NATIONAL OPEN UNIVERSITY OF NIGERIA

FACULTY OF MANAGEMENT SCIENCES

COURSE CODE: BUS 818

COURSE TITLE:

REWARD AND COMPENSATION MANAGEMENT

COURSE GUIDE

BUS 818
REWARD AND COMPENSATION MANAGEMENT

NATIONAL OPEN UNIVERSITY OF NIGERIA

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INTRODUCTION

The course BUS 818 *Reward and Compensation Management,* is a semester course work of two credit units and it is available to students of Master of Science (M.Sc) in Business Administration in the Faculty of Management Sciences.

This course guide is intended for the learner enrolled on the M.Sc Business Administration programme of National Open University of Nigeria (NOUN). This course guide gives a brief summary of what the course is all about, it stipulates guidelines on how long learners are to spend on each unit so that learners will complete it at the stipulated time and not lag behind. It also explains how learners can work through the course material.

It is therefore recommended that learners should go through this course guide so as to know what they are to expect in the main course material.

COURSE AIM

This course aims at equipping learners with the basic knowledge on what reward and compensation management is all about. This chapter starts with an introductory discussion of the concept of reward management and its aims. This is followed by an assessment of how these aims can be achieved, a description of the elements of a reward system and an analysis of the factors that affect reward management. The chapter concludes with a survey of developments in reward management.

COURSE OBJECTIVES

The objective of this course is to develop students' understanding of the concepts of Rewards and compensation management in an organization. In particular, the subject is designed to develop the underpinning knowledge and skills required to understand one of the complex management functions i.e. rewarding and compensating employees and its importance. This subject introduces the student to the basics Rewards and compensation structure and differentials.

Working through This Course

To complete this course, you are required to read the study units, read set books and read other materials provided by the National Open University of Nigeria (NOUN). You will also need to undertake practical exercises for which you need access to a personal computer running Windows 95. Each unit contains self-assessment exercises, and at certain points during the course, you will be expected to submit assignments. At the end of the course is a final examination. The course should take you about a total 17 weeks to complete. Below are the components of the course, what you have to do, and how you should allocate your time to each unit in order to complete the course successfully on time.

COURSE OUTLINED PROGRAMME PROPOSAL (OPP) FOR BUS 818

The course is in six modules and 25 units as follows:

Module 1

Unit 1 The concept, aims and objectives of Reward management

Unit 2 Value, system and components of reward management
Unit 3 The elements of reward system
Unit 4 Strategies and levels of reward strategy

Module 2
Unit 1 The nature and context of Total reward
Unit 2 Reasons and principles of total reward
Unit 3 Learning, Development and components of total reward
Unit 4 Work Environment

Module 3
Unit 1 Concepts and types of motivation
Unit 2 Theories of motivation
Unit 3 Motivation and financial incentives as they affect reward
Unit 4 Motivation, Job satisfaction and Performance

Module 4
Unit 1 Evaluation, Characteristics and Objectives
Unit 2 Types of Job Evaluation
Unit 3 Performance Management
Unit 4 Market Pricing

Module 5
Unit 1 Introduction, Grade and Pay structure and types
Unit 2 Developing and Implementing Gray and Pay Structure
Unit 3 Equal Pay for Equal work
Unit 4 Bonus Scheme
Unit 5 module

Module 6
Unit 1 Concepts, Objectives, significance, Components and Policies
Unit 2 Compensation Design and Philosophy
Unit 3 Tying Compensation to retention and Human Resource
Unit 4 Wages theories
Unit 5 Downsizing and Voluntary Retirement Scheme

Assignment File

In this course, you will find all the details of the work you must submit to your tutor for marking. The marks you obtain for these assignments will count towards the final mark you obtain for this course. Further information on assignments will be found in the assignment file itself and later in the section on assessment in this course guide. There are 6 tutor-marked assignments in this course; the student should attempt all the 6.

Presentation Schedule

The presentation schedule included in your course materials gives you the important dates for this year for the completion of tutor-marked assignments (TMAs) and attending tutorials. Remember, you are required to submit all your assignments by the due date. You should guard against falling behind in your work.

ASSESMENT

There are two aspects to the assessment of the course: first are the tutor- marked assignments; and second is a written examination.

In tackling the assignments, you are expected to apply information, knowledge and techniques gathered during the course. The assignments must be submitted to your tutor for formal assessment in accordance with the deadlines stated in the ***Presentation Schedule*** and the ***Assignment File***. The work to be submitted to your tutor will count for 30% of your total course mark.

At the end of the course, you will need to sit for a final written examination of 'three hours' duration. This examination will also count for 70% of your total course mark.

Tutor-Marked Assignment (TMAs)

There are six tutor-marked assignments in this course and you are advised to attempt all. Aside from the course material provided, you are advised to read and research widely using other references which will give you a broader viewpoint and may provide a deeper understanding of the subject. Ensure all completed assignments are submitted on schedule before set deadlines. If for any reasons, you cannot complete your work on time, contact your tutor before the assignment is due to discuss the possibility of an extension. Unless in exceptional circumstances, extensions may not be granted after the due date.

Final Examination and Grading

The final examination for this course will be of three hours' duration and have a value of 70% of the total course grade. All areas of the course will be assessed and the examination will consist of questions, which reflect the type of self-testing, practice exercises and tutor- marked problems you have previously encountered. All areas of the course will be assessed.

Utilise the time between the conclusion of the last study unit and sitting for the examination to revise the entire course. You may find it useful to review your self-assessment tests, tutor-marked assignments and comments on them before the examination.

Course Marking Scheme

The work you submit will count for 30% of your total course mark. At the end of the course, you will be required to sit for a final examination, which will also count for 70% of your total mark. The table below shows how the actual course marking is broken down.

Table 1: Course Marking Scheme

ASSESSMENT	MARKS
Assignment 6 (TMAs)	4 assignments, best 3 will be used for C.A = 10 x 3 = 30%
Final Examination	70% of overall course marks
Total	**100% of course marks**

Course Overview

This table brings together the units and the number of weeks you should take to complete them and the assignment that follow them.

Unit	Title of course	Weeks activity	Assessment (end of unit)
	Course Guide		
	Module 1		
1	The concept, aims and objectives of Reward management	1	
2	Value, system and components of reward management	1	
3	The elements of reward system	1	
4	Strategies and levels of reward strategy	1	
	Module 2		
1	The nature and context of Total reward	1	

2	Reasons and principles of total reward	1	
3	Learning, Development and components of total reward	1	
4	Work Environment	1	
	Module 3		
1	Concepts and types of motivation	1	
2	Theories of motivation	1	
3	Motivation and financial incentives as they affect reward	1	
4	Motivation, Job satisfaction and Performance	1	
	Module 4		
1	Evaluation, Characteristics and Objectives	1	
2	Types of Job Evaluation	1	
3	Performance Management	1	
4	Market Pricing	1	
	Module 5		
1	Introduction, Grade and Pay structure and types	1	
2	Developing and Implementing Gray and Pay Structure	1	
3	Equal Pay for Equal work	1	
4	Bonus Scheme	1	
5	Module	1	
	Module 6		
1	Concepts, Objectives, significance, Components and Policies	1	
2	Compensation Design and Philosophy	1	
3	Tying Compensation to retention and Human Resource	1	
4	Wages theories	1	
5	Downsizing and Voluntary Retirement Scheme	1	
	Total	**27**	

Facilitators/Tutors and Tutorials

There are 27 hours of tutorials provided in support of this course. You will be notified of the dates, times and location of these tutorials, together with the names and phone number of your tutor, as soon as you are allocated a tutorial group.

Your tutor will mark and comment on your assignments, keep a close watch on your progress and on any difficulties you might encounter as they would provide assistance to you during the course. You must mail your tutor-marked assignments to your tutor well before the due date (at least two working days are required). They will be marked by your tutor and returned to you as soon as possible. Do not hesitate to contact your tutor by telephone, e-mail, or discussion board if you need help. The following might be circumstances in which you would find help necessary: when

a. you do not understand any part of the study units or the assigned readings.
b. you have difficulty with the self-tests or exercises.
c. you have a question or problem with an assignment with your tutor's comment on an assignment or with the grading of an assignment.

You should try your possible best to attend the tutorials. This is the only chance to have face-to-face contact with your tutor and to ask questions which are answered instantly. You can raise any problem encountered in the course of your study. To gain the maximum benefit from course tutorials, prepare a question list before attending them. You will learn a lot from participations in discussions.

Summary

BUS818: Reward and Compensation Management intends to expose the graduate students to the nitty-gritty of managing enterprises, be it private or public, corporate or small business enterprises, government or non- governmental organisations. Upon completing the course, you will be equipped with the knowledge required to produce a good research work. You will be able to answer questions such as:

We hope you enjoy your acquaintances with the National Open University of Nigeria (NOUN). We wish you every success in the future.

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Module 1

UNIT 1 CONCEPTS, AIMS AND OBJECTIVES OF REWARD MANAGEMENT

CONTENTS

1.0 INTRODUCTION

Globalization encompasses change and competition. If Organizations want to survive in an intense competitive business environment and to develop themselves, they are required to produce different kinds of solutions when the need arises. There are lots of external factors that triggered organizations to work harder. Especially in global crises, businesses in terms of profitability and permanency must pay attention to change and development within their systems. Undoubtedly, the most important factor is human in organizations. One of the main management strategies of the organizations is to invest in employees. Organizations are seeking to develop, motivate and increase the performance of their employees in a variety of human resources applications. Therefore, the reward management system has been the most considerable practice of the human resource management system. Reward management system is a core function of human resource discipline and is a strategic partner with Organisation managements. Besides, it has an important role on employee performance.

2.0 MAIN CONTENT

2.1 Concept Of Reward Management

Reward management is a popular management topic. It was developed on the basis of psychologist's research. Psychologists started studying behavior in the early 1900s; one of the first psychologists to study behavior was Sigmund Freud and his work was called the Psychoanalytic Theory. Many other behavioral psychologists improved and added onto his work. With the improvements in the behavioral research and theories, psychologists started looking at how people reacted to rewards and what motivated them.

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

According to Steers and Porter (1987), work motivation is a factor that sustain and manage employee behavior. In another study, Porter and Miles (1974), put some theories about motivation and they gathered into three categories which are job (e.g., degree of autonomy), individual (e.g., need for achievement) and work environment characteristics (e.g., rewards). Barber and Bretz (2000) mentioned that reward management systems have major impact on organizations capability to catch, retain and motivate high potential employees and as a result getting the high levels of performance.

Bishop (1987), on the other hand has studied about employee performance and found that recognition and reward of employee performance leads to differentiation between the productivity of the employees.

On the other hand, it is crucial to invest in employee development for enhancing the skills and abilities of employees and organization. Furthermore, social exchange theory shows that employees behave in positive ways when the organizations invest on them. Organizational inducements are the factors for the motivation of the employees and pro socially motivated employees make a great effort to benefit the organization.

Reward management consists of analysing and controlling employee remuneration, compensation and all of the other benefits for the employees. Reward management aims to create and efficiently operate a reward structure for an organisation. Reward structure usually consists of pay policy and practices, salary and payroll administration, total reward, minimum wage, executive pay and team reward.

Defining motivation as "the degree to which an individual wants and choose to engage in certain specific behaviours", to which Vroom (quoted in Mitchell, 1982) adds that performance = ability x motivation. To have an efficient Reward System then, is mandatory that employees know exactly what their task is, have the skills to do it, have the necessary motivation and work in an environment allowing the transformation of intended actions into an actual behaviour. From the company point of view instead, an effective performance appraisal has to be present, in order to let motivation be a major contributor to the rewarded performance

2.2 Aims of Reward Management

The following are the aims of reward management;

- ❖ reward people according to the value they create;
- ❖ reward the right things to convey the right message about what is important in terms of behaviours and outcomes;
- ❖ help to attract and retain the high-quality people the organization needs;
- ❖ align reward practices with business goals and with employee values and needs;

- develop a high-performance culture;
- motivate people and obtain their engagement and commitment.
- help to attract and retain the high-quality people the organization needs;
- reward people according to the value they create;
- align reward practices with business goals and with employee values and needs;
- reward the right things to convey the right message about what is important in
  terms of behaviours and outcomes;
- motivate people and obtain their engagement and commitment.

2.3 Achieving the Aims of Reward Management

Reward management adopts a 'total reward' approach, which emphasizes the importance of considering all aspects of reward as a coherent whole that is linked to other Human Resource (HR) initiatives designed to achieve the motivation, commitment, engagement and development of employees. This requires the integration of reward strategies with other HRM strategies, including talent management and human resource development. Reward management is an integral part of an HRM approach to managing people. The aims can be achieved in the following ways:

2.3.1 Distributive justice

Distributive justice refers to how rewards are provided to people. They will feel that they have been treated justly if they believe that the rewards have been distributed in accordance with the value of their contribution, that they receive what was promised to them and that they get what they need.

2.3.2 Procedural justice

Procedural justice refers to the ways in which managerial decisions are made and reward policies are put into practice. The five factors that affect perceptions of procedural justice as identified by Tyler and Bies (1990) are:

- The viewpoint of employees is given proper consideration.
- Personal bias towards employees is suppressed.
- The criteria for decisions are applied consistently to all employees.
- Employees are provided with early feedback about the outcome of decisions.
- Employees are provided with adequate explanations of why decisions have been made.

