

**ΟΙΚΟΝΟΜΙΚΟ
ΠΑΝΕΠΙΣΤΗΜΙΟ
ΑΘΗΝΩΝ**



**ATHENS UNIVERSITY
OF ECONOMICS
AND BUSINESS**



ΔΙΑΤΜΗΜΑΤΙΚΟ
ΜΕΤΑΠΤΥΧΙΑΚΟ

**Διοίκηση
Ανθρώπινου
Δυναμικού**

REWARDS MANAGEMENT

Fundamentals of reward management

Critics Say Rewards . . .



❑ Punish

- ❑ Rewards manipulate people's behaviour
- ❑ Failure to receive a bonus is bound to have an adverse effect on subsequent performance

❑ Damage relationships

- ❑ Horizontal relationships are damaged because rewards don't pay for co-operation
- ❑ Vertical relationships are hurt because people manipulate information and don't admit need for help

❑ Ignore Reasons

- ❑ Fail to address underlying issues that lead to poor performance

Critics Say Rewards . . .

- Discourage Risk-Taking
 - ▣ Reduce creativity
- Undermine Interest
 - ▣ Create “extrinsic motivation”

A Typical Study: Pay for Weight Loss Does Not Last

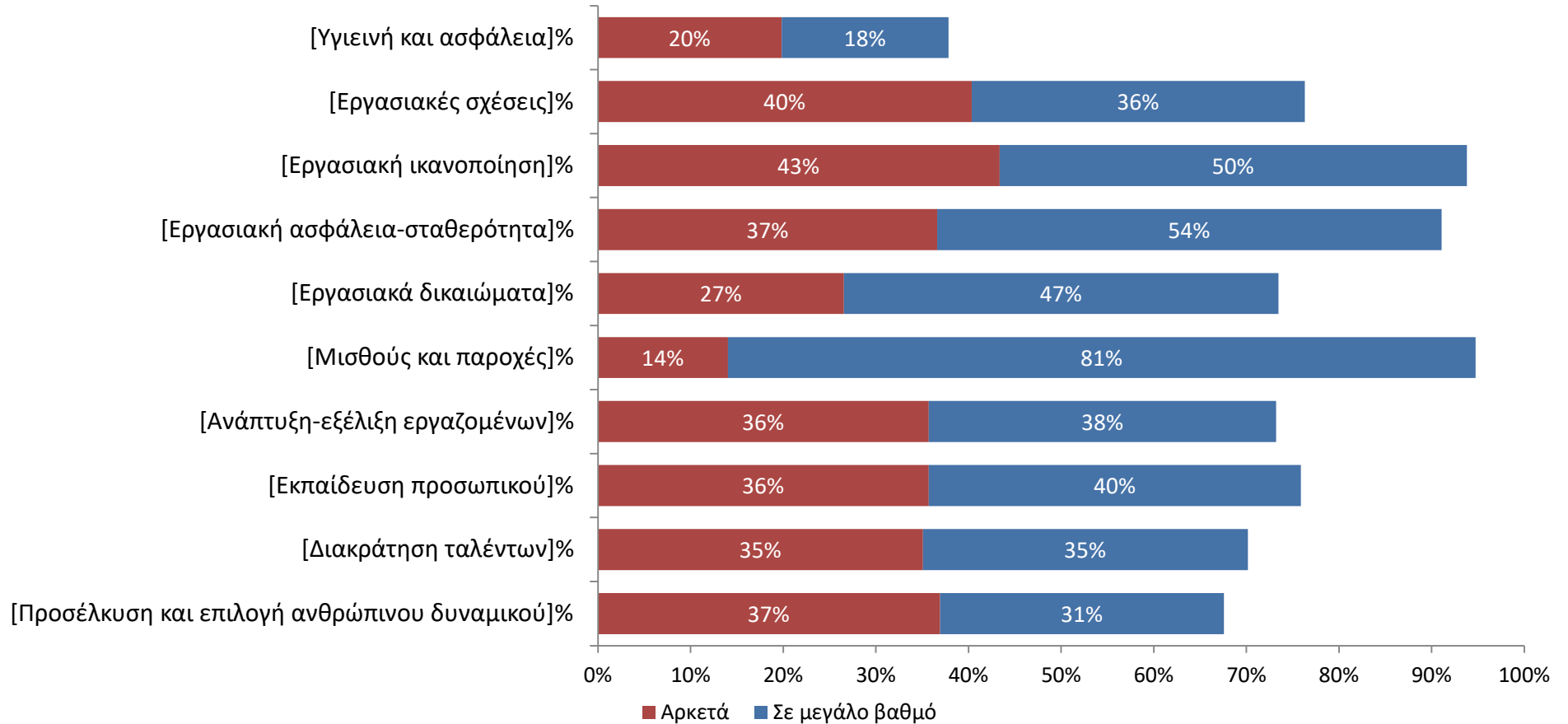


What we should do then.....

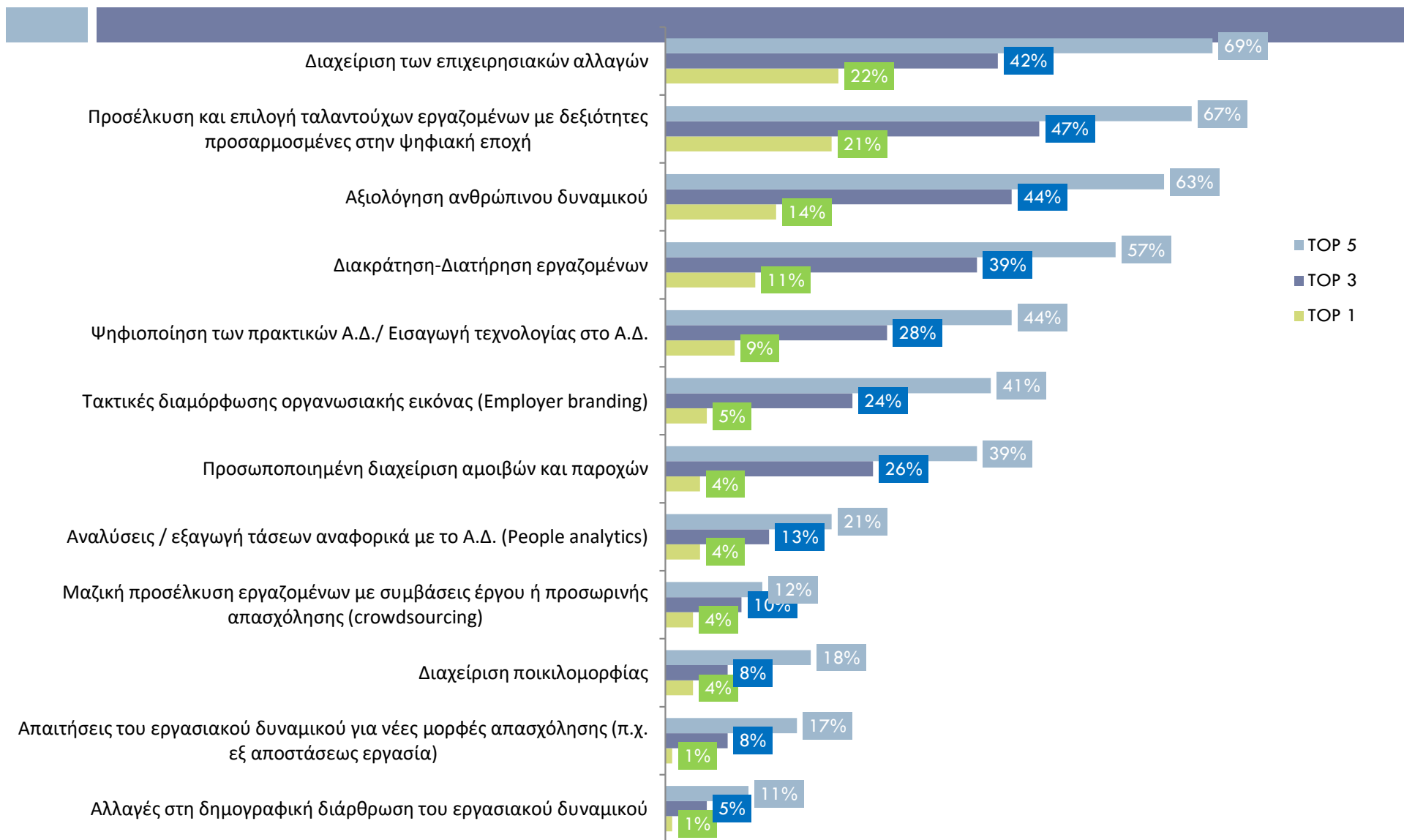
- ❑ Pay people what they worth
- ❑ Put in the scene individual differences (up to an extend)
- ❑ Give people meaningful outcomes
- ❑ Give them the right way to do a job
- ❑ Select properly
- ❑ Give them tools and equipment and method
- ❑ Reward manager for good management
- ❑ Put forth career development and internal promotion
- ❑ Give feedback on rewards
- ❑ Recognise when needed
- ❑ Reward the right things (Don't reward every petty thing)
- ❑ Foster a sense of team work
- ❑ Define and implement the right way, performance criteria
- ❑ Ask employees feedback

