

[HR Planning, Talent Acquisition, Retention and Reward Strategies]



Lecture 14 – [Reward Strategy – An Introduction]



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**Masters in
Human Resources Management**

Learning Objectives

- Understand the Concept of Reward Strategy: Define and explain the concept of reward strategy and its importance in HRM.
- Critically explain the different total reward structure components, processes involved and related reward theories and practices.
- Compare and contrast different types of reward systems and their impact on employee motivation and performance.
- Identify Key Components: Identify and describe the key components of an effective reward strategy, including financial and non-financial rewards.



Learning Method

- **Lecture focused on learning objectives** supported by **formative assessment tools**, to provides feedback and information during the instructional process, while learning is taking place, and while learning is occurring.
- Formative assessment through participative learning activities will be utilised evaluating students' comprehension and academic progress throughout the lecture - particularly with respect to understanding and applying HRM concepts.



The Concept of Reward Strategy

- Reward strategy defines what an organization wants to do about reward in the next few years and how it intends to do it.
- It leads to the development of a reward system that consists of the interrelated processes and practices that combine to ensure that reward management is carried out to the benefit of the organization and the people who work there.
- This is strategic reward, an approach based on the beliefs that human resource management and reward and business strategy should be integrated and that it is necessary to be forward looking – to plan ahead and make the plans happen.



- The reward philosophy of the organization represents its beliefs about how people should be rewarded.
- Reward philosophies can be expressed as guiding principles that define the approach an organization takes to dealing with reward.
- They are the basis for reward policies and provide guidelines for the actions contained in the reward strategy.
- The reward philosophy can be communicated to employees so that they understand the background to the reward policies and practices that affect them.



Reward guiding principles :

- operating the reward system justly, fairly, equitably and transparently in the interests of all stakeholders;
- developing reward policies and practices that support the achievement of business goals;
- rewarding people according to their contribution;
- recognizing the value of everyone who is making an effective contribution, not just the exceptional performers;
- creating an attractive employee value proposition;



- providing rewards that attract and retain people and enlist their engagement;
- helping to develop a high-performance culture;
- maintaining competitive rates of pay;
- maintaining equitable rates of pay;
- allowing a reasonable degree of flexibility in the operation of reward processes and in the choice of benefits by employees;
- devolving more responsibility for reward decisions to line managers.

- As Armstrong and Murlis (2007: 33) stated: 'Reward strategy will be characterized by diversity and conditioned both by the legacy of the past and the realities of the future.'
- All reward strategies are different, just as all organizations are different.
- Of course, similar aspects of reward will be covered in the strategies of different organizations but they will be treated differently in accordance with variations between organizations in their contexts, business strategies and cultures.
- But the reality of reward strategy is that it is not such a clear-cut process as some believe. It evolves, it changes and it has sometimes to be reactive rather than proactive.

Reward strategy may set out a list of specific intentions dealing with particular aspects of reward management, for example:

- the development of a 'total reward' system;
- the introduction of performance pay;
- replacement of an existing contingent pay scheme;
- the introduction of a new grade and pay structure;
- the replacement of a decayed job evaluation scheme;
- the introduction of a formal recognition scheme;
- the development of a flexible benefits system;
- the conduct of equal pay reviews with the objective of ensuring that work of equal value is paid equally.



- Examples of key themes in reward strategies
- **Airbus:** Introduce performance pay for all employees; ensure that its rates are competitive with the external market and deal with anomalies caused by previous rigidities, such as grade drift brought about by people having to be promoted to a higher grade to receive additional pay.
- **AstraZeneca:** Promote a culture that values, recognizes and rewards outstanding performance.
- **Centrica:** Establish a link between pay and performance and align pay with the market.

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- **The Children's Society:** Develop flexible and fair reward systems that will support our mission and corporate objectives by recognizing contribution, accountability, teamworking and innovation, and are market sensitive but not market led.
- **Diageo:** Release the potential of every employee to deliver Diageo's performance goals.
- **Kent County Council:** Pay people a fair rate for the job and give additional reward for excellent contribution.
- **National Union of Teachers:** Develop a new broad graded pay structure and introduce a new job evaluation scheme as a basis for the structure.
- **Tesco:** Reward staff for their contribution in a way that enables them to benefit directly from the success they help to create.



- Critically explain the different total reward structure components, processes involved and related reward theories and practices.