2.3.3 Fairness

A fair reward system is one that operates in accordance with the principles of distributive and procedural justice. It also conforms to the 'felt-fair' principle formulated by Eliot Jaques (1961). This states that pay systems will be fair if they are felt to be fair. The assumptions underpinning the theory are that:

- there is an unrecognized standard of fair payment for any level of work;
- unconscious knowledge of the standard is shared among the population at work;
- pay must match the level of work and the capacity of the individual to do it;
- people should not receive less pay than they deserve by comparison with their fellow workers

2.3.4 Equity

Equity is achieved when people are rewarded appropriately in relation to others within the organization. Equitable reward processes ensure that relativities between jobs are measured as objectively as possible and that equal pay is provided for work of equal value.

2.3.5 Consistency

A consistent approach to reward management means that decisions on pay do not vary arbitrarily – without due cause – between different people or at different times. They do not deviate irrationally from what would generally be regarded as fair and equitable.

2.3.6 Transparency

Transparency exists when people understand how reward processes function and how they are affected by them. The reasons for pay decisions are explained at the time they are made. Employees have a voice in the development of reward policies and practices.

2.3.7 Strategic alignment

The strategic alignment of reward practices ensures that reward initiatives are planned by reference to the requirements of the business strategy and are designed to support the achievement of business goals.

2.3.8 Contextual and culture fit

The design of reward processes should be governed by the context (the characteristics of the organization, its business strategy and the type of employees) and the organization's culture (its values and behavioural norms). Account should be taken of good practice elsewhere, but this should not be regarded as best practice, ie universally
applicable. Best fit is more important than best practice.

2.3.9 Fit for purpose

The formulation of reward strategy and the design of the reward system should be based on an understanding of the objectives of reward management and should be developed to achieve that purpose.

2.3.10 *Developing a high-performance culture*

A high-performance culture is one in which people are aware of the need to perform well and behave accordingly in order to meet or exceed expectations. Employees are engaged in their work and committed to the organization. Such a culture embraces a number of interrelated processes that together make an impact on the performance of the organization through its people in such areas as productivity, quality, levels of customer service, growth, profits and, ultimately in profit-making firms, the delivery of increased shareholder value. In a more heavily service- and knowledge-based economy, employees have become the most important determinant of organizational success.

A high-performance culture can be developed by taking into account characteristics such as those listed above and applying an integrated set of processes, of which reward

is an important part. Besides reward, the processes include those concerned with resourcing and talent management (ensuring that the organization has the high performing people it needs), learning and development, performance management, the enhancement of the working environment (for example, work design and work/ life balance) and communication

2.4 Objectives of Reward Management

Reward management deals with processes, policies and strategies which are required to guarantee that the contribution of employees to the business is recognized by all means. The objective of reward management is to reward employees fairly, equitably and consistently in correlation to the value of these individuals to the organization. Reward system exists in order to motivate employees to work towards achieving strategic goals which are set by entities. Reward management is not only concerned with pay and employee benefits. It is equally concerned with non-financial rewards such as recognition, training, development and increased job responsibility.

Kerr (1995) brings to attention how Reward Management is an easily understandable concept in theory, but how its practical application results often difficult. The author, in fact, points up how frequently the company creates a Reward System hoping to reward a specific behavior, but ending up rewarding another one. The example made is the one of a company giving an annual merit increase to all its employees, differentiating just between an "outstanding" (+5%), "above average" (+4%) and "negligent" (+3%) workers. Because the difference between the percentage increasing was so slight, what the company obtained from the employees was indifference to the extra percentage point for a superlative job or the loss of one point for an irresponsible behavior.

3.0 CONCLUSION

The discussion in this unit have taking us through the evolutionary and philosophical concept of reward management. We also attempted to discuss the aims of reward management, ways to achieve a sound reward management system in our 21st century organizations. Finally, the objectives of establishing a reward management system in any organizational setting.

4.0 SUMMARY

In this unit, we treated the concept of reward management, its aims and objectives and

UNIT 2 VALUE OF REWARDS, REWARD SYSTEM, ELEMENTS AND POLICIES OF REWARDS.

CONTENTS

1.0 INTRODUCTION

The notion that the motivational impact of any reward is largely dependent on the value of that reward to the individual is central both in the management control and in the organizational psychology literature. Cognitive-oriented, process theories of work motivation, such as the Expectancy-Valence theory, explicitly emphasise the link between one's perceived value of the reward and motivation.

2.0 MAIN CONTENT

2.1 Value of Reward

The notion that the motivational impact of any reward is largely dependent on the value of that reward to the individual is central both in the management control and in the organisational psychology literature. Cognitive-oriented, process theories of work motivation, such as the Expectancy-Valence theory, explicitly emphasise the link between one's perceived value of the reward and motivation. Porter et al., (1975), for instance, argue that generally "...the more attractive a reward, the more it can motivate people to behave in certain ways in order to obtain it". Considering the design of motivational contracts for middle-level managers, Merchant (1989) posits that the rewards subsumed in incentive schemes should be sufficiently valuable to the managers they intend to motivate, so as to offset other incentives managers may have to act contrary to the company's best interest. Thus, the recommendation to organisations regarding the design of their reward schemes is to include those rewards that are highly valued by their managers, so as to maximize the motivational effect of these reward packages.

The extant empirical research on the relationship between the perceived value of reward and motivation, however, has produced mixed results. Porter and Lawler's (1968) seminal study on managerial attitudes and work motivation shows that differences in preferences for rewards are positively correlated with motivation and performance variations. Similarly, Vroom (1964) maintains that when the value of a reward to the individual is increased, individual motivation and performance increases. Subsequent empirical studies by Pritchard and Sanders (1973), Pecotich and Churchill (1981), and Nakanishi (1989) all collectively concluded that the greater the importance (value) attributed by the manager to the rewards that he receives, the higher tends to be his level of work motivation and performance. On the other hand, other studies report either very weak positive (Hackman & Porter, 1968) or even negative correlations (Jorgenson et al.,1973) between the perceived value of rewards and managerial motivation and performance. Several studies indicate that rewards have high varying effects on effort and cannot guarantee improved performance (Bonner et al.,2000; Libby & Lipe, 1992; Sprinkle, 2000)

2.2 The Reward System

The approaches to achieving the aims of reward management as discussed above are Incorporated in the reward system of an organization. This consists of the following:

- ***Reward strategies***, which set out what the organization intends to do in the long- term to develop and implement reward policies, practices, processes and procedures that will further the achievement of its business goals. For example, an organization may have a strategy to maintain competitive rates of pay.
- ***Reward policies,*** which set guidelines for decision making and action. For example, an organization may have a policy that sets the levels of pay in the organization compared with median market rates.
- ***Reward practices***, which consist of the grade and pay structures, techniques such as job evaluation, and schemes such as contingent pay used to implement reward strategy and policy. For example, the policy on pay levels will lead to the practice of collecting and analyzing market rate data, and making pay adjustments that reflect market rates of increase.
- ***Reward processes***, which consist of the ways in which policies are implemented and practices carried out, for example the way in which the outcomes of surveys are applied and how managers manage the pay adjustment and review process.
- ***Reward procedures***, which are operated in order to maintain the system and to ensure that it operates efficiently and flexibly and provides value for money. For example, a procedure will be used for conducting the annual pay review.

3.0 Conclusion

The discussion in this unit took us through the evolutionary and empirical reviews on author's perceived value of reward. Finally, attempts was made in discussing the various components of an effective reward system.

4.0 Summary

In this unit, we examined scholar's perceptions on what constitutes value of reward, we also looked at the various components of a sound reward system in our 21st century organizations

UNIT 3 ELEMENTS OF A REWARD SYSTEM

CONTENTS

1.0 Introduction

The elements of a reward system and the interrelationships between them are discussed below under specific sub-headings.

2.0 MAIN CONTENT

2.1 Business strategy

The starting point of the reward system is the business strategy of the organization. This identifies the business drivers and sets out the business goals. The drivers are unique to any organization but will often include items such as high performance, profitability, productivity, innovation, customer service, quality, price/cost leadership and the need to satisfy stakeholders – investors, shareholders, employees and, in local authorities, elected representatives.

2.2 Reward strategy and policy

The reward strategy flows from an analysis of the business drivers. The question is: 'How can these be supported by reward in order to achieve the goals of the business?' The reward strategy will define longer-term intentions in such areas as pay structures, contingent pay, employee benefits, steps to increase engagement, commitment and adopting a total reward approach.

Reward policy will cover such matters as levels of pay, achieving equal pay, approaches to contingent pay, the use of job evaluation and market surveys and flexing benefits.

2.2.1 Base or basic pay

The base rate is the amount of pay (the fixed salary or wage) that constitutes the rate for the job. It may be varied according to the grade of the job or, for shop floor workers, the level of skill required.

Base pay will be influenced by internal and external relativities. The internal relativities may be measured by some form of job evaluation. External relativities (going rates) are assessed by tracking market rates. Alternatively, levels of pay may be agreed through collective bargaining with trade unions or by reaching individual agreements.

Base pay may be expressed as an annual, weekly or hourly rate. This is sometimes referred to as a time rate system of payment. Contingent pay or allowances as described later may be added to base pay. The rate may be adjusted to reflect increases in the cost of living or market rates by the organization unilaterally or by agreement with a trade union.

2.2.2 Contingent pay

Additional financial rewards may be provided that are related to performance, competence, contribution, skill or experience. These are referred to as 'contingent pay'.

Contingent payments may be added to base pay, i.e. 'consolidated'. If such payments are not consolidated (i.e. paid as cash bonuses) they are described as 'variable pay'.

2.2.3 Employee benefits

Employee benefits include pensions, sick pay, insurance cover, company cars and a number of other 'perks'. They consist of elements of remuneration additional to the various forms of cash pay and also include provisions for employees that are not strictly remuneration, such as annual holidays.

2.2.4 Allowances

Allowances are paid in addition to basic pay for special circumstances (e.g. living in London) or features of employment (e.g. working unsocial hours). They may be determined unilaterally by the organization but they are often the subject of negotiation. The main types of allowances are location allowances, overtime payments, shift payments, working conditions allowances and stand-by or call-out allowances made to those who have to be available to come in to work when required.

2.3 Performance management

Performance management processes define individual performance and contribution expectations, assess performance against those expectations, and provide for regular constructive feedback, and result in agreed plans for performance improvement, learning and personal development. They are a means of providing non-financial motivation and may also inform contingent pay decisions.

2.3.1 Non-financial rewards

Non-financial rewards do not involve any direct payments and often arise from the work itself, for example achievement, autonomy, recognition, scope to use and develop
Skills, training, career development opportunities and high-quality leadership.

2.3.2 Total reward

Total reward is the combination of financial and non-financial rewards available to Employees.

2.3.3 Total earnings

Total earnings (financial rewards) consist of the value of all cash payments (base pay, contingent pay and allowances, ie total earnings).

2.3.4 Total remuneration

Total remuneration consists of the financial rewards represented by total earnings plus the value of the benefits received by employees.

2.4 Job evaluation

Job evaluation is a systematic process for defining the relative worth or size of jobs within an organization in order to establish internal relativities and provide the basis for designing an equitable grade structure, grading jobs in the structure and managing relativities. It does not determine the level of pay directly. Job evaluation can be analytical or non-analytical. It is based on the analysis of jobs or roles, which leads to the production of job descriptions or role profiles.

2.5 Market rate analysis

Market rate analysis is the process of identifying the rates of pay in the labour market for comparable jobs to inform decisions on levels of pay within the organization and pay structures. A policy decision may be made on how internal rates of pay should compare with external rates – an organization's market stance.

2.6 Grade and pay structures

Jobs may be placed in a graded structure according to their relative size. In such a structure, pay is influenced by market rates, and the pay ranges attached to grades provide scope for pay progression based on performance, competence, contribution or service. Alternatively, a 'spot rate' structure may be used for all or some jobs in which
no provision is made for pay progression in a job.

3.0 Conclusion

The discussion in this unit took us through elements of a reward system and the interrelationships between them. Finally, we also attempted to discuss the various components of an effective reward strategies and policies.

4.0 Summary

In this unit, we examined scholar's perceptions on what constitutes value of reward, we also looked at the various components of a sound reward strategies and policies in our 21st century organizations

UNIT 4 STRATEGIES AND POLICIES OF REWARD SYSTEM

CONTENTS

1.0 INTRODUCTION

Strategic reward management is an approach to the development and implementation over the longer term of reward strategies and the guiding principles that underpin them. Strategic reward can be described as an attitude of mind, a belief in the need to plan ahead and make the plans happen. The aim of strategic reward is to create total reward processes that are based on beliefs about what the organization values and wants to achieve. It does this by aligning reward practices with both business goals and employee values.

2.0 MAIN CONTENT

2.1 Strategies Of Reward Management

As emphasizes, the 'alignment of your reward practices with employee values and needs is every bit as important as alignment with business goals, and critical to the realization of the latter'. Strategic reward 'is ultimately thinking that you can deploy to any reward issue arising in your organization, to see how you can create value from it'.