AUEB-Adecco Survey

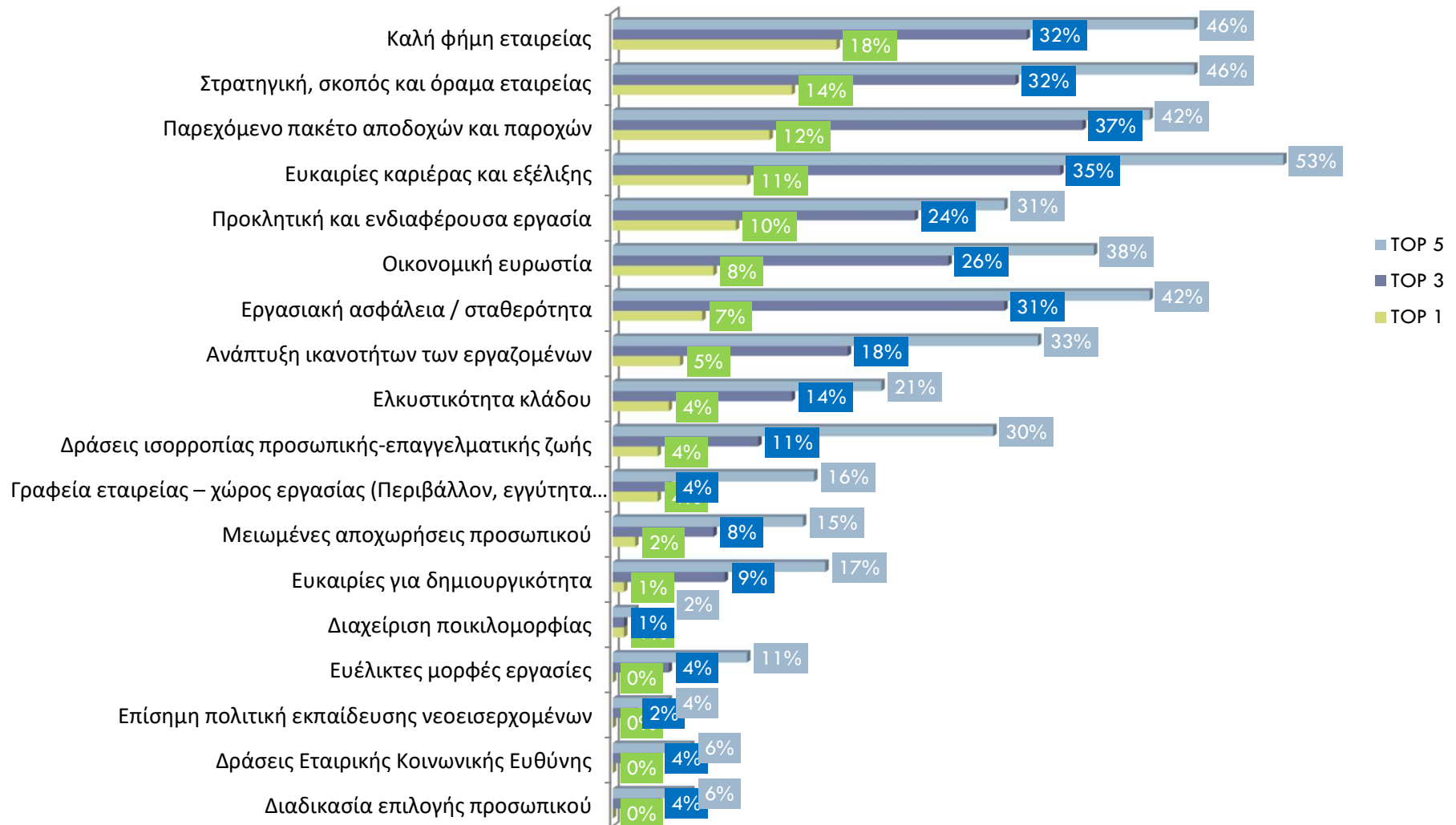
Η οικονομική κρίση φαίνεται να έχει την μεγαλύτερη αρνητική επίδραση στους μισθούς και τις παροχές, στην Εργασιακή ικανοποίηση και στην εργασιακή ασφάλεια-σταθερότητα



AUEB-Adecco Survey



AUEB-Adecco Survey



Our experience indicates that . . .



- Companies that are high-performing successfully deploy a portfolio of reward plans that:
 - ▣ intertwine with other HR programmes
 - ▣ reinforce their organisational culture
 - ▣ support the business needs and objectives

Basic economic theories under Rewards

- The law of supply and demand
- Efficiency wage theory
- Human capital theory
- Agency theory
- The effort bargain



Reward Management *(defined)*

Reward management is concerned with the formulation and implementation of strategies and policies that aim to reward people fairly, equitably and consistently in accordance with their value to the organization.

It deals with the design, implementation and maintenance of reward processes and practices that are geared to the improvement of organizational, team and individual performance.

Reward Management (*Aims*)

- ❑ create total reward processes that are based on beliefs about what the organization values and wants to achieve;
- ❑ reward people for the value they create
- ❑ align reward practices with both business goals and employee values
- ❑ reward the right things to convey the right message about what is important in terms of expected behaviours and outcomes
- ❑ facilitate the attraction and retention of the skilled and competent people the organization needs
- ❑ help in the process of motivating people and gaining their commitment and engagement
- ❑ support the development of a performance culture
- ❑ develop a positive employment relationship and psychological contract.

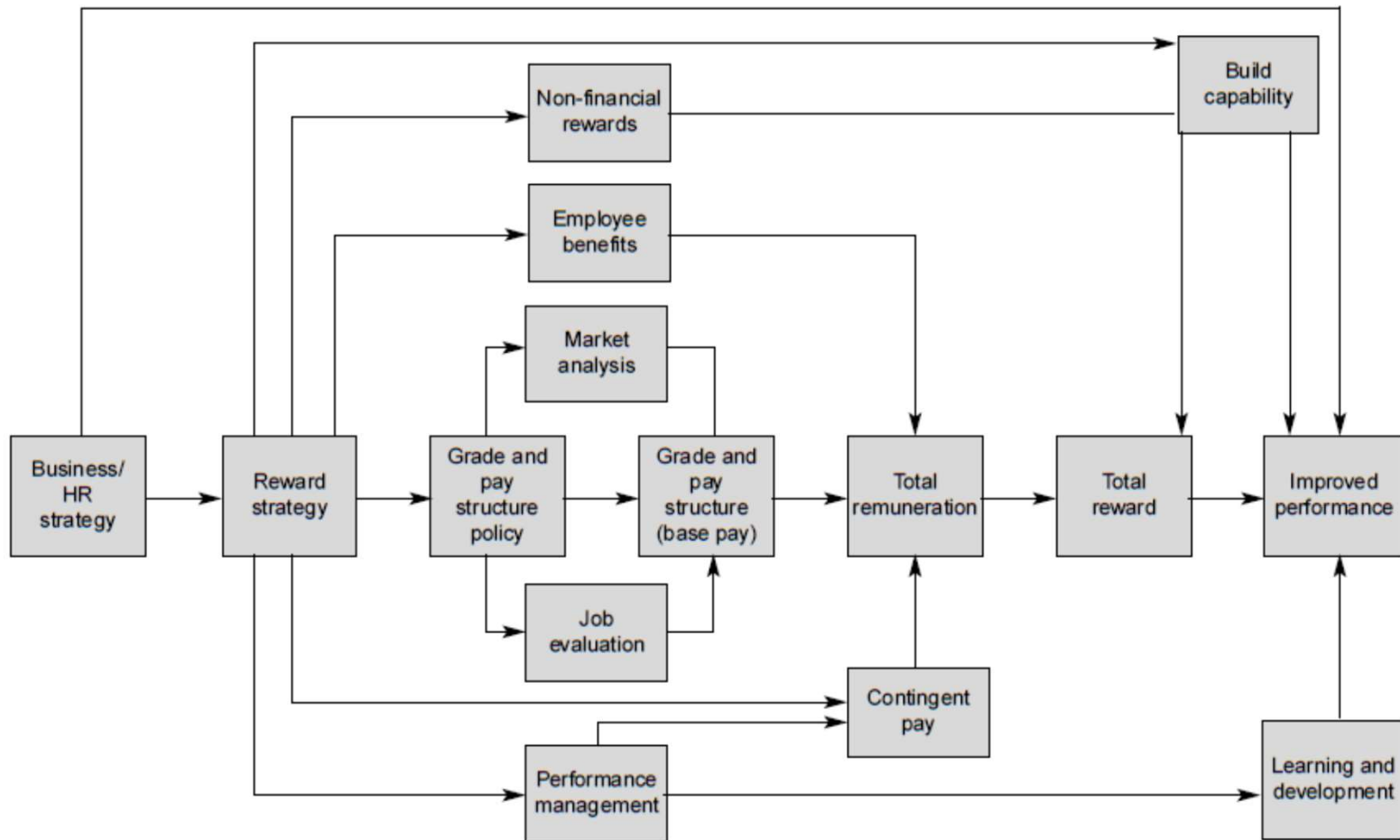
Philosophy of Reward Management



- **Strategic sense:** long-term focus & it must be derived from the business strategy
- **Total Reward approach:** considering all approaches of reward (financial or not) as a coherent whole; integration with other HRM strategies
- **Differential** reward according to the contribution
- **Fairness, equity, consistency, transparency**



Reward Management (Process)



The main question is: how to achieve high work performance?

