incentive plans, team-based rewards, and security benefits to employees (Laursen and Foss, 2003). These authors argue in favour of the values of these types of reward in boosting the morale of employees and improving their productivity as the same time.

The result of this to the organization is better bottom line performance through increased revenue and profitability (Yu, Ying Yang and Angeles, 2011). Intrinsic rewards are non-monetary rewards and could come in form of enriching job responsibility and empowerment (Oldham and Cummings, 1996), providing training resources and comprehensive learning opportunities (Hennessey and Amabile, 1998), and maintaining good interpersonal relationships among employees (Ruppel and Harrington, 2000). Yu, Ying and Angeles (2011) identify two reward management perspectives based on the above classification and they call extrinsic reward systems, utilitarianism and intrinsic reward systems, romanticism. According to these authors, these are the two highly debatable theories of reward management

in the HRM field. One of the basic assumptions underlying the theories of reward management is that the performance and motivation of employees can be improved by establishing a link between efforts and rewards through formalised and specific individual targets (Fay and Thompson, 2001).

Although many authors and writers have established that there are enormous benefits for organizations in putting in a place an effective reward management system, some authors still warn against over-reliance on reward systems because of its potential to create several organizational issues which focus on fairness and diversity (Beer and Cannon, 2004). Many other authors have critically examined the underlying philosophies of reward management and the variables that make up a typical reward mix. Baeten (2008 cited in Jonathan and Clare, 2011, pp 2) provides a deeper insight into this when they argue that there are 34 different possible theories underlying a reward management system. Eisenhardt (1988 cited in Jonathan and Clare, 2011, pp 3) however limits reward management theories to two namely: The agency theory and the institutional theory. Agency theories of reward management basically seek to align organization and individual objectives. The main aim is to use incentives to direct employees towards the interests of the owners of the business, and to design the reward mix to reflect that. On the other hand institutional reward management theory focuses on the formal and informal pressures exerted on organizations by other organizations with which it is connected. Some of these pressures could come in form of employment legislations, legal requirements, tax policies, and a desire to adopt the policies that others have adopted so as to gain the security that conformity is perceived to bring (DiMaggio and Powell , 1991).

Finally other known theory of reward management under the institutional classification is normative pressure. This occurs when members of an organization collectively come together to define the conditions and methods of their works.

4 The design of policy and set of procedures

HP operates in a highly competitive industry with a peculiar high staff turnover rates. Employees are often influenced by competitive reward policies that contribute to the attainment of their personal development goals and objectives. Kerr (1999) argues that rewards should be the third thing in an organization; measurements should be second, and clear articulation of the desired outcomes should be the first. In designing a reward policy for HP the following are the key objectives to be attained:

4. 1 Policy statement

HP`s goal is to attract and retain the most talented workforce which are strategically connected to the organization`s ability to meet its strategic goals and objectives. With this in mind we seek to offer a combination of the most competitive and flexible financial rewards in the US mobile and computer industry to all cadres of employees immediately they join us. We believe that this is important to the maintenance of our existing leadership position in the industry and we seek to pursue this policy as doggedly as possible with all fairness and equity.

4. 1. 1 Procedures

Aim

The central aim of this policy is to enable enhance HP`s ability to recruit the most talented experts in the US mobile and computer technology industry which we consider as strategic to the achievement of our corporate goals and objectives.

Scope

This financial reward policy shall apply to all regular full time and regular part time employees of HP immediately they join the company.

Principles

The entire reward policy of this company shall be built on a foundation of equality, commitment to diversity, fairness and a sense of good judgement

The entire reward policy will be operated as transparently as possible and it will be made to comply with national regulatory frameworks for employee engagement in the computer and mobile technology industry

All categories of employees that contribute more by measure of productivity shall be financially rewarded more. HP shall not take any extra contribution of any employee for granted. We believe that is crucial to fulfilling our commitment to equality and fairness.