2.2 Reward policies

Reward policies are sets of specific guidelines for decision making and course of action. They show what the organization and its management are supposed to do about managing reward, as well as, how they will behave in a given circumstance when dealing with issues related to reward.
They are distinguishable from guiding principles that are usually expressed in a more generalized philosophy. These policies can be grouped into the following headings:

2.2.1 Levels of rewards.

The policy on the level of rewards indicates whether the company pays high, is content to pay median or average rates of pay or even, exceptionally, accepts that it has to pay below the average. Pay policy, which is sometimes referred to as the 'pay stance' or 'pay posture' of a company, will depend on a number of factors. These include the degree to which there is competition for good-quality people, the traditional stance of the company, the extent to which the company demands high levels of performance from its employees, the organization culture, and whether or not it can or should afford to be a high payer. Also, a firm may say that 'We will pay upper-quartile salaries because we want our staff to be upper-quartile performers. Policies on pay levels will also refer to differentials and the number of steps or grades that should exist in the pay hierarchy. This will be influenced by the structure of the company. In today's typical organizations an extended or complex pay hierarchy may not necessarily be required on the grounds that it does not reflect the way in which work is organized and will constrain flexibility. Policies on the level of rewards also cover employee benefits – pensions, sick pay, health care, holidays and perks such as company cars. Pay level policies are linked to policies on external competitiveness and internal equity.

2.2.2 External Competitiveness versus Internal Equity.

A policy needs to be formulated on the extent to which rewards are market-driven rather than equitable. This policy is usually influenced by the culture and reward philosophies of the organization and the pressures on the business to obtain and keep high-quality staff. Any organizations that have to attract and retain staff who are much in demand and where market rates are therefore high may, to a certain degree, have to sacrifice their ideals (if they have them) of internal equity to the realism of the marketplace. They will provide market pay' and be 'market-driven'.

The pay management process must cope with the irresistible force of market pressures which is required to meet the immovable object of internal equity. There will always be some degree of tension in these circumstances and, while no solution will ever be simple or entirely satisfactory, there is one basic principle that can enhance the likelihood of success. That principle is to make explicit and fully identifiable the compromises with internal equity that are made and have to be made in response to market pressures if the organization must remain competitive.

2.2.3 Use of Job evaluation.

Policy on the use of formal job evaluation procedures to determine internal relativities will depend on the policies on equal pay and internal equity referred to above. The policy could determine, to an extent, how a formal job evaluation should be used. The choice is between evaluating every job with the full scheme or allocating a support role to job evaluation, which, after the grade structure has been designed, is only used when grading needs to be validated or in special circumstances, which would need to be defined, e.g. for new jobs, for appeals against grading or in equal pay reviews.

2.2.4 Achieving equal pay.

A policy is required on the degree to which equal pay considerations should drive the management of the reward system. The policy should also cover the use of equal pay reviews. This raises the important policy issue of the degree to which pay levels should be market-oriented, which then mean that the pay inequities that exist outside the organization would be reproduced inside it.

2.2.5 Total Reward Policy.

A policy is required on the extent to which the organization wants to adopt a 'total reward' approach is discussed in details. This will mean assessing the importance of the non-financial relational rewards and how they complement the financial transactional rewards.

2.2.6 Contingency Reward.

The policy will have to determine whether or not the organization wants to pay for competence, contribution, performance, or skill and, if so, what's and the cost implication under what circumstances? There may be, for instance, a policy that bonuses should be paid for exceptional performance but that, to be significant, they should not be less than, say, 20 per cent of basic pay, while their upper limit should be restricted to 40 per cent or so on the base pay. The policy may also indicate the type of approach to be used relating pay to team, individual, or organizational performance.

2.2.7 The Role of Line Managers.

Line managers play a critical role in administering rewards, and the policy should be recognized. The extent to which the responsibility for rewards should be devolved to line managers is a policy decision. The aim may be to devolve it as far as possible, taking into cognizance the need to ensure that other reward policy guidelines are followed and that consistent decisions are made across the organization by line managers. The policy may cover the level of decisions managers can make, the guidance that should be made available to them and how consistency will be attained. The training required by line managers to increase their capacity to exercise judgements on reward and to conduct performance management reviews could also be addressed by the policy.

2.2.8 Transparency.

Historically, organizations in the private sector have hid information about pay policies from public view. This does not stand anymore. Employees will only feel that the reward management processes of an organization are fair if they know what they are and how they are used to determine their level of pay and methods of pay progression. Lack of understanding engenders suspicion and hostility. One of the aims of reward management therefore, is to enhance engagement and commitment, but there is no possibility of this being achieved if the organization is secretive about pay. Without transparency, people will believe that the organization has something to hide, often with reason. There is no chance of building a satisfactory psychological contract unless the organization spells out its reward policies and practices. Transparency is achieved through involvement and communication.

2.2.9 Assimilation Policies.

The introduction of a new or comparatively revised pay structure ensures that policies have to be developed on how existing employees should be assimilated into it. These policies cover where they should be placed in their new grades and what happens to them if their new grade and pay range mean is above or below the new scale for their job.

2.2.10 Policies on pay decisions.

Policies may be required to determine the extent to which the level of pay offered on appointment can exceed the minimum pay for the grade into which the individual will be allocated. It is also necessary to consider the policy on what promotion increases to be awarded.

2.3 Protection policies.

A policy is needed on how employees whose pay are above the upper limit of their new grade after assimilation are to be 'protected' or 'safeguarded'. It is usual to guarantee that employees in this position who have been 'red-circled' do not suffer an immediate reduction in pay. Thereafter, the policy lays down how quickly pay can and should be brought in line.

It needs to be re-emphasized that all aspects of reward management are dynamic and evolutionary. They cannot stand still. They must be continually reviewed and modified in line with changes in organization strategic priorities, structures, core values, processes, technologies and the new demands that the changes make on people.

The review should be carried out by HR specialists or, may be, outside consultants, working with a project team of staff and importantly, their representatives (extensive consultation is important). The review should be based on an attitude survey supplemented by focus groups. The need to monitor reward policies constantly to identify the need for changes extend to all reward processes. It is a good idea to include a firm review date – one or two years ahead – followed by the introduction of any new reward system or structure. When reviewing reward policies, the following questions are necessary:

- One of the recurring themes in this book is the importance of best fit rather than best practice Are the policies still relevant?
- Are they providing the level of guidance necessary?
- Are there any new areas of reward policy that need to be covered?
- What problems, if any, are being met with in implementing them?
- Does anyone (top managers, line managers, HR specialists, employees, union Representatives) want them changed and, if so, how?

3.0 CONCLUSION

The discussion in this unit took us through the evolutionary and empirical reviews on strategies and policies of reward management system. Finally, we also attempted to discuss the various levels of a sound reward policies.

4.0 SUMMARY

In this unit, we examined scholars' perceptions on what constitutes a sound reward management system and the various levels of reward policies in our 21st century organizations

5.0 TUTOR-MARKED ASSIGNMENT

1. In your own words, what is Reward Management?

2. What are the basic aims of instituting a reward management in an organizations?
3. There are various ways through which a sound reward management system can be achieved in our 21st century organization. Elucidate
4. Various scholars aired their view on what constitutes a value reward system, what was their disagreement on the subject matter?
5. Elaborately discuss on reward strategies and policies in our 21st century organization.

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MODULE 2

UNIT 1 THE NATURE OF TOTAL REWARD AND CONTEXT OF TOTAL REWARD

CONTENT

1.0 INTRODUCTION

Total reward 'includes all types of rewards – indirect as well as direct, and intrinsic as well as extrinsic'. All aspects of reward, namely base pay, contingent pay, employee benefits and non-financial rewards, which include intrinsic rewards from the work itself, are linked together and treated as an integrated and coherent whole. Total reward combines the impact of the two major categories of reward as will be discussed later in this unit.

2.0 MAIN CONTENT

2.1 The Nature of Total Reward

Total reward 'includes all types of rewards – indirect as well as direct, and intrinsic as well as extrinsic'. All aspects of reward, namely base pay, contingent pay, employee benefits and non-financial rewards, which include intrinsic rewards from the work itself, are linked together and treated as an integrated and coherent whole. Total reward combines the impact of the two major categories of reward (as illustrated in Figure 2.1):

2.1.1 Transactional rewards – tangible rewards arising from transactions between the employer and employees concerning pay and benefits.

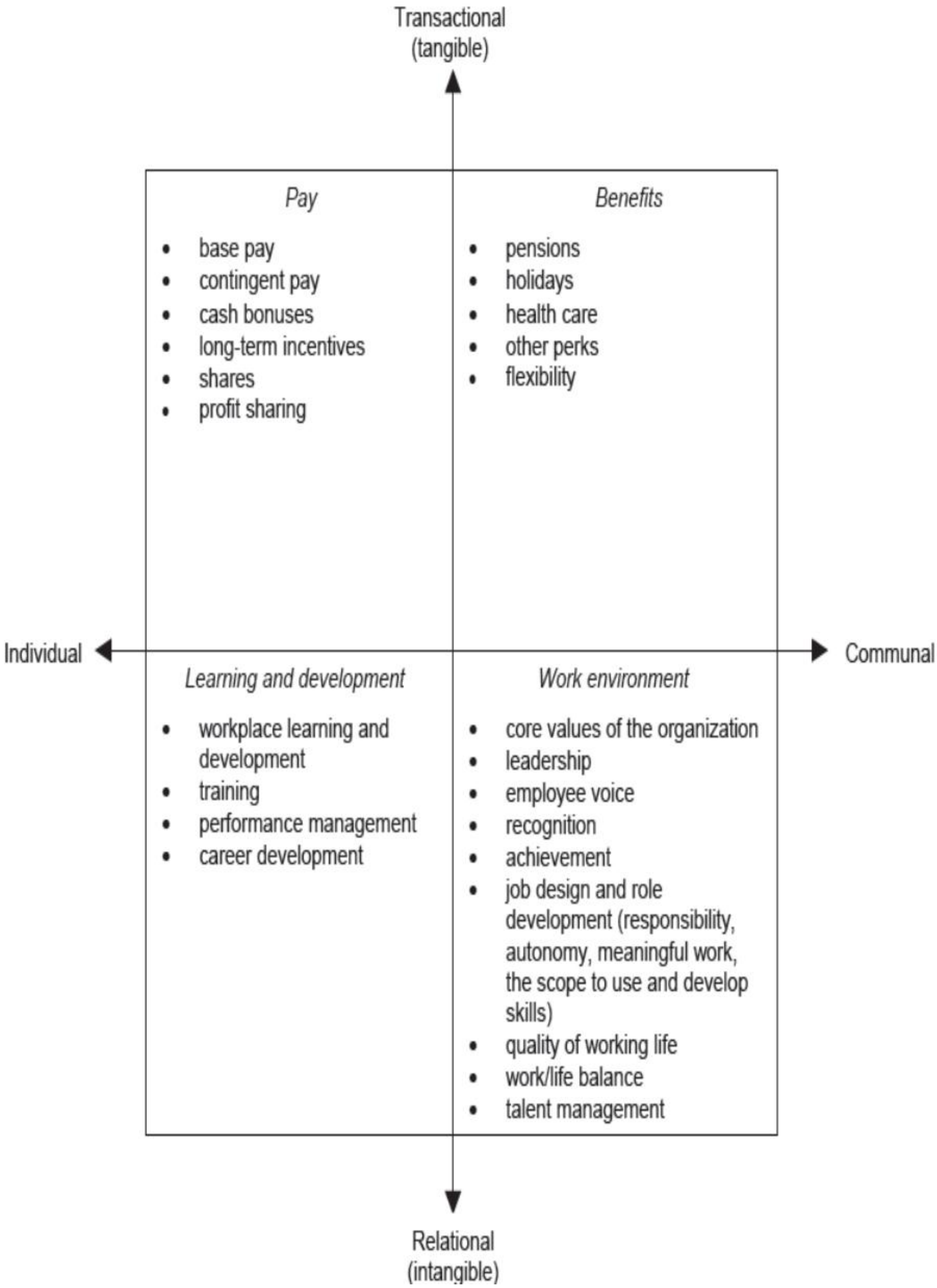
2.1.2 Relational rewards – intangible rewards concerned with learning and development and the work experience.

A total reward approach is holistic, reliance is not placed on one or two reward mechanisms operating in isolation, and account is taken in every way in which people can be rewarded and obtain satisfaction through their work. The aim is to maximize the combined impact of a wide range of reward initiatives on motivation, commitment and job satisfaction.

'Total reward embraces everything that employee's value in the employment relationship.' An equally wide definition of total reward is offered by World at Work, who state that total rewards are 'all of the employer's available tools that may be used to attract, retain, motivate and satisfy employees'. Paul Thompson suggests that: Definitions of total reward typically encompass not only traditional, quantifiable elements like salary, variable pay and benefits, but also more intangible non-cash elements such as scope to achieve and exercise responsibility, career opportunities, learning and development, the intrinsic motivation provided by the work itself and the quality of working life provided by the organization.'

The conceptual basis of total rewards is that of configuration or 'bundling', so that different reward processes are interrelated, complementary and mutually reinforcing.

Total reward strategies are vertically integrated with business strategies, but they are also horizontally integrated with other HR strategies to achieve internal consistency.