Work performance is affected by:

Job characteristics and (physical) work environment

+

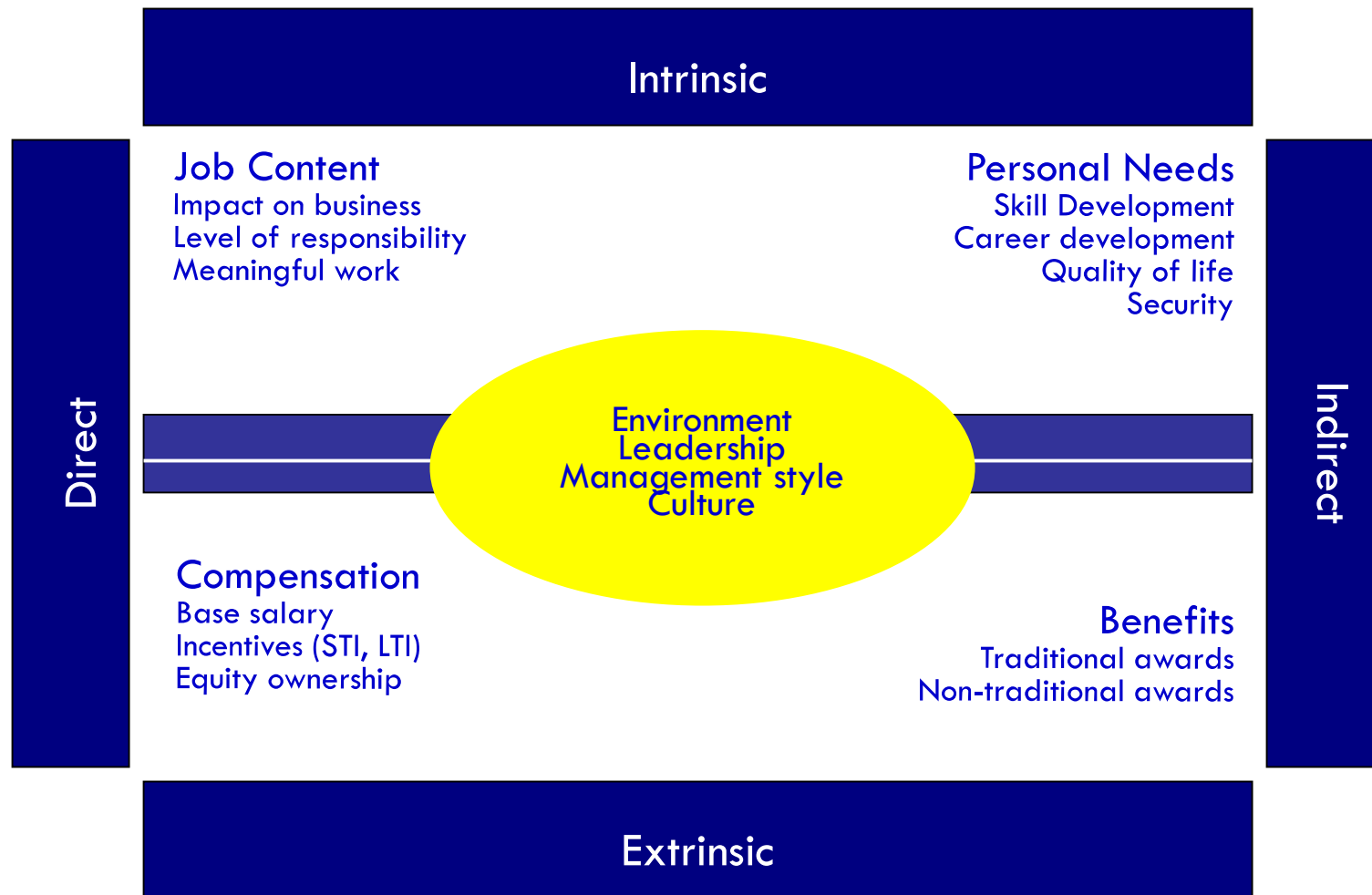
Abilities and skills

+

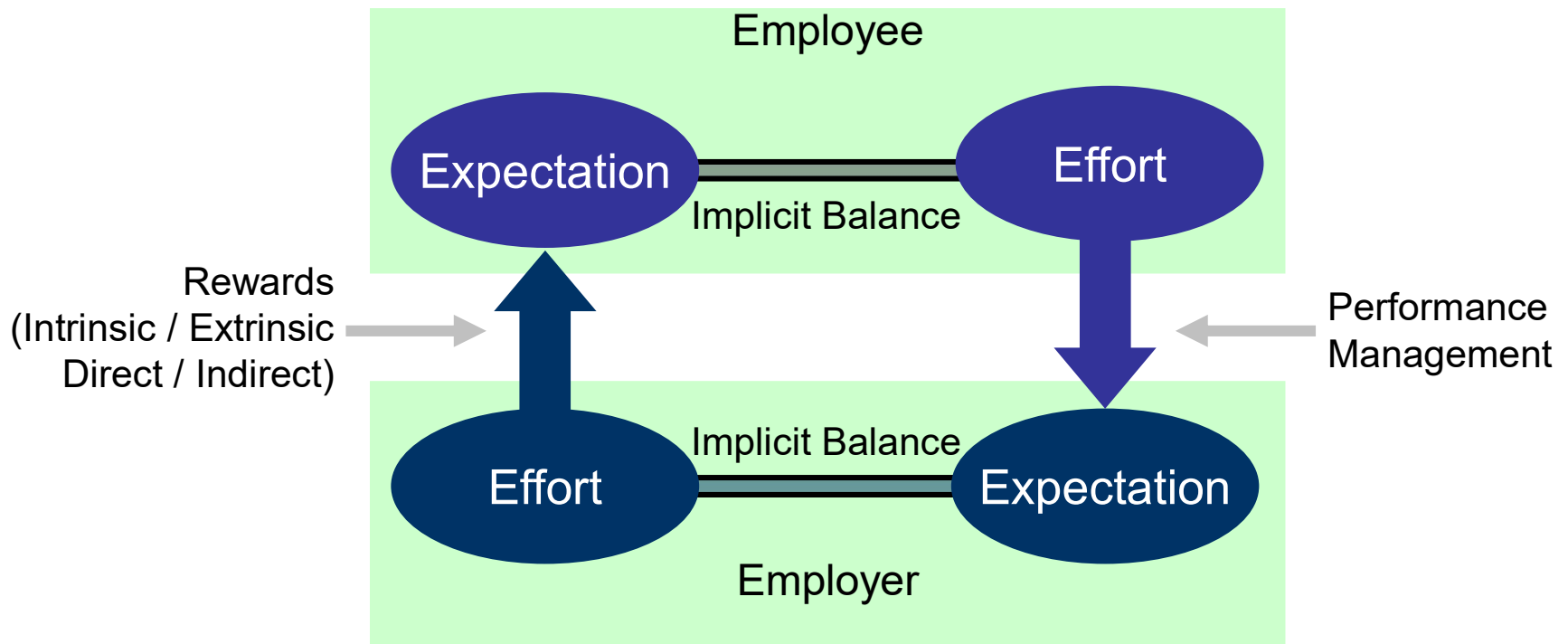
The willingness to perform



Why do people work for an organization?



What is the employment deal?



Equity theory (Adams, 1963)

Assumptions:

- People develop beliefs about what is a fair reward for one's job contribution - an exchange
- People compare their exchanges with their employer to exchanges with others-insiders and outsiders called **referents**
- If an employee believes his treatment is inequitable, compared to others, he or she will be motivated to do something about it -- that is, seek justice.

