

The context of reward management



In 1960s and 1970s the main cause behind introducing incentive schemes was to build path of giving worker's wages and salaries at a time of government controls (Bowley et al 1982). Due to lack of proper strategy and policies, some of employers gain reduced cost and even below 50% of increased outcomes; in 1980s and 1990s the concept of paying people was changed where worker were paid for their performance rather than attendance; similarly taxation policy was slightly changed as lower rate in income tax (Marchington and Wilkinson, 2005). Payment system has been drastically changed in Britain over the last twenty years and lots of concepts are emerged in relation to compensation and remuneration which are directly in control of management; similarly, in USA, a new concept of payment has emerged under the rubric of the " New Pay". This new pattern has great influence on Britain's management practice and government as well (White, G and Druker, J, 2000). The new pattern of thinking about 'New Pay' in Britain is reward management (term used by Armstrong and Murlis 1988) has same management concern. Then, these concepts fall upon two ground; 1) rewarding employees for work done and 2) remuneration system to be conditional upon business policy. Furthermore, the interest in reward system concept had been boosted by IPD professional syllabus which includes lots of unit and title on 'employee reward' and a specific text book (Armstrong, M, 1999). The new syllabus by IPD provides higher emphasis on rewarding employees and employee's satisfaction towards job. However, this holistic approach of payment has not, to date, reflected in academic literature, where controversy arises between micro-economics literature of labor economists and human resource literature. The former concern was about effect of pay on whole economy and impact on inflation, productivity

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and employment. Afterward, in contrast, draws both upon the industrial with regulation with employment relationship and organizational behavior (White, G and Druker, J, 2000).

Now, the existing textbook focused largely realistic than imaginary, which ignore collective bargaining and employee voice, continue to play in lots UK's organization (Armstrong, M, 1999). The parallel employee relation also include title to describe pay bargaining systems (Gennard, J and Judge, G, 1997). Most importantly, the impact of control relation with in the work area and its impact on reward management plans and policies are polished over IPD texts. Core personnel and Development text (Marchington, M and Wilkinson, A, 1966) being an honorable exemption to this approach.

Reward management has fascinated increased attention in recent years. Pay structure and system of payment are collectively determined and influenced by context of society in which they implemented (Steven, J, 1996).

" For most of the work is, in the main, a source of disutility, and they therefore require payment to compensate them for the time they devote to it".

- (Elliott R. F, 1991)

" Reward management is not only about money. It is also concerned with those non-financial rewards which provide intrinsic or extrinsic motivation"

- (Armstrong, M and Murlis, H 1988)

Reward is about how staffs are rewarded and valued in return of their performance towards organization which may includes both financial and non financial rewards and embrace the plan, policies , strategies, and reward layout prepared by an organization to maintain smooth reward system (Armstrong, M, 2009). It signifies one of the vital factors supporting the employment relationship (Kessler, 2005). It can be defined as fundamental expression of job relationship. It is concerned with the formulation, and implementation of plans and policies to reward employees fairly, equitably and consistently on the basis of their performance. The development, maintenance, designs and implementation of reward system is done to fulfill needs of both organization and employees (Armstrong, M, 2009). Both organizational and employees values are significant for align reward practices (Brown, D, 2001). It can influence a number of human resource policies, processes and practices which have great impact on organizational performance(Lawler, 2000a). It becomes an essential tool to coordinate, communicate and reinforce the organizational goal because it incentivizes staffs to achieve objectives and apply required capabilities and skills supporting them (Brett, S, 2006). As a result employee feels that they are considered as valuable asset of an organization (Jaques, E, 1961). All the organization has their own reward system without that employee would not join, come to work and perform less than they are supposed to perform with the mission statement of organization (Wilson, T, B, 2002).

Reward system is a system which contains various interrelated process and activities done effectively in order to fulfill organizational goal and maintain employee's value (Armstrong, M, 2009). It consists of monetary reward

(Fixed and variable) and non monetary (employee benefits) which together mixed and form total remuneration. The main sections of reward system are process, practice, structure, scheme and procedure.