Source: Perrin (2005)

Figure 2. 1 Total Rewards Model

An equally wide definition of total reward is offered by World at Work (2000), who state that total rewards are ‘all of the employer’s available tools that may be used to attract, retain, motivate and satisfy employees’. Paul Thompson (2002) suggests that: ‘Definitions of total reward typically encompasses not only traditional, quantifiable elements like salary, variable pay and benefits, but also more intangible non-cash elements such as scope to achieve and exercise responsibility, career opportunities, learning and development, the intrinsic motivation provided by the work itself and the quality of working life provided by the organization.’

The conceptual basis of total rewards is that of configuration or ‘bundling’, so that different reward processes are interrelated, complementary and mutually reinforcing.

Total reward strategies are vertically integrated with business strategies, but they are also horizontally integrated with other Human Resource (HR) strategies to achieve internal consistency.

2.2 Relational Reward: Learning and Development, Work Environment.

A model of total reward developed by Perrin (2005) is shown in Figure 2.1 The upper two quadrants – pay and benefits – represent transactional rewards. These are financial in nature and are essential to recruit and retain staff but can be easily copied by competitors. By contrast, the relational (non-financial) rewards produced by the lower two quadrants are essential to enhancing the value of the upper two quadrants and they are less easy to imitate by competitors. The real power, as Thompson (2002) states, comes when organizations combine relational and transactional rewards. There are different approaches to total reward, and the choice is dependent on the core values of the organization. Consideration is given below to the main areas of relational or non-financial rewards as set out in the lower quadrants.

2.2.1 Learning and Development

These are the constituents of learning and development as shown in figure 2.1

2.2.2 Workplace learning

The workplace itself as an environment for learning can reward people by offering them

opportunities to develop their skills and therefore their employability. Learning can be intentional and planned, aimed at training employees by supporting, structuring and monitoring their learning on the job. But, significantly, learning is an everyday part of the job. People develop skills, knowledge and understanding through dealing with the challenges posed by their work. This can be described as continuous learning, and line managers can be encouraged and trained to enhance this process.

2.2.3 Training

The provision of systematic and planned instruction and development activities to promote learning can enable employees continually to upgrade their skills and progressively develop their careers. Many people now regard access to training as a key element in the overall reward package. The availability of learning opportunities, the selection of individuals for high-prestige training courses and programmes and the emphasis placed by the organization on the acquisition of new skills as well as the enhancement of existing ones can all act as powerful motivators. This is particularly important in delayered organizations where upward growth through promotion is restricted but people can still develop laterally.

2.2.4 Performance management

Performance management processes are a powerful means of providing relational rewards. They can be the basis for developing a positive psychological contract by clarifying the mutual expectations of managers and their staff. Motivation can be provided by feedback. Performance reviews can inform personal development planning, thus encouraging self-managed learning with the support as required of the manager and the organization.

2.2.5 Career development

Alderfer emphasized the importance of the chance to grow as a means of rewarding people and therefore motivating them. He wrote: 'Satisfaction of growth needs depends

on a person ability in finding the opportunity to be what he is most fully and to become what he can.' The organization can offer this opportunity by providing people with a sequence of experience and training that will equip them for whatever level of responsibility they have the ability to reach. Talented individuals can be given the guidance and encouragement they need to fulfil their potential and achieve a successful career in tune with their abilities and aspirations. Paths can be defined to map out how people can be rewarded by progressing in their careers. Rewarding people through career development is associated with the process of talent management, which deals with the recruitment and retention of talented people and their career progression but is also associated with providing rewards through the working environment.

2.3 Work environment

2.3.1 Core values of the organization

The significance of the core values of an organization as a basis for creating a rewarding
work environment was identified by the research conducted by John Purcell and his colleagues at Bath University. The most successful companies had what the researchers called ‘the big idea’. They had a clear vision and a set of integrated values, which were embedded, enduring, collective, measured and managed. They were concerned with sustaining performance and flexibility. Clear evidence existed between positive attitudes towards HR policies and practices, levels of satisfaction, motivation and commitment, and operational performance.

2.3.2 Leadership

Leaders play a vital role in reward management. They exist to get things done through people, ensuring that the task is achieved but also building and maintaining constructive and supportive relationships between themselves and members of their team and between the people within the group. They are there to motivate people and to obtain engaged performance. Leaders are the source of many relational rewards such as recognition through feedback, scope to carry out meaningful work and exercise responsibility and the opportunity to grow through workplace learning and training.

They are crucial to the success of performance management processes and may make or strongly influence contingent pay decisions.

2.3.3 Employee voice

As defined by Peter Boxall and John Purcell, 'Employee voice is the term increasingly used to cover a whole variety of processes and structures which enable, and sometimes empower employees, directly and indirectly, to contribute to decision making in the firm.' Having a voice in the affairs of the firm is rewarding because it recognizes the contribution people can make to the success of the organization or their team.

Employees can have a voice as an aspect of the normal working relationships between them and their managers and this is linked closely to the other relational reward factors inherent in those relationships, concerning recognition, achievement and responsibility. But the organization, through its policies for involvement, can provide motivation and increase commitment by putting people into situations where their views can be expressed, listened to and acted upon.

2.3.4 Recognition

Recognition is one of the most powerful methods of rewarding people. They need to know not only how well they have achieved their objectives or carried out their work but also that their achievements are appreciated. Recognition needs are linked to the esteem needs in Maslow's hierarchy of needs. These are defined by Maslow as the need to have a stable, firmly based, high evaluation of oneself (self-esteem) and to have the respect of others (prestige). These needs are classified into two subsidiary sets: first, 'the desire for achievement, for adequacy, for confidence in the face of the world, and for independence and freedom', and second, 'the desire for reputation or status defined as respect or esteem from other people, and manifested by recognition, attention, importance or appreciation'.

There are other forms of recognition such as public ‘applause’, status symbols of one kind or another, sabbaticals, treats, trips abroad and long-service awards, all of which can function as rewards. But they must be used with care. One person’s recognition implies an element of non-recognition to others, and the consequences of having winners and losers need to be carefully managed.

2.3.5 Achievement

The need to achieve applies in varying degrees to all people in all jobs, although the level at which it operates will depend on the orientation of the individual and the scope provided by the work to fulfil a need for achievement. People feel rewarded and motivated if they have the scope to achieve as well as being recognized for the achievement. University researchers, for example, want to enhance their reputation as well as making a significant contribution to their institution’s research rating.

If achievement motivation is high, it will result in discretionary behaviour. As defined by Purcell *et al*, ‘Discretionary behaviour refers to the choices that people make about how they carry out their work and the amount of effort, care, innovation and productive behaviour they display. It is the difference between people just doing a job and people doing a great job.’ Self-discretionary or self-motivated behavior occurs when people take control of situations or relationships, direct the course of events, create and seize opportunities, enjoy challenge, react swiftly and positively to new circumstances and relationships, and generally ‘make things happen’. People who are driven by the need to achieve are likely to be proactive, to seek opportunities and to insist on recognition.

2.3.6 Job design and role development

Job design has two aims: first, to meet the needs of the organization for operational efficiency, quality of product or service and productivity. Secondly, to reward individuals by satisfying their needs for meaningful work that provides for interest, challenge and accomplishment. However, job design is not a static process. The roles people play at work develop as they respond to opportunities and changing demands, acquiring new skills and developing competencies. Managers and members of their teams have to work together to achieve mutual understanding of expectations as they change and to ensure that the role continues to provide intrinsic motivation from the work itself (the most powerful form of motivation).

2.3.7 Quality of working life

Rewards can be provided by the working environment if it improves the quality of working life. This is a matter of how the work is organized and the type of facilities provided as well as the design of the job or role. For example, research workers may feel well rewarded when they have excellent laboratory or other facilities that they can
use to deliver exciting results.

2.3.8 Work/life balance

Work/life balance policies can reward people by recognizing their needs outside work environment, for example, providing more flexible working arrangements and making it clear that people will not be rewarded simply because they stay on after normal finishing time. It’s what they deliver that counts, not how long they work.

2.3.9 Talent management

Talent management is about ensuring that the organization attracts, retains, motivates and develops talented people it needs. It is associated with a number of other relational reward processes such as designing jobs and developing roles that give people opportunities to apply and grow their skills and provide them with autonomy, interest and challenge. It is also concerned with creating a working environment in which work processes and facilities enable rewarding (in the broadest sense) jobs and roles to be designed and developed.

Talent management also means developing reward processes and a working environment that ensure that the organization is one for which people want to work – an 'employer of choice'. There is a desire to join the organization and, once there, to want to stay. Employees are committed to the organization and engaged in the work they do.

Becoming an employer of course starts with developing the image of the organization so that it is recognized as one that achieves results, delivers quality products and services, behaves ethically and provides good conditions of employment. Organizations with a clear vision and a set of integrated and enacted values are likely to project themselves as being rewarding to work for.

3.0 CONCLUSION

The discussion in this unit took us through the philosophical nature of total reward system. We also attempted to discuss the constitueints of learning and development in our 21st century organizations. Finally, effort was made in explaining the benefits of having a good work balance policies and a sound talent management system in any organizational setting.

4.0 SUMMARY

In this unit, we treated the nature of total reward system, its various components and ways to achieve an effective and efficient training and development programs in our modern organizations

UNIT 2 THE CONTEXT OF TOTAL REWARD

CONTENT

1.0 INTRODUCTION

Reward management takes place within the context of the internal (corporate) and external environments. These can exert considerable influence on reward strategy and policies as described in this chapter. Reward policies cannot be designed, considered, or operated independently of their operational environment. The approach to reward between organizations differs considerably and there are no universally effective or ineffective reward practices.

2.0 MAIN CONTENT

2.1 Concept of Total Reward

As earlier discussed in our introduction, Reward management takes place within the context of the internal (corporate) and external environments. These can exert considerable influence on reward strategy and policies as described in this chapter. Reward policies cannot be designed, considered, or operated independently of their operational environment. The approach to reward between organizations differs considerably and there are no universally effective or ineffective reward practices.

The diversity of people working in highly varied organizations and settings explains the reasons for it. Best fit is what organizations have to strive for when formulating reward strategies, although, to a degree, ‘fit’ can be forced upon them by the circumstances in which they operate and the type of people they employ. The Context of total reward can be analysed from Internal and External Environments.

2.1.1 Internal Environment

Reward policy and practice will be affected by the characteristics of the organization with regard to its purpose, products and services, processes, sector (private, public, voluntary or not-for-profit) and, importantly, culture, which is influenced by all the other characteristics. The internal environment can be influenced by the following:

2.1.1.1 Culture of the Organisation

The culture of the organization can make a significant impact on reward management policy and practice. Corporate or organizational culture consists of shared values, norms, attitudes and assumptions, which influence the way people act and the way things get done. It is significant because it is rooted in deeply held beliefs and reflects what has worked in the past. A positive culture can work for an organization by creating an enabling environment to performance improvement, the management of change and a sense of belonging and unity of purpose. It can help to shape behaviour by giving direction on what is expected. The wrong culture can work against an organization by erecting barriers that can inhibit the attainment of reward strategic objectives. Some of these barriers include resistance to change and lack of commitment.

In reward management, the most important aspect of culture that needs to be taken into account is the core values of the organization. Values are expressed in beliefs as to what is best for the organization and what sort of behaviours are desirable. The 'value set' of an organization may be recognized only at top level, or it may be shared throughout the firm, so that the enterprise can be described as 'value-driven'. The stronger the values, the more they will affect behavior. Values are concerned with such matters as care and consideration for people, the belief that employees should be treated as stakeholders, employee involvement, equity in the treatment of employees, equal opportunity, care for customers, innovation, quality, social responsibility and teamwork.

These values may influence policies in such areas as performance management, paying for contribution, resolving the often competing pressures for internal equity and external competitiveness, the equity and 'transparency' of reward arrangements and the extent to which employees are involved in the development of reward processes and structures. They should be taken into account in determining the criteria to be used in reviewing performance and rewarding people for their contribution.

2.1.1.2 The business of the organization

The business of the organization – manufacturing, profit-making service, not-for profit services, public sector services, education – will govern its ethos and therefore core values. It will influence the type of people it employs and the degree to which it is subject to turbulence and change. All these factors will contribute to the reward strategy. For instance, in the public and voluntary sector the of paying service-related increments rather than progressing pay according to performance or contribution dies hard, although successive governments have driven the adoption of performance pay in the Civil Service.

2.1.1.3 Technology

The technology of a business exerts a major influence on the internal environment – how work is organized, managed and carried out. The introduction of new technology may result in considerable changes to systems and processes. Different skills are required; new methods of working and therefore rewards are developed. The result may be an extension of the skill base of the organization and its employees, including the use of knowledge and expertise, and multiskilling (ensuring that people have a range of skills that enable them to work flexibly on a variety of tasks, often within a team working environment). Traditional piecework payment systems in manufacturing industry have been replaced by higher fixed pay and rewards focused on quality and employee teamwork.

2.1.1.4 Organization's Business Strategy

When the business is going (the business strategy) determines where reward should go (the reward strategy). Merging reward and business strategies means combining them as a whole so that they contribute effectively to achieving the mission or purpose of the organization. The process of linking strategies is the best way of achieving vertical integration, or 'internal fit', in the sense that business and reward strategies are in harmony. It is necessary to see that reward goals are aligned with business goals and reward strategies are defined in a way that spells out how they will contribute to the achievement of the business plan. Business strategies change and as Nicki Demby, remarked: 'This is a key issue. This changes reward strategy.' Put simply, she said, 'Your organization's fundamental purpose may be revised. Major long-term goals in terms of outcomes and achievement of performance objectives may change. As a result, what your organization has to be good at doing to fulfil its mission and achieve its strategic goals will need refining.' The company's underlying thinking here is that the people strategy is not for the human resource function to own but is the responsibility of the whole organization, hence the title Organization and People Strategy.