Equity theory (Adams, 1963)

I_s/O_s versus I_r/O_r

- O = Outcomes: the type and amount of rewards received
- I = Inputs: employee's contribution to employer
- R = Referent: comparison person
- S = Subject: the employee who is judging the fairness of the exchange

Equity theory (Adams, 1963)

- Case 1: Equity -- pay allocation is perceived to be to be fair - motivation is sustained
- Case 2: Inequity (Underpayment) -- Employee is motivated to seek justice. Work motivation is disrupted.
- Case 3: Inequity (Overpayment) -- Could be problem. Inefficient. In other cultures employees lose face.

How we go to Performance

- Do I have the resources, information, and support one needs to perform well
- how the achievement of goals and/or feedback on their achievement reinforces successful behaviour
- how belief in one's ability to carry out a specific task will actuate behaviour which is expected to achieve the successful performance of that task

Types of Motivation

- Intrinsic motivation – this is derived from the content of the job.
- Extrinsic motivation – this is what is done to and for people to motivate them.

- Basic Concepts:
 - ✓ Needs theory
 - ✓ Goal theory
 - ✓ Reinforcement theory
 - ✓ Expectancy theory
 - ✓ Attribution theory
 - ✓ Self-efficacy



Impact of Reward Management



‘It is simply no longer possible to create a set of rewards that is universally appealing to all employees or to address a series of complex business issues through a single set of solutions.’

‘Pay and formal reward policies are one of the most tangible symbols of a company’s culture and employment offering and are inextricably interwoven with them. Therefore they are critical to demonstrating that the employer is delivering on its side of the employment bargain.’

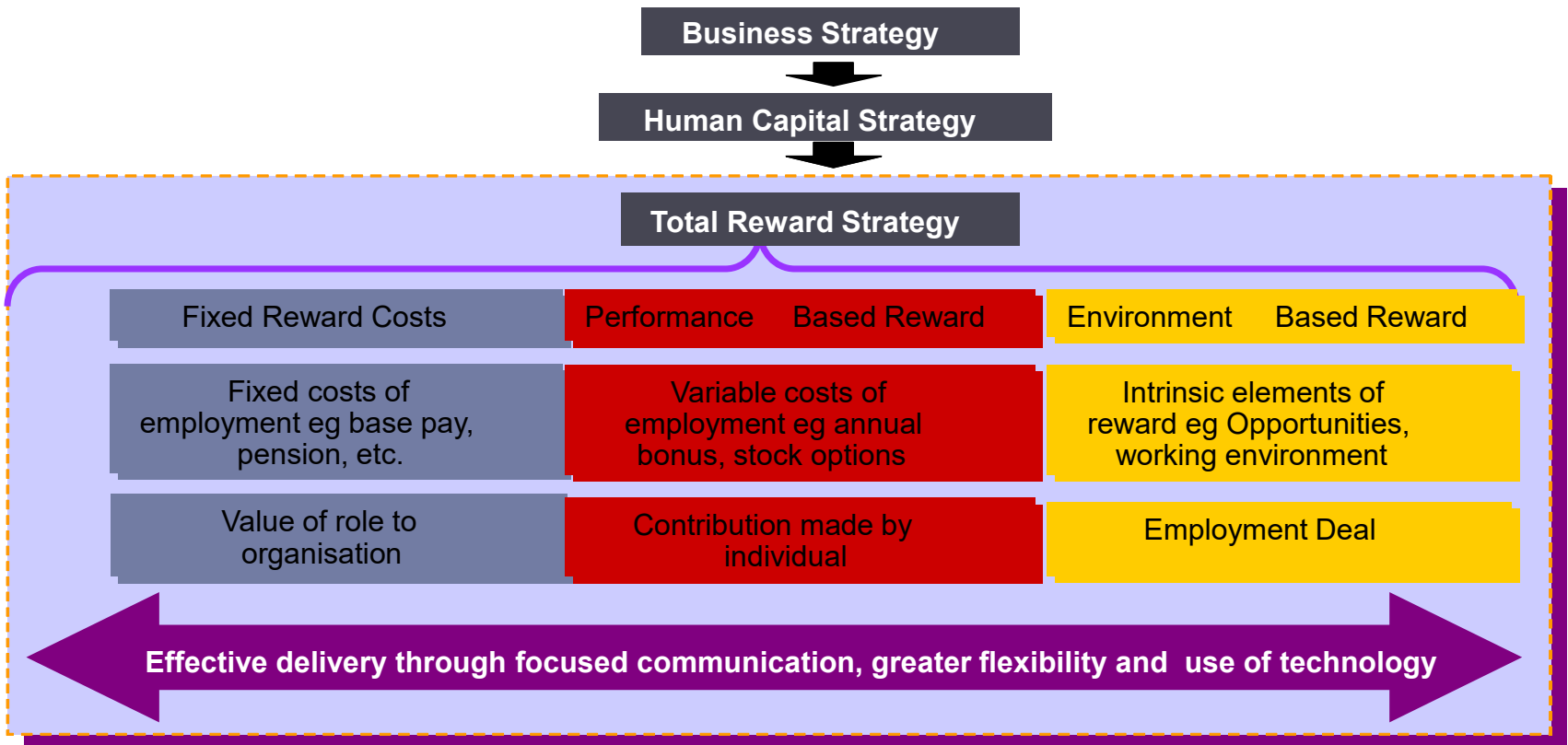
Total Rewards approach



- The **total reward concept** emphasizes the importance of considering all aspects of reward as an integrated and coherent whole. Each of the elements of total reward, namely base pay, pay contingent on performance, competence or contribution, employee benefits and non-financial rewards, which include intrinsic rewards from the employment environment and the work itself, are linked together

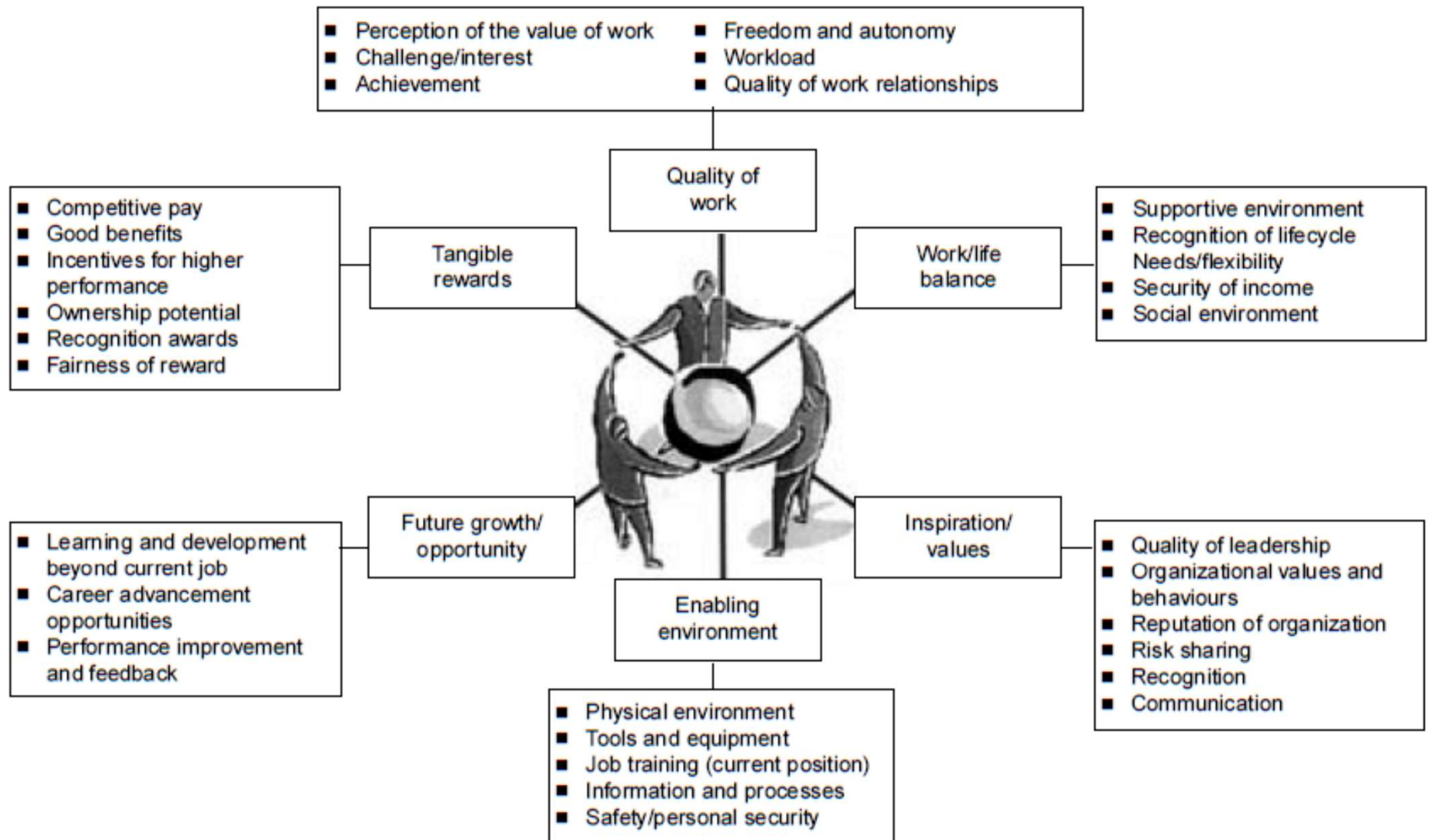
‘Cash is a weak tactic in the overall reward strategy; it is too easily replicated. Intrinsic reward is far more difficult to emulate.’