Process includes job evaluation, market rate analysis and performance management,

Practice includes financial benefits and non financial benefits provided to employees,

Structure describe level of rewarding people on the basis of structure and their performance,

Schemes explain financial rewards and incentives provided to employees,

Procedure for maintaining system and ensuring that worker work according to standard and value of money.

Reward system provides systematic way to deliver positive consequence (Wilson, T, B, 2002). Cost is the vital factor in reward and for service oriented organization, labor cost have important proportion on overall cost; however, lower labor cost doesn't always minimize cost , some time high labor cost leads towards increased turnover because of excellent performance due to motivation(Pfeffer, 1998). The proper implementation of strategic reward management helps to change employee's behavior and attitude towards organization due to effective reward strategy; there are number of factors which mix along these type of straight-forward cause effect relationship; therefore, there is high possibility that reward strategy might helps in organizational change (Marchington and Wilkinson, 2005).

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Reward Issues

Boardroom pay has been brought back under the attention after it emerged that CEO of FTSE100 companies receive around £3.2 m in 2006 where analysis also emphasize that there is narrow gap between American and British pay (The Times, 29 October 2007). Employees of the largest UK companies are ultimately starting to contribute the decent amount of defined contribution and pension; Employers are tends to put much less defined into the defined payment pensions that has largely replace salary scheme for new employees- only 6-7% of salary, Paul Macro, senior consultant with the firm said...approximately 15% of the salary that generally accepted as being the level of contribution needed to provide a decent income in retirement (Financial Times, 14th November 2007).

Employee 'compensation', remunerations' and 'reward' (terms that may be used interchangeably in the literature, although 'compensation' tends to predominant US commentary) may be defined as 'all forms of financial returns and tangible services and benefits employees receive' (Milkovich and Newman, 2004: 3).

Reward Theory

Labor Market Theory

The term 'labor market' implies that, the struggle on labor in capitalist society where product and services are traded in market; employee tries to spend their labor in maximum best prices and similarly employer bargain to purchase labor in minimum best price (Perkins, J. S and White, G, 2008).

Classical labor Market Theory

The concepts of constant choice by the groups to effort-reward relationship emphasize classical labor market theory; the demand of labor meets supply of labor exactly where pay will be determined in labor market is known as 'market clearing'(Black, J, 2002).

'The only " effective" policy is to pay what other do'

- (Garhart, B and Rynes, S. L, 2003: 15).

Fig:

According to above figure, the supply of labor is equal to demand of labor where employee will accept the job at the price that offer by employer: it is a value of marginal productivity of labor. This theory explain that there is tough competition among employer in term of paying their employees but finally every employer has to pay same as everyone pays. This theory indicates that paying strategy always leans toward symmetry where demand and supply of labor meets.

This model of the employment system address the famous classical economist Adam Smith and its neo classical restatement by other neoclassical economists like: Jevons, Menger and Walrus; every one is free to choose their best price either employees or employers, employee compete with other employee for wages and similarly employer compete with other rivals for labor(Watson, M, 2005).

Logically looking for 'Maximum utility', worker will accept work after comparing overall benefit of different works; thus work that are less satisfying, include more threat and hard to achieve mastery will require

higher amount of wages compare to other work whose feature are opposite (Perkins, J. S and White, G, 2008).

However, the concept of labor market was changed form middle of twentieth century, number of research indicate that the real situation of labor market doesn't run according to previous assumption given by classical economists; the paying system might effect in market force whereas some economists argues that it needs to remove 'market distortion'(Garhart, B and Rynes, S. L, 2003). Whether or not, labor supply by employees to employers is not the single economic issues; it is the effort employed by employees when employed (Rees, 1973)

Stand as alternative economic theory of classical labor market theory, 'institutional Labor Economic Theory' describes the different wage level and dependent on organizational issue; employee's and employer's anticipation will be rest on maximizing in their financial concern (Perkins, J. S and White, G, 2008). In term of strategic initiative, higher level executive plan the contract in such a way that it minimizes the economic cost by putting labor satisfaction in effective and efficient ways; in other word, both employees and employers make a decision about work relationship comparing all the economic issues and interest; rationality between both party and their interest and wants remain significant 'Transaction Cost Theory Assumption' (Williamson, O, 1975). Similarly, 'Resource Based Theory of Firm' explains that economic effectiveness and efficiency will be increase through subsidiary scheme to take benefits of organizational resources; employee reward are parallel to HRM's other features and is arranged to maintain organizational culture (Kessler, I, 2001; Purcell, J, 1999). Whereas, new <https://assignbuster.com/the-context-of-reward-management/>

institutional approach strategy theory describes the number of political and social issues tackling employees in an organization; organizational system (both internal and external) helps to design better employees reward system (Perkins, J. S and White, G, 2008).