2.1.1.5 People Employed in the Organisation

The type of people employed and therefore the approach to reward will clearly be dependent on the type of business and its technology, for example the growing importance of 'knowledge workers'. But what has become increasingly recognized by management is that 'people make the difference' and that unique competitive advantage is achieved by having better people who are capable of doing better things than those in other businesses. The aim is to acquire, develop, motivate and retain people who possess distinctive capabilities (competencies) that arise from the nature of the firm's activities and relationships. As Nicki Demby, formerly Performance and Reward Director at Diageo, observed to e-reward: 'It is our people who deliver our performance, which is why "release the potential of every employee" is at the heart of our growth strategy. Alongside what we deliver, every bit as important is *how* we deliver. Our people are judged against global leadership capabilities: edge, emotional energy, ideas, people performance, and living the values.'

2.1.1.6 The view of workers in the Organisation

Reward management policies should take into account the aspirations, expectations and needs of employees as stakeholders in the organization. Consideration has also to be given to the needs or views of other stakeholders, especially owners in the private sector and governments, local authorities and trustees elsewhere. Employee involvement is crucial to the development of reward policies and programmes. The wishes of employees need to be ascertained. Their comments on existing practices should be listened to and acted upon. They should be involved in the development of new reward processes, for example job evaluation, performance management and contingent pay. They should continue to be involved in the implementation and evaluation of these processes.

2.1.2 The External Environment

The external environment in the shape of globalization, increased competition, government interventions, the industrial relations scene and the characteristics of the organization's sector can all influence reward policies and practices. The external environment can be seen from the following:

2.1.2.1 Globalization

Globalization entails organizations moving people, ideas, products and information around the world to meet local needs. Traditionally, discussions of international reward strategies and practices have tended to focus on an elite of expatriate workers, sourced from headquarter locations and rewarded in isolation from local country staff. We are now seeing a more diverse and complex pattern emerging, requiring a much more strategic approach.

2.1.2.2 Employment Records

An increasing demand for skills and qualifications is taking place, especially for managerial and professional workers, knowledge workers, customer service staff, technical and office staff and skilled manual workers. This, coupled with the skill shortages associated with low levels of unemployment, influences reward strategies designed to attract and retain people.

2.1.2.3 Pay rate in Market place

The external environment exerts a major influence on rates of pay and pay reviews within organizations. Market or going-rate levels and movements have to be taken into account by organizations if they want their pay to be competitive. Some organizations are affected by national agreements with trade unions.

2.1.2.4 Demographic Trends

One of the most important factors that reward and HR strategies have to address for the future is demographic change. Birth rates throughout the developed world have been falling in recent decades, and this has been paralleled by declining mortality rates and increasing longevity. Just as traditional labour pools are shrinking, traditional reward practices and mindsets have been further reducing on employment, with early retirement through defined benefit pensions arrangements in the 1990s helping to explain falls in the average age of retirement for both men and women. The UK faces a long-term pension 'crises as the ratio of the retired to the working population increases. Individual companies such as British Airways and BAe Systems has produced major deficits in traditional defined benefits pensions plan, which represent a significant proportion of the market value of the firm. Industrial action in public and private sectors has resulted from employers trying to change pension arrangements to address these deficits. As Armstrong and Brown emphasize: 'Resourcing and reward strategies which are heavily focused on either recruiting young "dynamic" staff and getting rid of "old" employees at a fixed retirement date or before; or the opportunistic poaching of staff with the requisite skills and experience from competitors, are therefore becoming increasingly outdated and undesirable from both an employer and national perspective.'

2.3 The Voluntary not for profit sectors.

The voluntary and not-for-profit sectors are very diverse and it is difficult to detect any general trends in the development of pay systems. Most of the big charities have traditionally adopted public sector schemes with pay spines consisting of service related incremental scales. In recent years, however, a number of the larger charities and housing associations have introduced broad-banded structures and some form of contribution pay. In two examples (the Peabody Trust and the Shaw Trust) the contribution pay scheme has involved an arrangement of four or five steps to a target rate or reference point with progression based on competence. Above the target rate, bonuses are given for special achievements, which can be consolidated if the high level of achievement is sustained.

Other external environmental factors include; Local Government Scene, the national government scene, and the national industrial scene.

3.0 CONCLUSION

The discussion in this unit took us through the philosophical context of total reward system. We also attempted to discuss internal and external factors affecting reward system in our modern organizations.

4.0 SUMMARY

In this unit, we treated the context of total reward system and those environmental factors that may affect a sound reward system in our organizations.

UNIT 3 REASONS AND PRINCIPLES FOR STRATEGIC REWARD

CONTENT

1.0 INTRODUCTION

In the words of Duncan Brown, strategic reward 'is ultimately a way of thinking that you can apply to any reward issue arising in your organization, to see how you can create value from it'.

2.0 MAIN CONTENT

2.1 Reasons for Strategic Reward

As highlighted in our introduction, Duncan Brown sees strategic reward 'as ultimately a way of thinking that you can apply to any reward issue arising in your organization, to see how you can create value from it'. More specifically, there are four arguments for adopting a strategic approach to reward management:

1. 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 (if you ever do)?
2. As Cox and Purcell explain, 'the real benefit in reward strategies lies in complex linkages with other human resource management policies and practices'. Isn't this a good reason for developing a reward strategic framework that indicates how reward processes will be aligned to HR processes so that they are coherent and mutually supportive?
3. There can be a positive relationship between rewards, in the broadest sense, and performance, so shouldn't we think about how we can strengthen that link?
4. Pay costs in most organizations are by far the largest item of expense – they can be 60 per cent and often much more in a labor-intensive organizations – so doesn't it make sense to think about how they should be managed and invested in the longer term?

2.2 Principles of Strategic Reward

The guiding principles should incorporate or be influenced by general beliefs about fairness, equity, consistency and transparency. Reward strategies in the past have sometimes focused exclusively on business needs and alignment. Yet unless employees see and experience fairness and equity in their rewards, the strategy is unlikely to be delivered in practice. The following are the principles of strategic reward:

- Align reward strategies with the business and HR strategy.
- Value employees according to their competence and contribution.
- Align reward policies with the culture of the organization and use them to underpin that culture and, as required, help to change it.
- Reward people according to what the organization values and is prepared to pay for.
- Adopt an integrative approach that ensures that no innovations take place and no practices are changed without considering how they relate to other aspects of human resource management so that they can become mutually supportive.
- Provide managers with the authority and skills needed to use rewards to help achieve their goals, but ensure that they are given the training, guidance and continuing support required to develop and use these skills well.
- Ensure that reward processes are transparent and that staff are treated as Stakeholders.

3.0 CONCLUSION

The discussion in this unit elaborately explained the reasons and principles needed for a strategic and sound reward system.

4.0 SUMMARY

In this unit, we treated the reasons and principles behind a strategic reward system in our 21st modern day organizations.

UNIT 4 ADVANTAGES AND DISADVANTAGES OF TOTAL REWARD

CONTENT

1.0 INTRODUCTION

Every human activity is backed or opposed by advantages and disadvantages, so is the case of reward system in our organizations. The various advantages among others include improvement in employee commitment to an organization, promotion of flexibility in pay delivery, etc. while the negative sides are; time consumption, the saying and not doing syndrome.

2.0 MAIN CONTENT

2.1 Advantages of Total Rewards

A typical organization believes that a total reward programme offers substantial benefits. These are:

- improved recruitment, arising from a quantified total employment package;
- improving employees' perception of the value of their reward package;
- supporting the objective of becoming an 'employer of choice';
- increased organizational performance through greater workforce commitment and motivation;
- mixing extrinsic and intrinsic rewards to encourage employees' discretionary effort;
- promoting flexibility in pay delivery;
- helping manage costs and maximize the return on the investment in HR;
- Reallocating reward to match individual employee needs.

2.2 Disadvantages of Total Reward

As important as Total reward, there are certain formidable stumbling blocks in delivering this reward strategy, which include the following:

- It is easier to believe that total reward strategy is a good thing than to put it into practice;

- The cost of some intangible rewards is not quantifiable, and hence it is difficult to make a business case;
- Developing total reward is time-consuming – it may take months to plan and Implement;

Implementation and management require full support from the management team – they are not something done by HR department of the business.

3.0 CONCLUSION

The discussion in this unit elaborately explained the advantages and disadvantages of a total reward system. The various advantages among others include improvement in employee commitment to an organization, promotion of flexibility in pay delivery, etc. while the negative sides are; time consumption, the saying and not doing syndrome

4.0 SUMMARY

In this unit, we highlighted various advantages and disadvantages of a total reward system in our 21st modern day organizations

5.0 TUTOR-MARKED ASSIGNMENT

1. In your own words, what do you understand by Total Reward?
2. Total reward combines the impact of two major categories of reward. Discuss
3. List and explain the different approaches to total reward
4. Learning and development is made up of some components. List and discuss

5. There are two major environments that may affect reward system. Discuss the components of those environment
6. What do you think are the basic reasons for incorporating a reward system in our modern organizations?

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Module 3

Unit 1 Concepts and types of motivation

Unit 2 Theories of motivation

Unit 3 Motivation and financial incentives as they affect reward

Unit 4 Motivation, Job satisfaction and Performance

Unit 1 Concepts and types of motivation

CONTENT

1.0 Introduction
2.0 Main Content
    2.1 Concept of Motivation
    2.2 Types of Motivation

1.0 INTRODUCTION

One of the most fundamental concerns of reward management is how high levels of performance can be achieved by motivating people. The development of a performance culture is a typical aim of reward strategy. It is therefore necessary to understand the factors that motivate people and how, in the light of these factors, reward processes and practices can be developed that will enhance motivation, job engagement, commitment and positive discretionary behaviour. Motivation theories provide essential guidance on the practical steps required to develop effective reward systems (there is nothing so practical as a good theory). This unit examines the process of motivation and those theories that influence reward. The relationship between money and motivation is then considered, and the Unit ends with an analysis of how motivation theory can be put to good use. Approaches to achieving engagement and commitment are considered.

2.0 MAIN CONTENT

2.1 Concept of Motivation

A motive is a reason for doing something – for moving in a certain direction. People are motivated when they expect that a course of action is could to lead to the attainment of a goal – a valued reward that satisfies their particular needs. Well-motivated people are those with well-defined goals who take action that they expect will achieve those goals.

Some of the common theorists such as Maslow (1954) and Herzberg et al., (1967), have been established. But it cannot be assumed that these are present at any moment to the same extent or even present at all in all the members of a population such as the employees of an organization. It is a cliché to say that all people are different but it is none the less true, and it is a truth that organizations sometimes fail to appreciate when they assume, for example, that all their employees will be motivated to the same degree by money.

2.2 Types of Motivation

Rewards serve many purposes in an organization. They serve to build a better employment deal, hold on to good employees and to reduce employee turnover. The principal goal is to increase people's willingness to work in one's company, to enhance their productivity. Most people assimilate "rewards", with salary raise or bonuses, but this is only one kind of reward, extrinsic reward. Studies proves that salespeople prefer pay raises because they feel frustrated by their inability to obtain other rewards, but this behavior can be modified by applying a complete reward strategy.

There are two kinds of motivations:

2.2.1 Extrinsic Motivation.

These involves the things done to people in an organization in order to motivate them. These are:

A. **Salary** raise. Is achieved after hard work and effort of employees, attaining and acquiring new skills or academic certificates and as appreciation for employee's duty (yearly increments) in an organization. This type of reward is beneficial for the reason that it motivates employees in developing their skills and competence which is also an investment for the organization due to increased productivity and performance. This type of reward offers long-term satisfaction to employees. Nevertheless, managers must also be fair and equal with employees serving the organization and eliminate the possibility of adverse selection where some employees can be treated superior or inferior to others.

B. **Promotion**: Quite similar to the former type of reward. Promotions tend to effect the long-term satisfaction of employees. This can be done by elevating the employee to a higher stage and offering a title with increased accountability and responsibility due to employee efforts, behaviour and period serving a specific organization. This type of reward is vital for the main reason of redundancy and routine. The employee is motivated in this type of reward to contribute all his efforts in order to gain managements trust and acquire their delegation and responsibility. The issue revolved around promotion is adverse selection and managers must be fair and reasonable in promoting their employees.

C. **Bonuses:** Usually annually, Bonuses motivates the employee to put in all endeavours and efforts during the year to achieve more than a satisfactory appraisal that increases the chance of earning several salaries as lump sum. The scheme of bonuses varies within organizations; some organizations ensure fixed bonuses which eliminate the element of asymmetric information, conversely, other organizations deal with bonuses in terms of performance which is subjective and may develop some sort of bias which may discourage employees and create setback. Therefore, managers must be extra cautious and unbiased.

D. **Gifts**: Are considered short-term. Mainly presented as a token of appreciation for an achievement or obtaining an organizations desired goal. Any employee would appreciate a tangible matter that boosts their self-esteem for the reason of recognition and appreciation from the management. This type of reward basically provides a clear vision of the employee's correct path and motivates employee into stabilizing or increasing their efforts to achieve higher returns and attainments.