Total Rewards approach

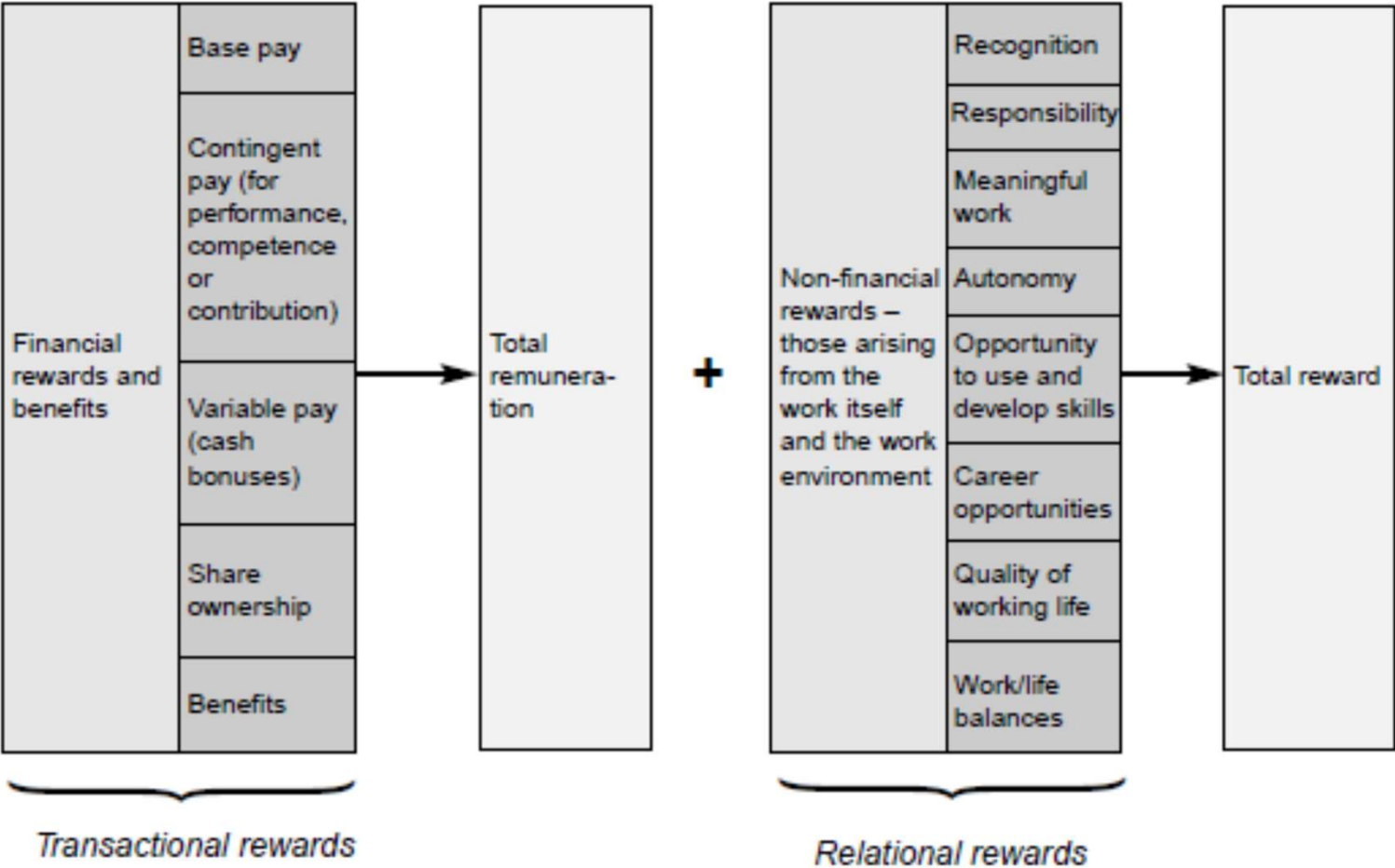


Total Reward is not a solution, it is a new approach to managing and communicating reward

Hay Group engaged performance model



Components of Total Rewards



Top Performers survey (SHRM)



What do employees want (by age)?

- | | | |
|--------------|---|--|
| Under
30s | 1 | Opportunities to learn new skills in current job |
| | 2 | Flexible work schedules |
| | 3 | Work at home |
| | 4 | Tailoring jobs to match individuals' abilities and interests |
| | 5 | Opportunities for promotion |

Top Performers survey (SHRM)



What do employees want (by age)?

30-50
yr olds

- 1 Base pay above market average
- 2 Opportunities for promotion
- 3 Tailoring jobs to match individuals' abilities and interests
- 4 Opportunities to learn new skills in current job
- 5 Flexible work schedules

Top Performers survey (SHRM)



What do employees want (by age)?

50+
yr olds

- 1 Tailoring jobs to match individuals' abilities and interests
- 2 Opportunities for promotion
- 3 Retirement plans
- 4 Base pay above market average
- 5 Opportunities to learn new skills in current job

Top Performers survey (SHRM)



What do employees want (by age)?

- 1 Tailoring jobs to match individuals' abilities and interests (89%)
- 2 Base pay above market average (89%)
- All 3 Opportunities to learn new skills in current job (88%)
- 4 Opportunities for promotion (88%)
- 5 Flexible work schedules (84%)

Benefits of Total Rewards

- **Greater impact** – the combined effect of transactional and relational rewards will make a deeper and longer-lasting impact on the motivation and commitment of people.
- **Enhancing the employment relationship** – the employment relationship, which makes the maximum use of relational as well as transactional rewards
- **Increased engagement as part of the process** – involving people in their own reward package design gives them strong messages about the organization and its values.
- **Flexibility to meet individual needs** – relational rewards may bind individuals more strongly to the organization
- **Winning the war for talent** – relational rewards help to deliver a positive psychological contract

Strategic Rewards Management

- Where do we want our reward practices to be in a few years time? (vision)
- How do we intend to get there? (means)