Human Capital Theory

'Human Capital Theory' makes an assumption that individuals gather human capital by investing both time and money in training and development, education, and other various opportunities based program in order to increase their efficiency and productivity and as a result employees value to employers (Abercrombie, N et al, 2000). Human Capital Theory (developed by Schultz and Becker in the 1960s) differentiates between expenditure made on human capital and employee's consumption; market are for the service of capital, not the reserve capital itself. In order to achieve HRM objectives of motivating employees and get work done through them, manager must balance between cost and skills (Hendry, C, 2003).

Exchange Theory explains the relationship between production, employees and employers enter into the contract that employees are willing to accept work and perform their best; similarly, employers are agreed to pay extrinsic rewards and working environment; then employers change hired labor power into labor economic values where employer are likely to invest more in permanent workforce than in temporary workforce (Atkinson, 1984; Kalleberg, 2003).

Efficiency Wage Theory

According to theory, the managerial policy to gain more efficient employment agreement in medium term; worker will employ their capita; to secure optional work boost pay rate but it cause loss to the employer so, paying higher reward levels is a logical employer's reaction in order to hold skilled employees (Perkins, J. S and White, G, 2008). This theory also describes a possible corrective aspect, concentrating on what economists do to labeled 'soldiering' on the part of worker; more optimistically, this theory theoretically introducing a 'sorting effect'(Perkins, J. S and White, G, 2008). Those organization who needs more and skilled human capital to operate their business use above-market wage levels in order to attract expected employees; where close supervision will be reduced; this relates to 'Responsible autonomy' policy (Friedman, A. L, 1984). Paying above-market reward for skilled workforce might be suitable option than to employ additional supervision; this concept will be attractive in case of 'knowledge workers' (Rubery, J, 1997).

Principle Agent Theory

Principle Agent Theory is also known as 'Agency Theory' with the concept the deferred payment method; it emerged as dominant theory on economics and management in term of pay determination process and results; according to this theory, reward system must be design in the way that it satisfies the employees in term of pay and internal ladder of advancement; employees need full payment of their work and effort in short term, in other hand if job length is long then employees stay beyond the below market rate in early phase of employment (Garhart, B and Rynes, S. L, 2003). This theory

emphasize result based deferred reward such as profit sharing, gain sharing, incentive plans, stock ownership etc designed for high level staffs; the size of deferred reward depends upon job complexity; Employee's potential total earning and career opportunity will determine the risk sharing behavior of employees (Perkins, J. S and White, G, 2008). Role of employees and employers should be designed effectively that it simply explain the characteristics of individual represent that position; thus role theory simply explain how behavior and attitude are socially influence (Perkins, J. S and White, G, 2008).

Internal Labor Market

Internal labor market where organization search for a constant association with their workforce; structured internal labor market may be created and maintained few or all the employees from external labor force effecting on organization's ability to preserve its worker (Keer, 1954, cited in Hendry, C, 2003).

" The theoretical construct of the labour market...may be more precisely defined as an administrative unit within which the market functions of pricing, allocating and often training labor are performed. It is governed by the set of institutional rules which delineate the boundaries of the internal market and determines its internal structure. These or administrative hiring and work rules defines the 'ports of entry' into the internal market, the relationship between jobs for purpose of internal mobility, and privilege which accrue to worker within the internal Market"

(Doeringer, 1967: 207, cited in White, G, 2000)

In United States, after the First World War the development of internal market emerged where demand of both products for equity from trade union and modern personnel management was emphasized in long-term planning (Cappelli, P, 1995). In contrast, most British entrepreneur didn't build internal labor relation but depends upon market mechanism for obtaining labor (Gospel, 1992). Under ILM, wages and salaries was attached with work rather than employees (Williamson, O, 1975). Workers are rewarded through long-term benefits and advantages rather than monetary reward where pricing and allocation of labor are determined by organizational rules and policies (Garhart, B and Rynes, S. L, 2003).