Responsibilities

Role

Accountability

Rewards team

Ensuring that financial policy reward activities are firmly in place and monitoring that the underlying principles of the reward are upheld

HR Director and HR leadership team

Providing control initiatives in situations where the principles of the policy are not upheld

Senior management group

Ensuring the proper alignment of HP`s corporate strategy and the reward policy

4. 2 Correspondence to relevant national legislation

The US department of labour has established regulations regarding employees' salaries and wages in place. One of such regulations is the fair labour standard Act of 1938 which is administered by the wages and hour division. This Act establishes standards for minimum wages, overtime, pay and record keeping. These standards affect over 130 million full time and part time employees at both private and public sectors of the US economy. This act promotes fairness, justice and equity and empowers employees to initiate a law suit against any employer who violates any of the principles and policies of the Act. This new policy thoroughly complies with the standards set out in the US department of labour Act of 1938 in all fairness and equity. The policy is also transparent enough to give employees the autonomy to institute law suits against HP if the companys policy is perceived to be contradictory to national legislations.

4. 3 International implications

The ILO (International Labour Organization) is the body in charge of administering labour standards and the organization presently comprises of 183 nations all around the world. The ILO has adopted 188 conventions which are treaties creating international labour law standards. The US has only adhered to two of these labour law standards which are the convention on the abolition of forced labour and the convention on the worst form of child labour. The US has resisted the adoption of the other parts of the convention including those that regulate remuneration and rewards to employees from an international perspective. Compensation and rewards at both executive and employee level have not been thoroughly developed in line with ILO standards. The US claims that its policies have been developed internally and competitively and do not need to be adjusted to reflect international standards. As competitive as the existing reward policy in HP is, it is still important to adopt an international view in its implementation.

Source: http://www. iclg. co. uk/khadmin/Publications/pdf/4390. pdf-accessed on 30-04-2011

5 Evaluation of policy and procedures

5. 1 Reward evaluation matrix

Armstrong, Brown and Reilly (2009) prescribe six metrics for evaluating the success of any reward management policy. In view of this the procedures for evaluating the effectiveness of HP`s reward policy are set out below.

Reward Aspect

Measured By

Reward strategy

Clear reward strategy and annual plan in support of business strategy and plan

Productivity and reward costs

Profit, value added or sales per employee

Total pay and reward costs compared with competition in the US computer industry

Financial reward

Financial recognition for behaviours in line with strategy and values

Appropriate forms of rewarding performance and contribution in place

Proportion of staffs covered by methods of rewarding performance and contribution

Risk assessment of bonus plan design

Clear demonstration of return on costs of bonus

Employment

Ratio of job offers to acceptances

Reward Aspect

Staff involuntary turnover to resignation rates and retention of high

performance to key skill staff

Staff turnover and absence levels

Reward management general

Actual market position compared to desired

Equal pay reviews carried out and acted upon

Quantity, quality and frequency of reward communication

Engagement and satisfaction with rewards

Surveyed overall employee engagement levels

Employee overall satisfaction with pay and rewards

Employee opinions that rewards are competitive

Employee opinion that performance is rewarded and managed effectively

Employee opinion on level of understanding of reward

Managers feel reward arrangements are flexible and meet their needs.

6 Conclusion

Reward management is an integral part of the measure of the

competitiveness of an organization. As a key component of the overall

human resource strategy, reward management is central to the productivity

of employees which is also linked to the overall profitability of an

organization, as well as its long term survival. It is no longer plausible to think that a well crafted strategy can deliver an organization`s core values without involving the element of employee reward management. Available and existing research in this area suggests a strong link between the effectiveness of strategies with the involvement of an appropriate reward system (Richard and Ralph, 2001). Reward management is increasingly becoming a source of sustained competitive advantage for many organizations. The old pay structure which is based on job analyses, descriptions and specifications is no longer supporting the attainment of long term organizational goals and objectives (Gomez-Mejia and Balkin, 1992).

This report has established a clear link between reward management and the sustainable attainment of organization goals and objectives through the contribution of extrinsically and intrinsically motivated employees. Through an example of a world class organization the role of a reward policy and its evaluation criteria has been discussed with a view to establishing a link between efforts and rewards through formalised and specified targets (Kessler and Purcell, 1992, cited in Giovanni and Tommasso, 2011, pp 2). In establishing the reward policy for an organization, the organization`s corporate objectives are important inputs to the entire process, and an alignment between these aim and objectives and the reward policy is strategically important to the effectiveness of the reward policy