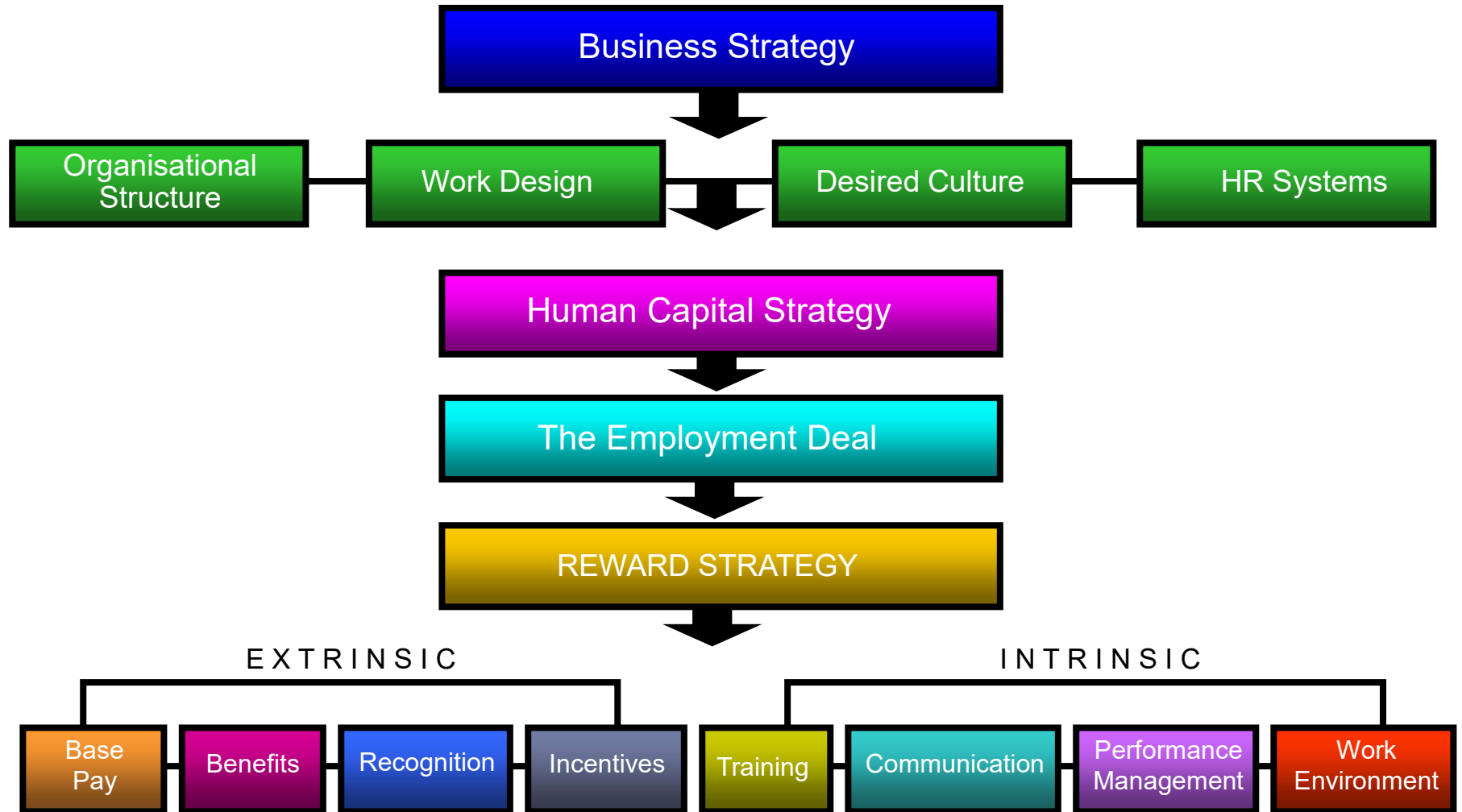


Strategic Rewards Management



- Strategic reward management is the process of looking ahead at what an organization needs to do about its reward policies and practices in the middle or relatively distant future.
- The foundation of strategic reward management is an understanding of the needs of the organization and its employees and how they can best be satisfied.

Aligning Strategies & Policies



Rewards Strategy



A set of guiding principles which align pay and all forms of reward to business strategy in order to attract and retain the right people and to motivate desired behaviours and performance

E.G. We are employer of choice with below 2% turnover → paying above the market

Rewards Strategy

- You must have some idea where you are going, or how do you know how to get there and how do you know that you have arrived
- Pay costs in most organizations are by far the largest item of expense; so doesn't it make sense to think about how they should be managed
- There can be a positive relationship between rewards, in the broadest sense, and performance
- Isn't this a good reason for developing a reward strategic framework that clearly indicates how reward processes will be linked to other HR strategies and processes so that they are coherent and mutually supportive?

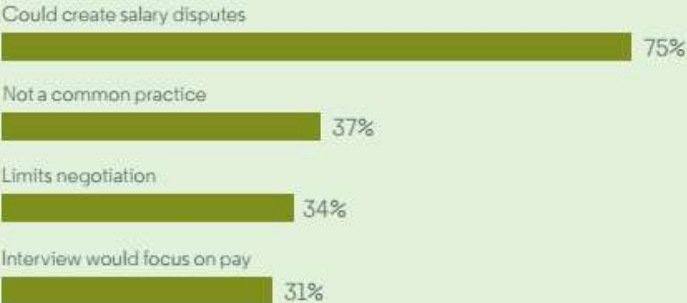
Basic principles of Reward Strategy

- Fairness
- Equity
- Consistency
- Transparency
- Reward strategy can too easily be unrealistic
- All reward strategies are different just as all organizations are different.

Transparency isn't the goal. The goal is paying everyone fairly, and transparency forces us to do that.

Reasons for not sharing salary ranges

Talent professionals who don't share salary ranges with candidates or employees cite the following reasons why



Benefits of sharing salary ranges

Talent professionals who do share salary ranges with employees or candidates cite the following benefits



+136% increase in pay transparency content shared on LinkedIn since 2014



Rewards policies

- ❑ Level of rewards
- ❑ Market pay and external competitiveness
- ❑ Internal justice
- ❑ Business and individual performance
- ❑ Talent management (attraction and retention)
- ❑ Flexibility
- ❑ Employee involvement
- ❑ Line managers' role
- ❑ Assimilation policies
- ❑ Contingent rewards
- ❑ Communication to employees
- ❑ Total rewards



Rewards policies (Examples)

- Bonus payments are based on a specific scheme
- The long term incentives program is consistent for all subsidiaries
- To ensure individual development we adopt a broadbanding approach



What do we want from the Reward Strategy?

- Support and be derived from Business Strategy
- Drive sustainable improvements in business performance
- Bring about and reinforce cultural and behavioural change
- Integrate with HR policy and practice
- Keep the paybill under control!

Elements of Rewards

1. Analyzing and describing roles
2. Evaluating roles
3. Analyzing Market data
4. Designing salary structures
5. Contingent Pay – Pay Progression





- How do we move on from here?
- Where do we start?

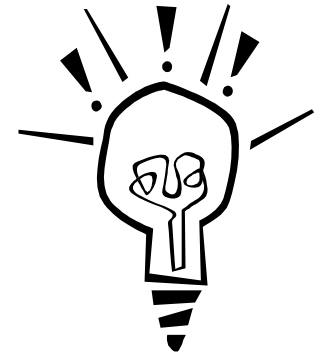
The structure & content of a Reward strategy

- Environment analysis:
 - ▣ Macro-level: social, economical, demographic
 - ▣ Industrial level
 - ▣ Micro-level: competitors
- Analysis of the „inner environment”: strategy, job evaluation, financial conditions...
- Individual analysis (Individual market worth, level of skills or competence they possess, performance in the job)
- Gap-analysis
- Broad-brush reward strategy
- Specific reward initiatives

Ask Questions!

Devise a list of questions covering 3 main areas

- Current Practice
- Business drivers
- Key issues to address



which would allow you to gain a good understanding of the current Reward Strategy and act as a starting point for developing the new strategic approach

Ask Questions - Current Practice

- Identify key characteristics of current system
- What changes have taken place over time?
- Where is pay direction set?
- What philosophy (if any) was behind the current system?
-?

Ask questions – Business drivers

External Business drivers

- Economic environment
- Market trends
- Tax and Legislative environment
- Social trends
- Workforce demographics

Internal Business drivers

- Business strategy & operating plans
- Values & Culture
- Organisation Life Cycle
- Organisation structure
- Technology

- Philosophy and principles
 - Objectives
 - Programs

External drivers

Economic Environment

- ✓ Economic indicators (eg. rate of projected growth of key markets)
- ✓ Supply and demand for critical skills

Market Trends

- ✓ General trends in cash compensation
- ✓ Industry & 'best practice' trends

Tax & Legislative Environment

- ✓ Projected tax reforms (eg. accounting for share plans)
- ✓ Tax advantaged components (country specific)