2.2.2 Intrinsic Motivation.

This was defined by Herzberg as motivation through the work itself. This happens when people feel that the work they do is interesting, challenging, and important, and involves exercising responsibility, autonomy or freedom to act, as well as abilities and opportunity to develop and use skills for advancement and growth. Below are some of the components of intrinsic motivation:

A. **Information / feedback**: Also a significant type of reward that successful and effective managers never neglect. This type of rewards offers guidance to employees whether positive (remain on track) or negative (guidance to the correct path). This also creates a bond and adds value to the relationship of managers and employees.

B. **Recognition**: Is recognizing an employee's performance by verbal appreciation. This type of reward may take the presence of being formal for example meeting or informal such as a "pat on the back" to boost employees' self-esteem and happiness which will result in additional contributing efforts.

C. **Trust/empowerment**: in any society or organization, trust is a vital aspect between living individuals in order to add value to any relationship. This form of reliance is essential in order to complete tasks successfully. Also, takes place in empowerment when managers delegate tasks to employees. This adds importance to an employee where his decisions and actions are reflected. Therefore, this reward may benefit organizations for the idea of two minds better than one.

Intrinsic rewards make the employee feel better in the organization, while Extrinsic rewards focus on the performance and activities of the employee in order to attain a certain outcome. The principal difficulty is to find a balance between employees' performance (extrinsic) and happiness (intrinsic).

The reward also needs to be according to the employee’s personality. For instance, a sports fan will be really happy to get some tickets for the next big match. However, a mother who passes all her time with her children, may not use them and therefore they will be wasted.

When rewarding one, the manager needs to choose if he/she wants to rewards an Individual, a Team or the whole Organization. One will choose the reward scope in harmony with the work that has been achieved

3.0 CONCLUSION

The discussion in this unit elaborately explained those factors that can motivate an employee to put in his/her best. This factors were grouped into intrinsic and extrinsic factors.

4.0 SUMMARY

In this unit, we highlighted various factors capable of motivating an employee to put in his or her best into the organization.

Unit 2 Theories of Motivation

CONTENT

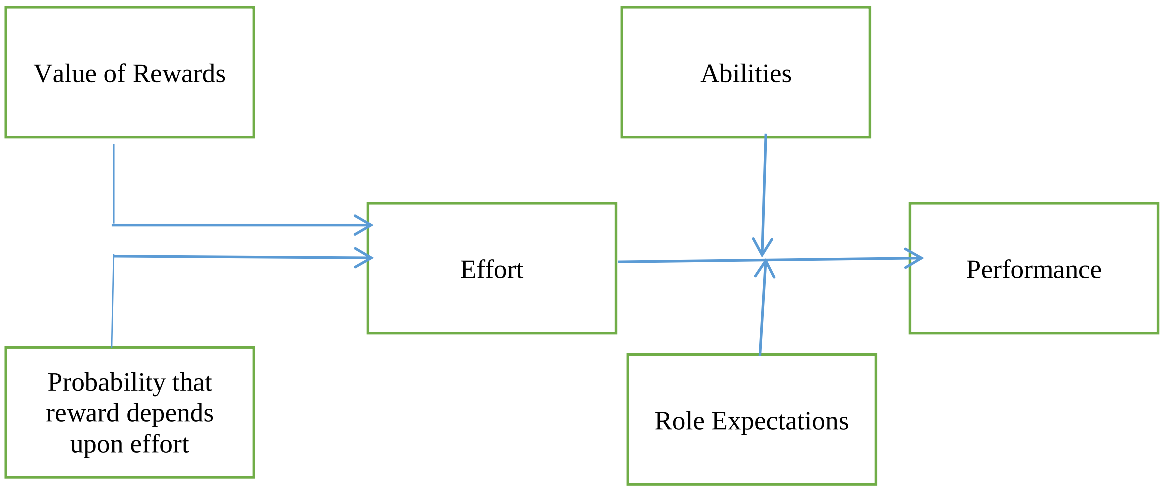
1.0 INTRODUCTION

This unit will discuss the various theories of motivation such as Instrumentality theory, the Need/content theory, Herzberg's two-factor model, Cognitive theory and Expectancy theory among others.

2.0 MAIN CONTENT

2.1 Theories of Motivation

The process of motivation as described above is broadly based on a number of motivation theories that attempt to explain in more detail what it means. The main theories as described below are:



Source: Porter & Lawler (1968)
Figure 3.1 Motivation Model

2.1.1 Instrumentality theory.

'Instrumentality' is the belief that if we do one thing it will lead to another. In its crudest form, instrumentality theory states that people work only for money. The theory emerged in the second half of the 19th century, when the emphasis was on the need to rationalize work and to concentrate on economic outcomes. It assumes that people will be motivated to work if rewards and penalties are tied directly to their performance. Instrumentality theory has its roots in the scientific management methods of Taylor, who wrote: 'It is impossible, through any long period of time, to get workmen to work much harder than the average men around them unless they are assured a large and permanent increase in their pay.' This belief is often described as 'Taylorism'.

Instrumentality theory is based on the principle of reinforcement, which states that, with experience in taking action to satisfy needs, people perceive that certain actions help to achieve their goals while others are less successful. Success in achieving goals and rewards therefore acts as a positive incentive and reinforces the behaviour, which is repeated the next time a similar need emerges. Conversely, failure or punishment provides negative reinforcement, suggesting the need to seek alternative means of achieving goals. This process has been called the law of effect.

Motivation using this approach has been and still is widely adopted and can be successful in some circumstances. But it is based exclusively on a system of external controls and fails to recognize a number of other human needs. Nor does it take account of the fact that the formal control system can be seriously affected by the informal relations between workers.

2.1.2 The Need/content theory

This is also called the need theory. The basis of this theory is the belief that an unsatisfied need creates tension and disequilibrium. To restore the balance a goal is identified that will satisfy the need, and a behaviour pathway is selected that will lead to the achievement of the goal. All behaviour is therefore motivated by unsatisfied needs. Not all needs are equally important to a person at any one time. Some may constitute a more powerful drive towards a goal than others, depending on the individual's background and situation. Complexity is increased because there is no simple relationship between needs and goals. The same need could be satisfied by a number of different goals. The stronger the need and the longer its duration, the broader the range of possible goals. At the same time, one goal may satisfy a number of needs. A new car provides transport as well as an opportunity to impress the neighbours.

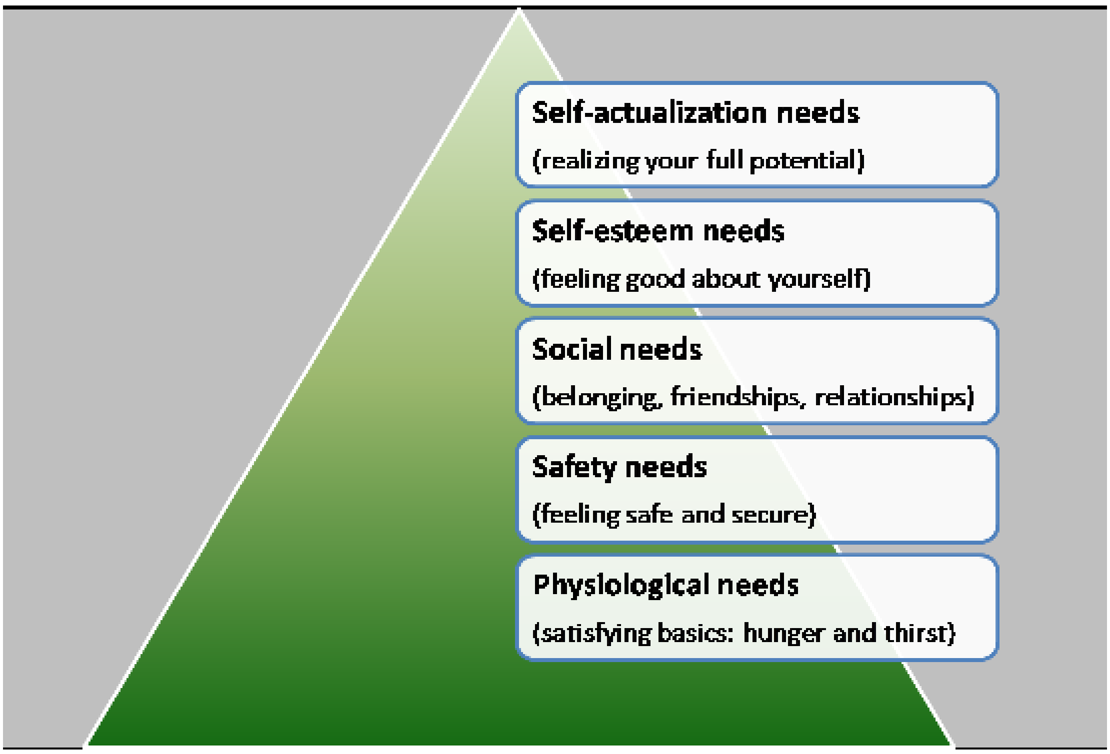


Figure 3.2 Maslow Hierarchy of needs theory

The best-known contributor to needs theory is Maslow. He is considered to be the father of Humanistic Psychology, also known as the “Third Force”. Humanistic Psychology incorporates aspects of both Behavioral Psychology and Psychoanalytic Psychology. Behaviorists believe that human behavior is controlled by external environmental factors. Psychoanalytic Psychology is based on the idea that human behavior is controlled by internal unconscious forces. Though he studied both Behavioral and Psychoanalytic Psychologies, Maslow rejected the idea that human behavior is controlled by only internal or external forces. Instead, Maslow’s motivation theory states that man’s behavior is controlled by both internal and external factors. In addition, he emphasizes that humans have the unique ability to make choices and exercise free-will. He formulated the concept of a hierarchy of needs, which start from the fundamental physiological needs and lead through safety, social and esteem needs to the need for self-fulfillment, the highest need of all. He said that ‘man is a wanting animal’; only an unsatisfied need can motivate behaviour, and the dominant need is the prime motivator of behaviour. Maslow showed little interest in animal or laboratory studies of human behavior. He chose instead to collect data for his theories by studying outstanding individuals.

His studies led him to believe that people have certain needs which are unchanging and

genetic in origin. These needs are the same in all cultures and are both physiological and psychological. Maslow described these needs as being hierarchal in nature, meaning that some needs are more basic or more powerful than others and as these needs are satisfied, other higher needs emerge.

This is the best-known theory of needs, but it has never been verified by empirical research.

2.1.3 Understanding Maslow's Needs Hierarchy

To understand Maslow's thinking it's worth noting some of his main assertions:

- ❖ Broadly, as one set of needs is met, the next level of needs become more of a motivator to an individual.
- ❖ A satisfied need is not a motivator.
- ❖ Only unsatisfied needs motivate an individual. We have an innate desire to work our way up the hierarchy, pursuing satisfaction in higher order needs.
- ❖ Self-actualization stimulates a desire for more due to what Maslow explained as "peak experiences".

2.1.4 Herzberg's Two-Factor Model

To understand employees' attitudes and motivation, Herzberg undertook studies to determine which factors in an employee's work environment caused satisfaction and/or dissatisfaction. His findings were published in the 1959 book The Motivation to Work. The studies included interviews in which employees where asked what pleased and displeased them about their work.

Herzberg found that the factors causing job satisfaction (and presumably motivation) were different from those causing job dissatisfaction. He developed the motivation-hygiene theory to explain these results. He called the satisfiers motivators and the dissatisfies hygiene factors, using the term "hygiene" in the sense that they are considered maintenance factors that are necessary to avoid dissatisfaction but that by themselves do not provide satisfaction. The following table presents the top six factors causing dissatisfaction and the top six factors causing satisfaction, listed in the order of higher to lower importance. Herzberg's two-factor model theory states that the factors giving rise to job satisfaction (and motivation) are distinct from the factors that lead to job dissatisfaction. It is sometimes called the motivation–hygiene theory. There are two groups of factors. The first consists of the satisfiers or motivators, which are intrinsic to the job. These include achievement, recognition, the work itself, responsibility and growth. The second group comprises what Herzberg calls the 'dissatisfaction avoidance' or 'hygiene' factors, which are extrinsic to the job and include pay, company policy and administration, personal relations, status and security. These cannot create satisfaction but, unless preventive action is taken, they can cause dissatisfaction. He also noted that any feeling of satisfaction resulting from pay increases was likely to be short-lived compared with the long-lasting satisfaction from the work itself. One of the key conclusions derived from the research is therefore that pay is not a motivator, except in the short term, although unfair payment systems can lead to demotivation.

Herzberg's two-factor model draws attention to the distinction between intrinsic and extrinsic motivators, and his contention that the satisfaction resulting from pay increases do not persist has some face validity. But his research and the conclusions he reached have been attacked – first because, it is asserted, the original research is flawed and fails to support the contention that pay is not a motivator, and secondly because no attempt was made to measure the relationship between satisfaction and performance. As Guest (1992) has written: 'Many managers' knowledge of motivation has not

advanced beyond Herzberg and his generation. This is unfortunate. Their theories are now over thirty years old. Extensive research has shown that as general theories of motivation the theories of Herzberg and Maslow are wrong. They have been replaced by more relevant approaches.'