- A **total reward structure** is a comprehensive system organizations use to attract, motivate, and retain employees by offering a combination of financial and non-financial rewards.
- It goes beyond base salary and incorporates multiple components that address various employee needs and motivations.
- Let's break this down into **components, processes, and related theories/practices**:



1. Components of Total Reward Structure

Total rewards can be categorized into five main components:

a. Compensation (Base Pay & Variable Pay)

- **Base Pay:** Fixed salary or wages paid regularly.
- **Variable Pay:** Bonuses, commissions, profit sharing, stock options — typically performance-related.

b. Benefits

- Includes health insurance, retirement plans, paid time off, wellness programs, childcare support, etc.
- Often mandated by law (e.g., social security) or provided to enhance job satisfaction.



c. Work-Life Balance

- Flexible working hours, remote work, sabbaticals, parental leave, etc.
- Encourages employee well-being and helps retain talent.

d. Recognition and Performance Management

- Formal or informal acknowledgment of employee achievements.
- Includes awards, feedback systems, and career development planning.

e. Learning and Development (L&D)

- Training programs, career coaching, tuition assistance, job rotation.
- Demonstrates investment in employee growth, improving engagement and loyalty.



2. Processes Involved in Total Rewards

Creating an effective total reward strategy involves a structured process:

a. Job Analysis and Evaluation

- Determine the value of roles using job descriptions and evaluation methods.
- Supports internal equity and helps develop a fair pay structure.

b. Market Benchmarking

- Compare compensation and benefits against industry standards.
- Ensures external competitiveness to attract top talent.

c. Reward Strategy Development

- Align reward structure with organizational goals, culture, and employee expectations.
- Strategy should reflect business objectives (e.g., innovation vs. cost-saving).



d. Performance Management Integration

- Set clear objectives, regular feedback, and performance appraisals.
- Links individual contributions to organizational success and variable pay.

e. Communication and Transparency

- Clearly communicate the reward package to employees.
- Increases perceived fairness and value of the rewards offered.

f. Monitoring and Evaluation

- Use metrics like employee engagement, turnover rates, and reward ROI.
- Enables continuous improvement of the reward system.



Several psychological/economic theories underpin effective reward design:

a. Maslow's Hierarchy of Needs

- Suggests employees seek to satisfy needs in a hierarchy: physiological → safety → social → esteem → self-actualization.
- Total rewards should address these layers (e.g., pay = basic needs, L&D = self-actualization).

b. Herzberg's Two-Factor Theory

- **Hygiene factors** (e.g., salary, benefits) prevent dissatisfaction.
- **Motivators** (e.g., recognition, development) promote satisfaction and engagement.

c. Equity Theory (Adams)

- Employees assess fairness by comparing input/output ratios with peers.
- Ensures internal equity is crucial for motivation and retention.



Motivation Theories Explained

- <https://www.youtube.com/watch?v=woa2Qa8i80U&t=75s>



d. Expectancy Theory (Vroom)

- $\text{Motivation} = \text{Expectancy} \times \text{Instrumentality} \times \text{Valence}$.
- Rewards must be clearly linked to effort and valued by employees to be effective.

e. Reinforcement Theory (Skinner)

- Behaviors that are rewarded are likely to be repeated.
- Supports the use of performance-based pay and recognition systems.

f. Total Rewards Model (WorldatWork)

- Emphasizes the integration of all five reward elements (mentioned above).
- Advocates a holistic, strategic approach to reward management.



4. Practical Considerations and Trends

- **Customization:** Increasing move toward personalized reward packages (flexible benefits, modular L&D).
- **Technology Integration:** Use of HR tech for performance tracking, reward distribution, and analytics.
- **Diversity and Inclusion:** Designing equitable rewards that consider different demographics and life stages.
- **Sustainability:** Emphasis on long-term, ethical, and purpose-driven reward systems.



- Compare and contrast different types of reward systems and their impact on employee motivation and performance.