Social Trends

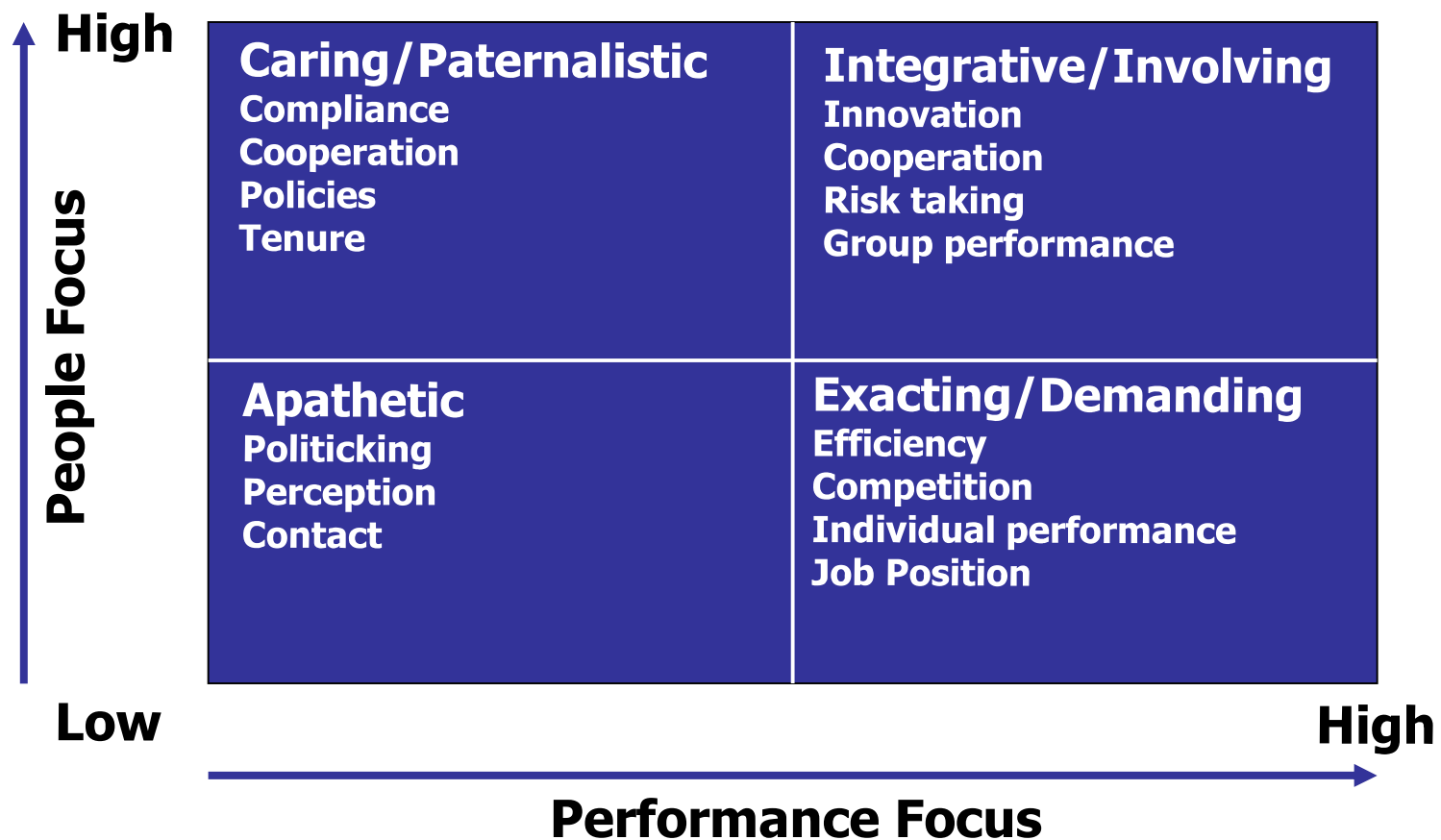
- ✓ Prevailing values and trends
- ✓ General workforce demographics

Internal drivers: Business Strategy & operating plans

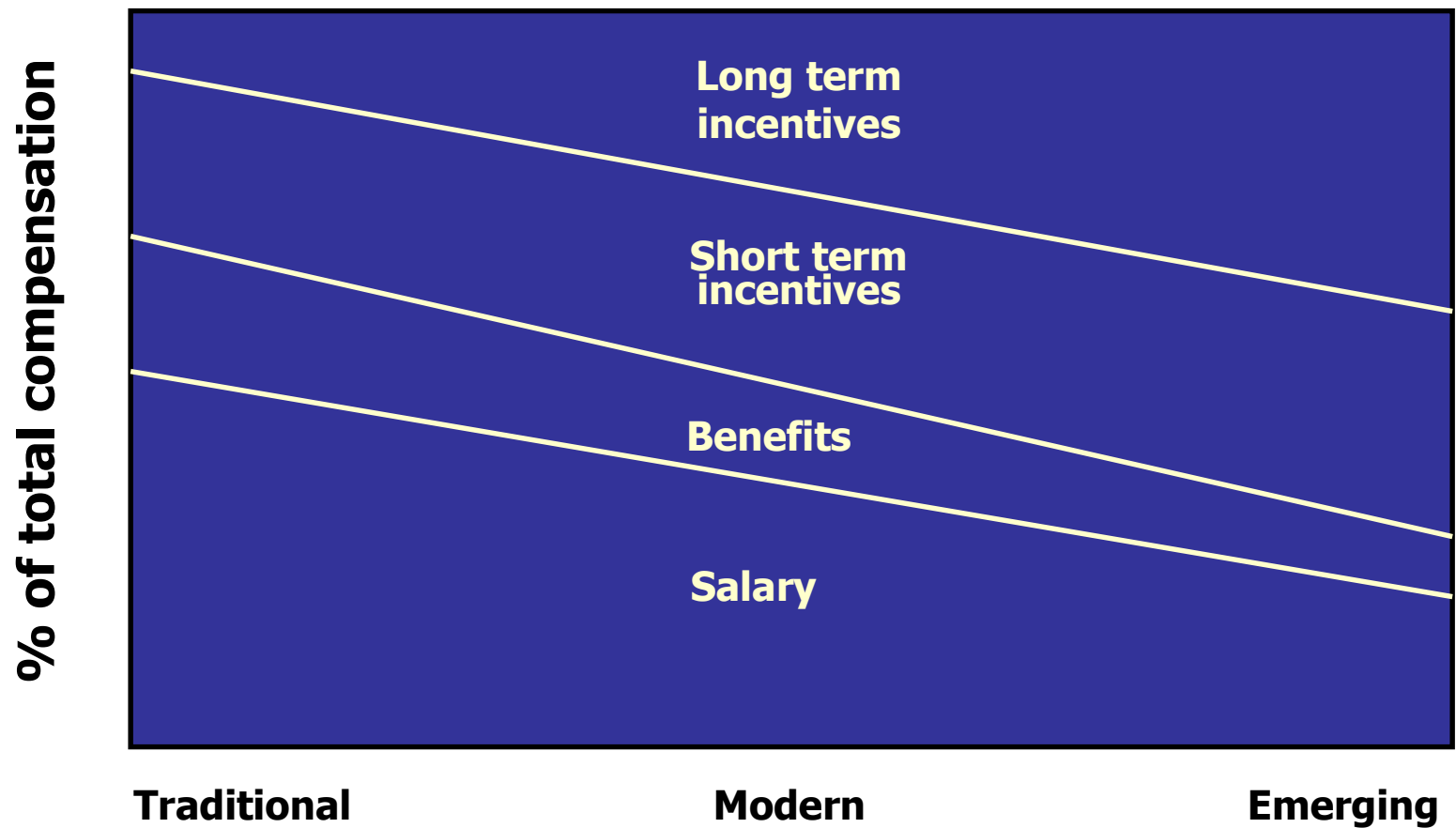
- What are our key financial & non-financial performance indicators?
- What are our growth objectives & measures?
- Productivity & cost reduction goals

Identify key guiding principles for the Reward Strategy

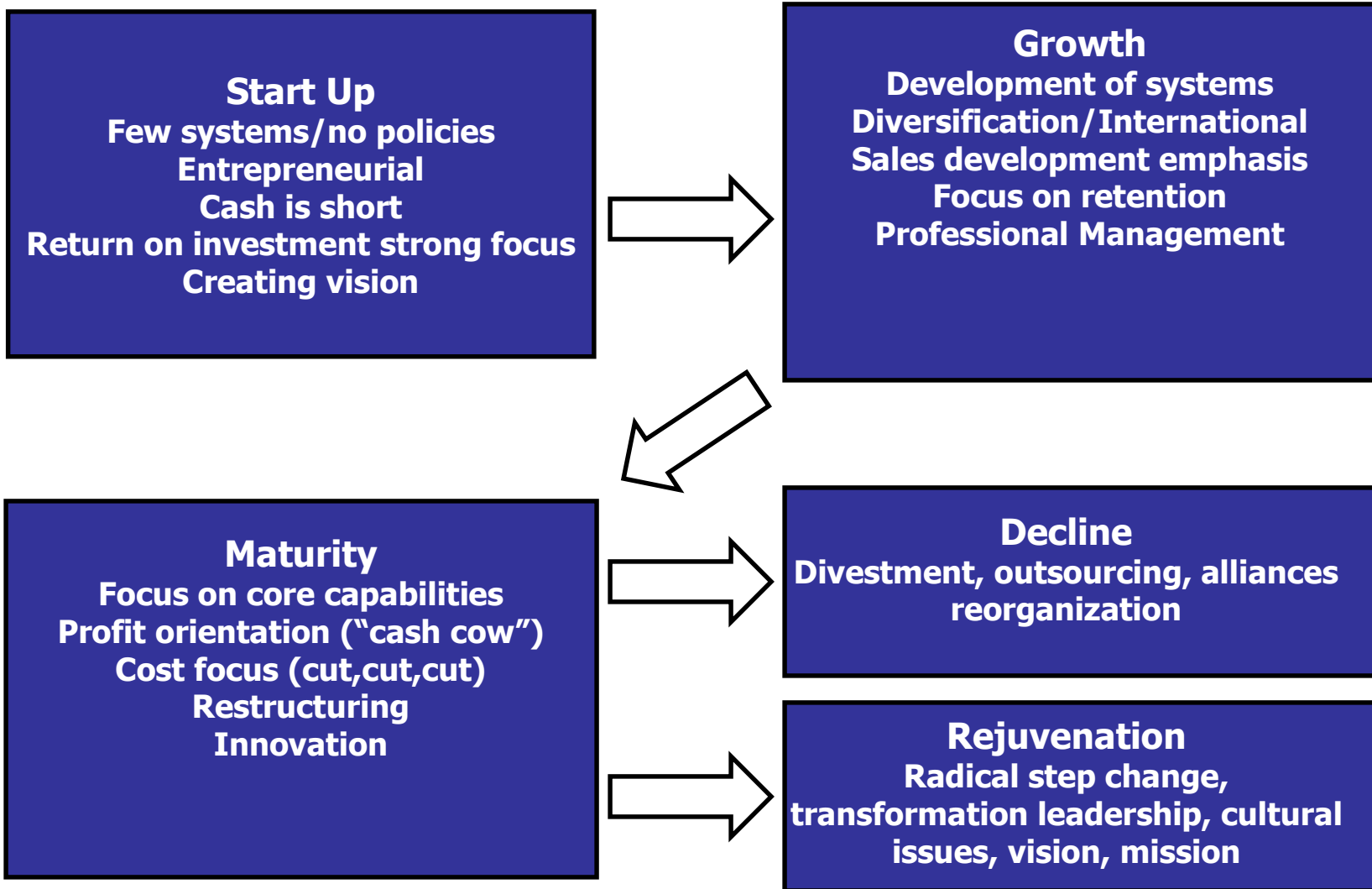
Internal drivers Values & Corporate Culture