2.1.4.1 Implications of the Theory for Management

If the motivation-hygiene theory holds, management not only must provide hygiene factors to avoid employee dissatisfaction, but also must provide factors intrinsic to the work itself in order for employees to be satisfied with their jobs. Herzberg argued that job enrichment is required for intrinsic motivation, and that it is a continuous management process. According to Herzberg:

- ❖ The job should have sufficient challenge to utilize the full ability of the employee.
- ❖ Employees who demonstrate increasing levels of ability should be given increasing levels of responsibility.
- ❖ If a job cannot be designed to use an employee's full abilities, then the firm should consider automating the task or replacing the employee with one who has a lower level of skill. If a person cannot be fully utilized, then there will be a motivation problem. Critics of Herzberg's theory argue that the two-factor result is observed because it is natural for people to take credit for satisfaction and to blame dissatisfaction on external factors.

Furthermore, job satisfaction does not necessarily imply a high level of motivation or productivity. Herzberg's theory has been broadly read and despite its weaknesses its enduring value is that it recognizes that true motivation comes from within a person and not from KITA factors

2.1.5 Cognitive Theory

This is also referred to as the Process theory. Cognitive theory suggested first that external factors such as tangible rewards, deadlines (Amabile, DeJong, & Lepper, 1976), surveillance, and evaluations tend to diminish feelings of independence on the employee, prompt a change in perceived locus of causality from internal to external, and undermine intrinsic motivation. However, some external factors like providing choice about aspects of task engagement tend to enhance feelings of autonomy, prompt a shift in PLOC from external to internal, and increase intrinsic motivation (Zuckerman et al., 1978). Cognitive Theory further suggested that feelings of competence as well as feelings of autonomy are important for intrinsic motivation. Studies showed that optimally challenging activities were highly intrinsically motivating (e.g., Danner & Lonky, 1981) and that positive feedback (Deci, 1971) facilitated intrinsic motivation by promoting a sense of competence when people felt responsible for their successful performance (Fisher, 1978; Ryan, 1982). Furthermore, negative feedback which decreased perceived competence was found to undermine both intrinsic and extrinsic motivation, leaving people not motivated (Deci & Ryan, 1985a). Underlying these CET propositions was the assumption that people need to feel autonomous and competent, so social-contextual factors that promote feelings of autonomy and competence enhance intrinsic motivation, whereas factors that diminish these feelings undermine intrinsic motivation, leaving people either controlled by contingencies or amotivated. Spirited debate ensued concerning both the undermining effect and Cognitive theory, leading to numerous laboratory experiments and field studies intended to support, refine, extend, or refute the undermining effect and Cognitive Theory. Eventually, a meta-analysis of 128 laboratory experiments confirmed that, whereas positive feedback enhances intrinsic motivation, tangible rewards significantly undermine it (Deci, Koestner, & Ryan, 1999).

Cognitive theories are known as process theories because they describe the psychological processes or forces that affect motivation, as well as basic needs. The term ‘cognitive theory’ is used because it refer to people’s perception of their working environment and the ways in which they interpret and understand it. Process theory can be more useful to managers than needs theory because it provides more realistic guidance on motivation techniques.

2.1.5.1 Criticism of the Theory

The undermining of intrinsic motivation by extrinsic rewards and the Cognitive Theory account of that phenomenon received attention in the organizational literature in the 1970s and early 1980s, leading to Cognitive Theory being referred to as one of seven traditional theories of motivation in organizations. This acceptance soon waned. Some of these reasons are:

- Most studies that tested Cognitive Theory were laboratory experiments rather than organizational studies.
- It was difficult to incorporate CET propositions into the prevalent behavioral and expectancy valence approaches.
- More practically, many activities in work organizations are not intrinsically interesting and the use of strategies such as participation to enhance intrinsic motivation is not always feasible.
- most people who work have to earn money, so using monetary rewards as a central motivational strategy seems practical and appealing.
- Cognitive Theory seemed to imply that managers and management theorists would have to focus on one or the other i.e. either on promoting intrinsic motivation through participation and empowerment while minimizing the use of extrinsic factors or, alternatively, on using rewards and other extrinsic contingencies to maximize extrinsic motivation while ignoring the importance of intrinsic motivation

- The Concepts of internalization (Ryan, Connell & Deci 1985), which directly addresses the last of the above critiques of Cognitive Theory and also has implications for some of the others. Internalization refers to ‘taking in’ a behavioral regulation and the value that underlies it (Gagne & Deci, 2005).

2.1.6 Expectancy Theory

Expectancy theory proposes that a person will decide to behave or act in a certain way because they are motivated to select a specific behavior over other behaviors due to what they expect the result of that selected behavior will be. In essence, the motivation of the behavior selection is determined by the desirability of the outcome. However, at the core of the theory is the cognitive process of how an individual processes the different motivational elements. This is done before making the ultimate choice. The outcome is not the sole determining factor in making the decision of how to behave. Expectancy theory is about the mental processes regarding choice, or choosing. It explains the processes that an individual undergoes to make choices. In the study of organizational behavior, expectancy theory is a motivation theory first proposed by Victor Vroom of the Yale School of Management. This theory emphasizes the needs for organizations to relate rewards directly to performance and to ensure that the rewards provided are those rewards deserved and wanted by the recipients. Victor H. Vroom (1964) defines motivation as a process governing choices among alternative forms of voluntary activities, a process controlled by the individual. The individual makes choices based on estimates of how well the expected results of a given behavior are going to match up with or eventually lead to the desired results. Motivation is a product of the individual’s expectancy that a certain effort will lead to the intended performance, the instrumentality of this performance to achieving a certain result, and the desirability of this result for the individual, known as valence.

The core process theory is expectancy theory. As Guest notes, most other approaches adapt or build on it. The concept of expectancy was originally contained in the valency– instrumentality–expectancy (VIE) theory formulated by Vroom (1964). Valency stands for value, instrumentality is the belief that if we do one thing it will lead to another, and expectancy is the probability that action or effort will lead to an outcome.

The strength of expectations may be based on past experience (reinforcement), but individuals are frequently presented with new situations – a change of job, payment system or working conditions imposed by management – where past experience is an inadequate guide to the implications of the change. In these circumstances, motivation
may be reduced. Motivation is likely only when a clearly perceived and usable relationship exists between performance and outcome, and the outcome is seen as a means of satisfying needs. This explains why extrinsic financial motivation – for example, an incentive or bonus scheme – works only if the link between effort and reward is understood (there is a clear ‘line of sight’) and the value of the reward is worth the effort. It also explains why intrinsic motivation arising from the work itself can be more powerful than extrinsic motivation. Intrinsic motivation outcomes are more under the control of individuals, who can judge from past experience the extent to which advantageous results are likely to be obtained by their behaviour.

This theory was developed by Porter and Lawler into a model that follows Vroom’s ideas by suggesting that there are two factors determining the effort people put into their jobs:

1. the value of the reward to individuals in so far as they satisfy their need for security, social esteem, autonomy and self-actualization; and
2. The probability that reward depends on effort, as perceived by individuals – in other words, their expectations of the relationship between effort and reward. Thus, the greater the value of a set of rewards, and the higher the probability that receiving each of these rewards depends upon effort, the greater the effort that will be made in a given situation. But, as Porter and Lawler emphasize, mere effort is not enough. It has to be effective effort if it is to produce the desired performance.

The two variables additional to effort that affect task achievement are:

a. **ability** – individual characteristics such as intelligence, manual skills and know-how; and
b. **Role perceptions** – what individuals want to do or think they are required to do. Role perceptions are good from the viewpoint of the organization if they correspond with what it thinks the individual ought to be doing. They are poor if the views of the individual and the organization do not coincide.

2.1.6.1 Major Elements of the Theory

The Expectancy Theory of Motivation explains the behavioral process of why individuals choose one behavioral option over another. It also explains how they make

decisions to achieve the end they value. Vroom introduces three variables within the expectancy theory which are valence (V), expectancy (E) and instrumentality (I). The three elements are important behind choosing one element over another because they are clearly defined: effort-performance expectancy (E>P expectancy), performance-outcome expectancy (P>O expectancy).

Three components of Expectancy theory: Expectancy, Instrumentality, and Valence

1. Expectancy: Effort → Performance (E→P)

2. Instrumentality: Performance → Outcome (P→O)

3. Valence- V(R)

Expectancy: Effort → Performance **(E→P)**

2.5.2 Criticisms of the Theory

- Some of the critics of the expectancy model were Graen (1969) Lawler (1971), Lawler and Porter (1967), and Porter and Lawler (1968). Their criticisms of the theory were based upon the expectancy model being too simplistic in nature; these critics started making adjustments to Vroom's model.
- Edward Lawler claims that the simplicity of expectancy theory is deceptive because it assumes that if an employer makes a reward, such as a financial bonus or promotion, enticing enough, employees will increase their productivity to obtain the reward. However, this only works if the employees believe the reward is beneficial to their immediate needs. For example, an increase in salary may not be desirable to an employee if the increase pushes her into a tax bracket in which she believes her net pay is actually reduced, which is actually impossible in the United States with marginal tax brackets. Similarly, a promotion that provides higher status but requires longer hours

may be a deterrent to an employee who values evening and weekend time with his children.

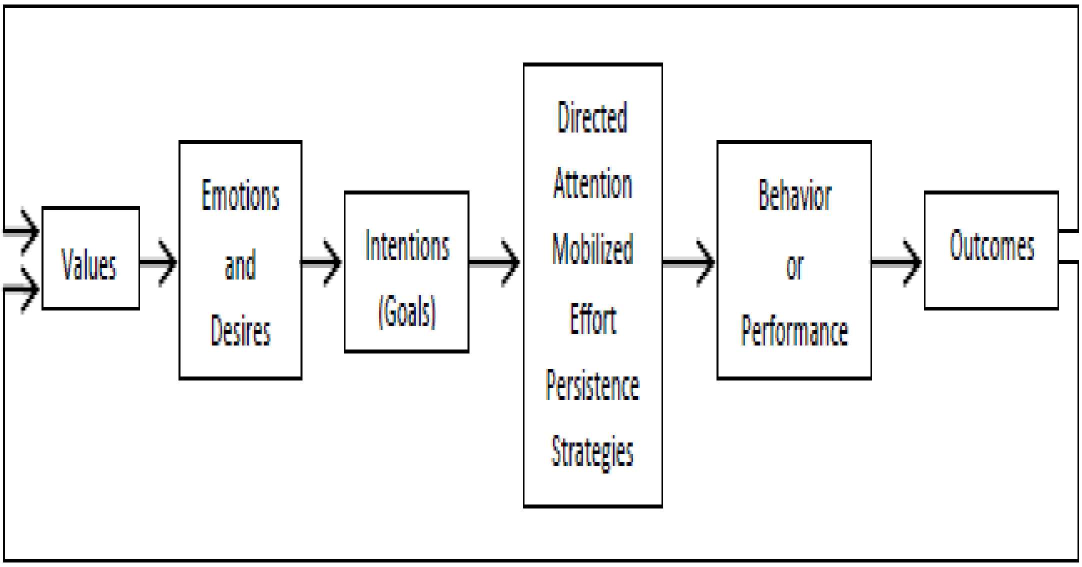
- Lawler's new proposal for expectancy theory is against Vroom's theory. Lawler argues that since there have been a variety of developments of expectancy theory since its creation in 1964; the expectancy model needs to be updated. Lawler's new model is based on four claims. First, whenever there are a number of outcomes, individuals will usually have a preference among those outcomes. Two, there is a belief on the part of that individual that their action(s) will achieve the outcome they desire. Three, any desired outcome was generated by the individual's behavior. Finally, the actions generated by the individuals were generated by the preferred outcome and expectation of the individual.
- In a published work titled "On the Origins of Expectancy Theory" published in Great Minds in Management by Ken G. Smith and Michael A. Hitt, Vroom himself agreed with some of these criticisms and stated that he felt that the theory should be expanded to include research conducted since the original publication of his book.
- Instead of just looking at expectancy and instrumentality, W.F. Maloney and J.M.McFillen found that expectancy theory could explain the motivation of those individuals who were employed by the construction industry. For instance, they used worker expectancy and worker instrumentality. Worker expectancy is when supervisors create an equal match between the worker and their job. Worker instrumentality is when an employee knows that any increase in their performance leads to achieving their goal.

2.1.7 Goal theory

Edwin Locke and Gary Latham (1990), leaders in goal setting theory and research, have incorporated nearly 400 studies about goals into a theory of goal setting and task performance. According to the theory, there appear to be two cognitive determinants of behavior: values and intentions (goals). A goal is defined simply as what the individual is consciously trying to do. Locke and Latham postulate that the form in which one experiences one's value judgments is emotional. That is to say, one's values create a desire to do things consistent with them. Goals also affect behavior (job performance) through other mechanisms. For Locke and Latham, goals, therefore, direct attention and action.

Furthermore, challenging goals mobilize energy, lead to higher effort, and increase persistent effort. Goals motivate people to develop strategies that will enable them to perform at the required goal levels. Finally, accomplishing the goal can lead to satisfaction and further motivation, or frustration and lower motivation if the goal is not
accomplished.