- Reward systems are strategic tools organizations use to motivate employees, enhance performance, and drive organizational success.
- Different types of reward systems vary in design and emphasis, and each has distinct impacts on **employee motivation, engagement, and performance**.
- Here's a detailed **comparison and contrast** of the main types of reward systems, along with their effects on employees:



Reward System	Description	Motivation Type	Example
Monetary Rewards	Financial incentives such as salary, bonuses, commissions, profit-sharing.	Extrinsic	Sales bonus for exceeding targets.
Non-Monetary Rewards	Non-financial recognition like awards, job titles, public praise.	Intrinsic/Extrinsic	“Employee of the Month” recognition.
Performance-Based Rewards	Tied directly to individual, team, or organizational performance.	Extrinsic	Annual performance-based bonus.
Skill-Based/Competency-Based Rewards	Rewards based on acquiring new skills or competencies.	Intrinsic/Extrinsic	Pay raise for certification completion.
Team-Based Rewards	Linked to collective performance rather than individual.	Intrinsic/Extrinsic	Shared bonus for team project success.
Seniority-Based Rewards	Rewards based on length of service or loyalty.	Extrinsic (Low motivational effect)	Service awards, incremental pay increases.
Flexible/Customized Rewards	Tailored to individual preferences (e.g., flex benefits, work-from-home).	Intrinsic/Extrinsic	Employees choose between bonus or extra time off.
Total Rewards Systems	Integrates all the above into a comprehensive strategy.	Mixed	Combines pay, benefits, development, recognition, etc.



Criteria	Performance-Based Rewards	Team-Based Rewards	Skill-Based Rewards	Seniority-Based Rewards	Non-Monetary Rewards
Focus	Individual or organizational output	Collective output	Competence development	Tenure	Appreciation/recognition
Motivation Type	Primarily extrinsic	Mixed (peer pressure + pride)	Mixed (career growth)	Mostly extrinsic	Primarily intrinsic
Effect on High Performers	Highly motivating	May feel unfair if others underperform	Encouraging for self-driven employees	Low motivational impact	Boosts morale, but limited monetary value
Effect on Low Performers	Can be demotivating if consistently under-rewarded	Can benefit from team support	Encourages upskilling	Rewards regardless of performance	May still feel valued
Risk	Can foster competition or stress	Risk of free-riding	Requires training investment	May demotivate newer, high-performing staff	Subjective and inconsistent if poorly managed
Best Fit For	Sales, finance, individual-focused roles	Project teams, R&D	Technical and developmental roles	Unionized or public sectors	Creative industries, engagement-driven cultures



Impact on Motivation and Performance

1. Monetary Rewards

- Pros: Direct, tangible, easy to administer.
- Cons: Short-term motivator; can undermine intrinsic motivation (per Deci & Ryan's Self-Determination Theory).
- Performance Impact: High when linked to clear performance metrics.

2. Non-Monetary Rewards

- Pros: Enhance job satisfaction, engagement, and culture.
- Cons: May not substitute for poor compensation.
- Performance Impact: Strong on morale and retention, less immediate on output.

3. Performance-Based Rewards

- Pros: Drives results and accountability.
- Cons: Can encourage unhealthy competition or unethical behavior if poorly designed (e.g., Wells Fargo case).
- Performance Impact: High in results-driven roles; needs fairness and transparency.



4. Skill-Based Rewards

- Pros: Promotes learning and adaptability.
- Cons: Risk of training overload without ROI.
- Performance Impact: Sustains long-term improvement and innovation.

5. Team-Based Rewards

- Pros: Builds collaboration, shared goals.
- Cons: Social loafing or resentment if contributions aren't equal.
- Performance Impact: Effective in interdependent work environments.

6. Seniority-Based Rewards

- Pros: Encourages loyalty and retention.
- Cons: Demotivates high achievers who advance quickly.
- Performance Impact: Weak correlation with output; more suited for stability-focused roles.



- Identify Key Components: Identify and describe the key components of an effective reward strategy, including financial and non-financial rewards.

Key Components of an Effective Reward Strategy

1. Financial Rewards (Extrinsic) These are tangible and monetary in nature, directly contributing to employees' material well-being.

- a. **Base Pay (Salary/Wages)** Regular, fixed compensation based on job role and responsibilities. Ensures market competitiveness and internal equity.
- b. **Variable Pay** Performance-linked rewards such as: Bonuses, Commission, Profit-sharing, Incentives. Motivates high performance and aligns employee output with organizational goals.
- c. **Benefits** Indirect financial rewards provided in addition to salary: Health insurance, Retirement plans (pensions, 401(k)s), Paid time off, Life/disability insurance. Improves overall compensation value and supports employee well-being, trust and understanding across the workforce.