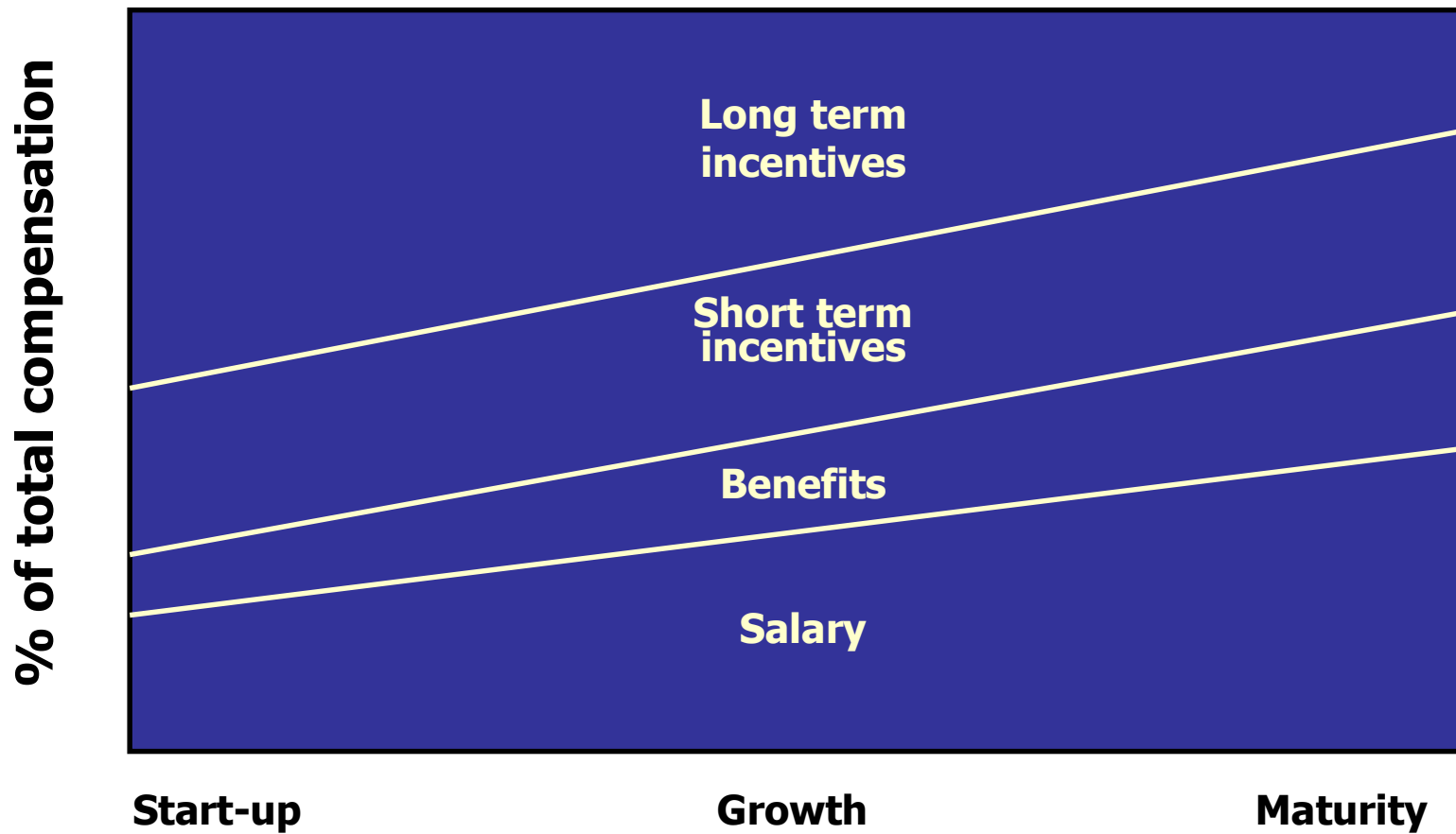
Internal drivers Values & Corporate Culture



Internal drivers Corporate Lifecycle



Internal drivers Corporate Lifecycle



Internal drivers Corporate Lifecycle

	Start up	Growth	Maturity	Decline
HR Focus	Attract key people	Recruit & develop	Retain	Cutback
Compensation Strategy				
Short term incentives	Stock Bonus	Cash Bonus	Cash Bonus, Profit Sharing	Unlikely
Long term incentives	Stock Options (broad participation)	Stock Options (ltd participation)	Stock Purchase	Unlikely
Base Salary	Below market level	at market level	at or above market level	at or below market level
Benefits	Below market level	Below market level	at or above market level	at or below market level

Internal drivers: Organisation structure

- Autonomy of business units
- Centralized vs decentralized
- Nature of work design (job vs people focus)

Key issues to address



- ❑ Compensation Philosophy (P.M. connections, differentials, types of benefits etc)
- ❑ Compensation & Benefits strategy (pay level, short and long term, pay mix)
- ❑ Policies
- ❑ Processes
- ❑ Procedures
- ❑ Total rewards or restricted rewards
- ❑ Interwoven with HR strategy and policies
- ❑ Compensation communication

Key issues to address (example)

Compensation Principle	Objective	Action Required
<p>Relationship to Market Total Compensation will match the median (50th percentile) of comparator companies relevant to the respective Business Units in each market.</p>	<p>The salary of most employees will be competitive with the market</p>	<p>Agree comparator companies and audit current pay against salary market in each country</p>
<p>Grading Structure The compensation and benefits for any position will reflect the grading of the position against a common grading structure. Employees with skills critical to ABC's success and which are in short supply will be eligible for skill premium payments</p>	<p>Ensure consistent relationship between job size and pay within any country, once provision is made for variation in comparators companies by Business Unit Skills in short supply are compensated</p>	<p>Audit current pay levels in each Business Unit within each country to determine consistency between grading and pay. Identify a process to agree skills in short supply and a basis for payment</p>
<p>Annual Pay Review Each year an employee's pay will be reviewed taking account of market movement and his/her individual performance. Pay for some employees will increase significantly ahead of market, pay for most employees will keep up with market movements and pay for some employees will fall below market movement. The determinant of pay progression will be a combination of the demonstration of desired behaviors and individual goal achievement.</p>	<p>Build a performance culture to replace entitlement-based culture.</p>	<p>Increase the range of annual increases to differentiate levels of performance. Review performance management process to ensure that both behaviours and goal achievement are tracked Develop training programs to reinforce changes to pay and performance management practices</p>
<p>Variable Pay All employees will be eligible for variable pay. Separate sales and marketing incentive plans according to industry specific market. Variable pay of all other employees will depend on Business unit and individual performance.</p>	<p>"Pay for performance" in line with industry practice.</p>	<p>Audit compensation structure. Review/ Design variable / incentive plans to match industry practice.</p>
<p>Benefit Program These will be common to all employees within a country according to local market practice.</p>	<p>Provide competitive level of benefits, while reflecting internal equity.</p>	<p>Audit benefits against market in each country.</p>

Questions??????



References:

1. Armstrong, M. & Cummins, A. (2011) The Reward Management Toolkit: A Step-by-Step Guide to Designing and Delivering Pay and Benefits. Kogan Page, London.
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3. Brown, D (2001) Reward Strategies; From intent to impact, CIPD, London.
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5. The WorldatWork Handbook of Compensation, Benefits & Total Rewards, John Wiley & Sons, 2017.

Insurance Ltd (our case study)