Wage - Gap Theory

Another neo-institutionalist approach was 'Wage Gap Theory' which indicate the same dominant power exercise by employers on their product market to distribute higher part than the normal profit with the employees and employee's commitment towards organization for enduring of production (Heery, E, 2000). Wage rate across six OECD nation remained almost equal and controlling labor quality and effectiveness. (i. e. USA, Canada, Sweden, Australia, Norway and Germany); the wage paid to employees in return of their effort seems less considerable comparing with rate of trade union and collective bargaining (Zweimuller, J and Barth, E, 1992).

Criticism of neo institutionalist arguments

The practical role of employees reward construction and level of typical social science whether at national level or organizational level; management has required employment relationship on more flexible pattern in order to

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transfer risk from employer to employee and to facilitate organizational product market or to enhance return on shareholder investment. (Rubery, J, 1997). During 1980-1990, the institutional approach of designing fair wage and arrangement with reward enjoy by employees were reduced, supported by government policies that pay should be based upon organizational ability to pay which reduce the power of trade union and popularity of the collective bargaining (Beaumont and Hunter, 2000)

The existing reward determination theory was found ineffective in its overruling importance on stability and mutuality building where as majority of interest is on employment relationship that's why labor market policies should be reconsider; more attention should be given for disputes that profit values are redistributed between organizational stakeholders to privilege economic capital over human capital; the expectation between groups, balance of policies have courageously transfer in the side of management (Rubery, J, 1997).

Reward Objectives

The success of any reward system fully depends upon clear and concise objectives; the first step in consulting a strategic corridor through the reward jungle is to set achievable objectives, basically, to make employees satisfied and get work done from them is a primary objective of reward system (Brown, D, 2001). Organizations are starting to understand that pay should not be considered in term of particular job and financial results; the compensation should be inextricably being attached to employees, their performance and organizational vision and goals as well as most valuable and important tools for communicate, coordinate and reinforce the attitude

and behaviors for results (Flannery et al, 1996). Reward management aims to support the achievement of organization's strategic and operational objectives, helps to communicate, drive and support expected attitude and behavior, promote continuous development, compete in employment market, enhance teamwork, and promote flexibility, gain fairness and equity (Armstrong, M and Murlis, H, 1998). Similarly, support culture management and change through matching pay and organizational culture as a whole, where as it cannot drive change or lead change process, cannot define change, cannot establish values and cannot establish effective leadership (Flannery et al, 1996). Furthermore, the European study under total rewards underpinned the following as a objectives and themes of rewards: introducing more flexible and changeability reward rather than control oriented and highly structured, market driven rewards, more flexible employee based, focused on variable pay, promoting boarder concept of reward in relation to contribution in their organization, implementing variety of reward tools, involving managers and staffs in those rewards cases and so on(Perrin, T, 1999).

Total Reward

Reward that include not only traditional, financial component (salary, wage, pay, benefit etc) but also non-financial component (job responsibility and accountability, career opportunities, training and development etc) provided by an organization in order to motivate its employees (Thumpson, 2002).

Reward that covers not only tangible pay like pay and benefits, but also intangible factors, such as opportunity to work flexibly, career development, trainings and environment where employees feels respect and valued (Brett,

S, 2006). It includes direct as well as indirect and intrinsic as well as extrinsic (Manus and Graham, 2003), which embrace everything that employee values in employment relationship (O'neal, Sandra 1998). The combination of both monetary and non-monetary reward which helps to address every staff whether they want financial or non financial; the tools that are used to attract, retain, motivate and satisfy employee in order to increase efficiency and effectiveness that drive desired attitude in workplace (World Bank, 2000). Total reward is vertically integrated organizational strategy and horizontally integrated with HR strategies to gain internal consistency (Armstrong, M, 2009). The success of totals reward strategy is almost all depends upon monetary and non-monetary rewards provided to employees by employers (Davis, M. L, 2007).