2. Non-Financial Rewards (Intrinsic)

- These are intangible and focus on emotional and psychological satisfaction.
- a. Recognition and Appreciation Verbal praise, awards, public acknowledgments. Reinforces desired behaviors and boosts morale.
- b. Career Development Opportunities Training, mentoring, job rotation, tuition assistance. Encourages skill enhancement and personal growth, addressing long-term career goals.
- c. Work-Life Balance Initiatives
- Flexible working hours, remote work options, parental leave. Promotes well-being and productivity by reducing burnout and stress.
- d. Job Enrichment and Autonomy Empowering employees through meaningful work, decision-making authority, and variety in tasks. Enhances intrinsic motivation and job satisfaction.
- e. Positive Work Environment Supportive leadership, inclusive culture, and strong team relationships. Drives engagement and long-term commitment.



3. Strategic Alignment Components

- a. Internal Equity Ensuring fairness in pay and rewards within the organization based on role, contribution, and responsibility.
- b. External Competitiveness Benchmarking rewards against industry standards to attract and retain top talent.
- c. Performance Linkage Clear connection between individual or team performance and rewards. Encourages accountability and goal alignment.
- d. Flexibility and Customization Adapting rewards to meet diverse employee needs (e.g., generational preferences, personal circumstances).Increases perceived value of the reward package.
- e. Transparency and Communication Open and honest communication about how rewards are structured and distributed.



- Case Study: The "Innovation Engine" at TechCore Solutions

- Scenario
- TechCore Solutions, a mid-sized software firm, noticed that employee engagement was dropping and developers were leaving for competitors. Management decided to overhaul their reward strategy.
- Previously, TechCore used a **fixed annual bonus** based on company profitability. Employees felt this was disconnected from their individual efforts.
- The HR department shifted to a new strategy: **"Goal-Aligned Performance Incentives."** In this system, employees set specific, challenging development goals at the start of the quarter. If a developer met these goals, they received a "Spot Bonus" and public recognition within two weeks of goal completion.
- Furthermore, the company introduced a "Learning Credit" system where employees could earn points toward certifications or conferences by contributing to internal documentation—a task previously ignored by developers.



- Theoretical Framework: Expectancy Theory
- This strategy is directly linked to Victor Vroom's Expectancy Theory, which posits that an individual's motivation to perform is determined by three factors:
- Expectancy (Effort $\rightarrow$ Performance): The belief that putting in more effort will result in achieving the required performance. By setting clear, measurable goals, TechCore ensures employees know exactly what they need to do to succeed.
- Instrumentality (Performance $\rightarrow$ Outcome): The belief that successful performance will be followed by a reward. The "Spot Bonus" paid within two weeks reinforces the link between the accomplishment and the reward, rather than a delayed annual payout.
- Valence (Outcome $\rightarrow$ Satisfaction): The desirability of the reward to the individual. By offering both monetary rewards (Spot Bonuses) and professional development (Learning Credits), TechCore caters to different employee needs, increasing the perceived value of the incentives.



- **Case Study Questions**
- **Q1: Why was the transition from a fixed annual bonus to a "Spot Bonus" strategy likely to increase motivation according to Expectancy Theory?**
- **Q2: How does the "Learning Credit" system address the Valence component of motivation?**
- **Q3: What risk does TechCore face if the goals set at the beginning of the quarter are perceived as impossible to achieve?**



- Case Study Questions & Answers

- **Q1: Why was the transition from a fixed annual bonus to a "Spot Bonus" strategy likely to increase motivation according to Expectancy Theory?**
- **Answer:** The fixed annual bonus suffered from poor **Instrumentality**; the reward was too far removed in time and dependent on external factors (company profit) rather than individual effort. By switching to a "Spot Bonus" delivered shortly after goal completion, the company strengthened the causal link between effort, performance, and reward, making the reward feel earned and predictable.
- **Q2: How does the "Learning Credit" system address the Valence component of motivation?**
- **Answer:** Not all employees are motivated solely by cash. Some developers value career growth, skill acquisition, and networking. By allowing employees to earn credits for certifications or conferences, the company offers a reward (Valence) that resonates with those focused on long-term professional development, thereby increasing the overall appeal of the reward system.
- **Q3: What risk does TechCore face if the goals set at the beginning of the quarter are perceived as impossible to achieve?**
- **Answer:** If goals are perceived as unattainable, the **Expectancy** factor drops to zero. If employees believe that no matter how hard they work, they cannot meet the goal, they will become demotivated and stop trying entirely. Effective implementation requires that goals remain "challenging yet achievable" to keep Expectancy high.





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