" an approach to providing a 'package' of reward to employees in the way that optimize employee satisfaction with reward from their work, and which does this in such a fashion that the employees' contribution to employer is optimized at an acceptable cost"

-Vicky Wright, CIPD vice president

(CIPD National Conference 2001)

" It 'is fairly simple to understand but very complex in operation' owing to the 'wide -ranging implications for..... reward management"

- (Richards and Hogg, 2007: 4)

" All the employers' available tools that may be used to attract, retain, motivate and satisfy employees', this encompasses every single investment

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that an organization makes in its people, and everything its employees value in the employment relationship".

- (World Bank, 2000)

" The term...adopted to describe a reward strategy that brings additional component such as learning and development, together with aspects of the working environment into the benefit package. It goes beyond standard remuneration by embracing the company culture, and is aimed at giving all employees a voice in the organization, with the employers in return receiving and engaged employee performance".

- (Richards and Hogg, 2007: 1)

Whistling the initial definition on offer, the relationship might be distinguish between total reward and various thoughts and ideas like 'employee well-being' and 'psychological contract (Guest and Conway, 2004); similarly, 'emotionally intelligent' leadership (Brown et al, 2006; Goleman, 2002; Palmer et al, 2001); 'mutual gain'(Bacon and Blyton, 2006); as well as 'employee involvement program' (Cox et al, 2006) and 'high involvement work practice'(Huselid, 1995) and so on. Therefore, adopting the wide concept of reward, everything that employees get in return of their efforts is total reward (Davis, M. L, 2007). Therefore, the total reward component of World at Work can be summaries as follows: compensation, benefits, work-life, performance and recognition and development and career opportunities (Perkins, J. S and White, G, 2008).

In USA, both 'old and new style' organization are taking on board total reward strategy. In other hand, same author comment that " too often, when companies talk about " total reward" they simply mean providing generous benefits and positive workplace". Guaranteeing jobs, supporting an attractive work-life balance, adding benefits and pay- scale, encouraging development and opportunities and making work area appealing all makes poor business sense without understanding the needs of high performance. They also told they feel most existing solutions ignore performance and encourage entitlement (Zingheim, P and Schuster, J, 2000).

Transactional (tangible)

Rational (intangible)

Communal

Individual

Work Environment

Core value of the organization

Leadership

Employee voice

Recognition

Achievement

Job design and role development(responsibility, autonomy, meaningful work, the scope to use and develop skills)

Quality of work life

Work-life balance

Talent management

Benefits

Pension

Holiday

Health care

Other perks

flexibility

Learning and Development

Work place learning and development

Training

Performance management

Career development

Pay

Base pay

Contingent pay

Cash bonuses

Long-term incentives

Shares

Profit sharing

Figure: 2 Towers Perrin model of Total Reward

Source: (Armstrong, M, 2009)

In the above given figure, upper two boxes (i. e. Pay and Benefit) indicate transactional reward which are financial in nature. In other hand, lower two

boxes (i. e. Learning & development and work environment) indicate rational reward which are non financial in nature

The effective reward is the one which consist of both transactional and rational rewards (Thompson, 2002). The success of organization depends upon its staffs. If staffs are satisfied and loyal towards organization than overall goals can be achieved. However, some business organization fails to motivate their employees in aspect of reward. So, considering the fact, organization should apply both financial and non financial reward (i. e. Total reward).

Financial/ Extrinsic Reward

Rewards like pay, benefit, salary, incentive are financial or extrinsic reward; various kinds of benefits and 'perks' provided to employees in non-cash as a benefits and helps to motivate employees to perform better, similarly it also shows employer's interest in employee's well being(Perkins, J. S and White, G, 2008).

Non-Financial/ Intrinsic Reward

Intrinsic reward can be divided into two parts; Environmental reward and Development oriented reward (Kessler, I, 2001). Environmental rewards are like employees value shown by senior supervisor, managers in work place, sensitivity of supervision and leadership excellence; similarly, development oriented reward are individually targeted to enhance career development and opportunity as well as helps to built sense of accomplishment in employees(Milkovich and Newman, 2004). Intrinsic reward is also regarded

as psychological reward which indicate psychological contract in work relationship (.....).