Goal theory states that motivation and performance are higher when individuals set specific goals, when the goals are difficult but accepted, and when there is feedback on performance. Participation in goal setting is important as a means of securing agreement to the setting of higher goals. Difficult goals must be agreed, and achieving them must be helped by guidance and advice. Finally, feedback is vital in maintaining motivation, particularly towards the achievement of even higher goals.



Source; Lunenburg (2011)
Figure 3.3 General model of goal theory.

Goal theory provided the theoretical underpinning to processes such as management by objectives where the emphasis was on setting goals and measuring performance. Management by objectives, or MbO as it was known, is no longer a fashionable term, Partly because MbO systems tended to be bureaucratic and overemphasize quantitative targets. But they still provide the basis for traditional performance-related pay schemes where the focus is on objectives and the measurement of achievements as a means of providing financial rewards in the shape of performance pay.

2.1.7.1 Implications of the Theory to the Organisation

Under the right conditions, goal setting can be a powerful technique for motivating organizations' members. The following are practical suggestions for organisations to consider when attempting to use goal setting to enhance motivation and performance:

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a. **Goals Need to Be Specific.** Organization members perform at higher levels when asked to meet a specific high performance goal. Asking organization members to improve, to work harder, or to do your best is not helpful, because that kind of goal does not give them a focused target Specific goals (often quantified) let organization members know what to reach for and allow them to measure their own progress. Research indicates that specific goals help bring about other desirable organizational goals, such as reducing absenteeism, tardiness, and turnover (Locke & Latham, 2002)

b. **Goals Must Be Difficult to Attainable:** A goal that is too easily attained will not bring about the desired increments in performance. The key point is that a goal must be difficult as well as specific for it to raise performance. However, there is a limit to this effect. Although organization members will work hard to reach challenging goals, they will only do so when the goals are within their capability. As goals become too difficult, performance suffers because organization members reject the goals as unreasonable and unattainable. A major factor in attainability of a goal is self-efficacy (Bandura, 1997). This is an internal belief regarding one's job -related capabilities and competencies. If employees have high self-efficacies, they will tend to set higher personal goals under the belief that they are attainable. The first key to successful goal setting is to build and reinforce employees' self-efficacy.

c. **Goals Must Be Accepted**. Goals need to be accepted. Simply assigning goals to organization members may not result in their commitment to those goals, especially if the goal will be difficult to accomplish. A powerful method of obtaining acceptance is to allow organization members to participate in the goal-setting process. In other words, participation in the goal-setting process tends to enhance goal commitment. Participation helps organization members better understand the goals, ensure that the goals are not unreasonable, and helps them achieve the goal. The fact or of self-efficacy mentioned above also may come into play regarding imposed goals. Some individuals may reject imposed goals, but if they have self-efficacy, they may still maintain high personal goals to accomplish the imposed goals.

d. **Feedback Must Be Provided on Goal Attainment**. Feedback helps organization members attain their performance goals. Feedback helps in two important ways. First, it helps people determine how well they are doing. For example, sports teams need to know the score of the game; a sharpshooter needs to see the target; a golfer needs to know his score. The same can be said for a work team, department, or organization. Performance feedback tends to encourage better performance. Second, feedback also helps people determine the nature of the adjustments to their performance that are required to improve. For example, sports teams watch video reproductions of a game and adjust their play; a sharpshooter can adjust his shot; a golfer can adjust her swing; and a CEO of an organization can gage the growth, profitability, and quality of a product line.

e. **Deadlines Improve the Effectiveness of Goals.** For most employees, goals are more effective when they include a deadline for completion. Deadlines serve as a time-control mechanism and increase the motivational impact of goals. Being aware that a deadline is approaching, the typical employee will invest more effort into completing the task. In contrast, if plenty of time remains for attaining the goal, the employee is likely to slow down his or her pace to fill the available time. However, when deadlines are too tight, particularly with complex tasks, the quality of work may suffer.

f. **Goals Are More Effective When They Are Used to Evaluate Performance.** When employees know that their performance will be evaluated in terms of how well they attained their goals, the impact of goals increases. Salespeople, for example, have weekly and monthly sales goals they are expected to attain. Telephone operators have goals for the number of customers they should assist daily. Quarterbacks are judged on the completion percentages of passes thrown and the number of yards the offense generates per game. Coaches are assessed on their win-loss record. CEOs of organizations are evaluated on meeting growth, profitability, and quality goals.

Locke and Latham provide a well-developed goal-setting theory of motivation. The theory emphasizes the important relationship between goals and performance. Research supports predictions that the most effective performance seems to result when goals are specific and challenging, when they are use d to evaluate performance and linked to feedback on results, and create commitment and acceptance. The motivational impact of goals may be affected by moderators such as ability and self-efficacy. Deadlines improve the effectiveness of goals. A learning goal orientation leads to higher performance (Lunenburg, 2011), than a performance goal orientation, and group goal-setting is as important as individual goal-setting.

2.1.8 Equity Theory

John Stacey Adams, a workplace and behavioral psychologist, put forward his Equity Theory on job motivation in 1963. The theory similar with Charles Handy's extension and interpretation of previous theories of Maslow, Herzberg and other pioneers of workplace psychology, in that the theory acknowledges the subtle and variable factors that affect each individual's assessment and perception of their relationship with their work, and thereby their employer.

However, awareness and cognizance of the wider situation - and crucially comparison

- feature more strongly in Equity Theory than in many other earlier motivational theories.

The Equity Theory model therefore extends beyond the individual self, and incorporates influence and comparison of other people's situations - for example colleagues and friends - in forming a comparative view and awareness of Equity, which commonly manifests as a sense of what is fair. Equity theory as described by Adams (1965) states that people will be better motivated if they are treated equitably and demotivated if they are treated inequitably. It is concerned with people's perceptions of how they are being treated in relation to others. To be dealt with equitably is to be treated fairly in comparison with another group of people (a reference group) or a relevant other person. Equity involves feelings and perceptions, and it is always a comparative process. It is not synonymous with equality, which means treating everyone alike. That would be inequitable if they deserved to be treated differently.

Equity theory is linked with the 'felt-fair' principle as defined by Jaques (1961), which states in effect that pay systems will be fair if they are felt to be fair.

Adams called personal efforts and rewards and other similar 'give and take' issues at work respectively 'inputs' and 'outputs'.

➢**Inputs** are logically what we give or put into our work. Outputs are everything we take out in return. These terms help emphasize that what people put into their work includes many factors besides working hours, and that what people receive from their work includes many things aside from money.

➢Adams used the term '**referent**' others to describe the reference points or people with

whom we compare our own situation, which is the pivotal part of the theory.

➢Adams Equity Theory goes beyond - and is quite different from merely assessing effort and reward. Equity Theory adds a crucial additional perspective of comparison with ‘referent’ others (people we consider in a similar situation.

Understanding Equity Theory - and especially its pivotal comparative aspect – helps managers and policy-makers to appreciate that while improving, one’s terms and conditions can resolve that individual’s demands (for a while), if the change is perceived by other people to upset the Equity of their own situations then the solution can easily generate far more problems than it attempted to fix.

Equity Theory reminds us that people see themselves and crucially the way they are treated in terms of their surrounding environment, team, system, etc - not in isolation and so they must be managed and treated accordingly.

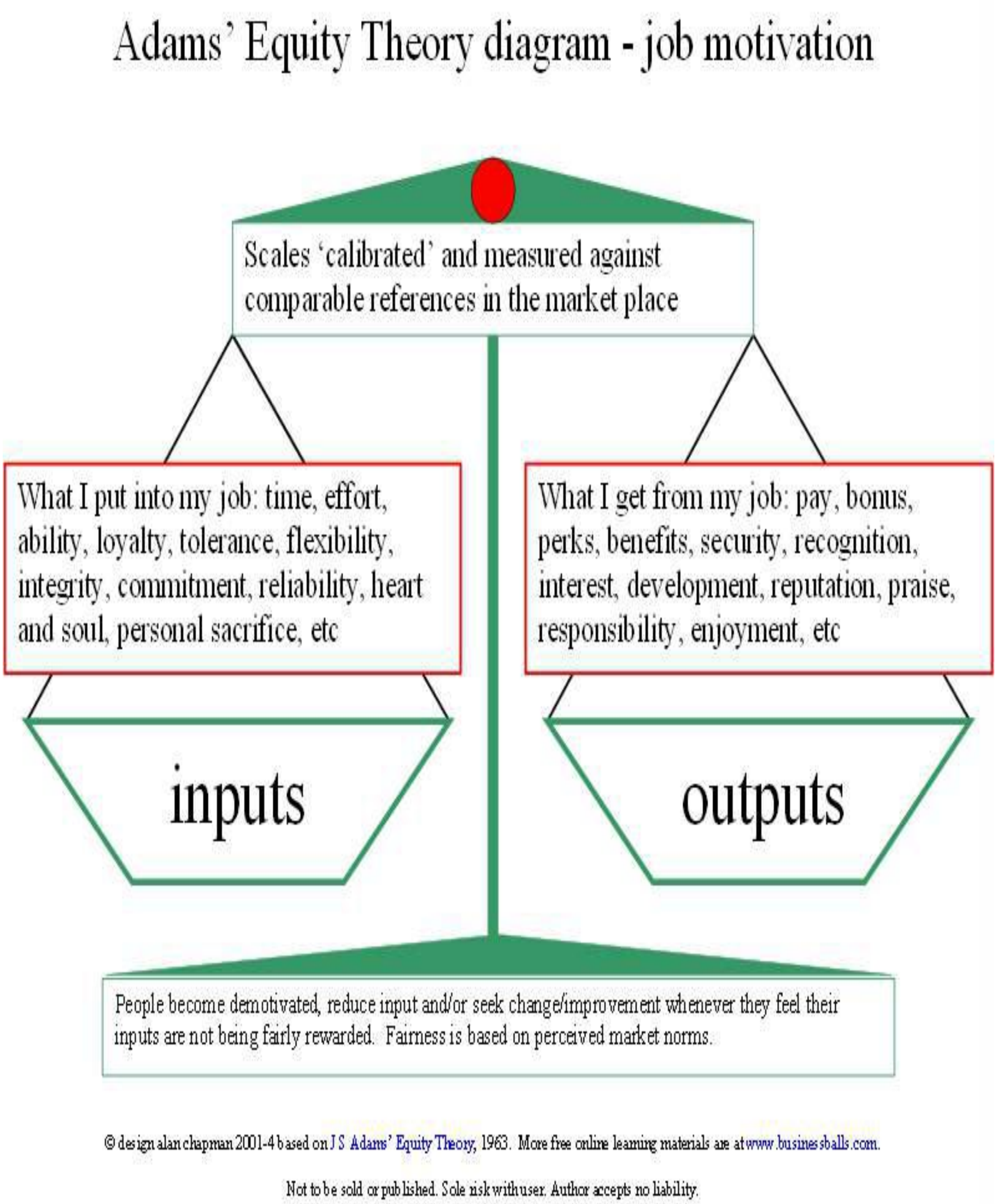

Figure 3.4 Adams' Equity Theory:

Table 3.1

3.0 Summary of Motivation Theories

Theory	Theorist	Summary of Theory	Implication
Instrumentality	Taylor	People will be motivated to work if rewards and penalties are tied directly to their performance.	Conceptual basis of incentive and pay-for-performance schemes.
Needs	Maslow	Unsatisfied needs create tension and disequilibrium. To restore the balance a goal is identified that will satisfy the need, and a behavior pathway is selected that will lead to the achievement of the goal. Only unsatisfied needs motivate.	Identifies a number of key needs for consideration in developing total reward policies.
Two Factor	Herzberg	The factors giving rise to job satisfaction (and motivation) are distinct from the factors that lead to job dissatisfaction. Any feeling of satisfaction resulting from pay increases is likely to be short-lived compared with the long-lasting satisfaction from the work itself. Makes a distinction between intrinsic motivation arising from the work itself and extrinsic motivation provided by the employer, eg pay.	A useful distinction is made between intrinsic and extrinsic motivation that influences total reward decisions. The limited motivational effects of pay increases are worth remembering when considering the part contingent pay can play in motivating people.
Expectancy	Vroom	Motivation is likely only when: 1) a clearly perceived and usable relationship exists between performance and outcome; and 2) the outcome is seen as a means of satisfying needs	Provides the foundation for good practice in the design and management of contingent pay. The basis for the concept is the 'line of sight', which emphasizes the importance of establishing a clear link between the reward and what has to be done to achieve it.
Goal	Latham and Locke	Motivation and performance are higher when individuals are set specific goals, when the goals are difficult but accepted, and when there is feedback on performance.	Provides a theoretical underpinning for performance management processes to ensure that they contribute to motivation through goal setting and feedback.
Equity	Adams	People will be better motivated if they are treated equitably and demotivated if they are treated inequitably	Emphasizes the need to develop an equitable reward system involving the use of job evaluation.

UNIT 3 MOTIVATION AND FINANCIAL INCENTIVES AND REWARDS

CONTENT

1.0 INTRODUCTION

It is mostly believed that financial incentives and rewards can motivate. People need money and therefore want money. It can motivate but it is not the only motivator

2.0 MAIN CONTENT

2.1 Financial Incentives and Rewards

It is mostly believed that financial incentives and rewards can motivate. People need money and therefore want money. It can motivate but it is not the only motivator. It has been suggested by Wallace and Szilagyi (1982) that money can serve the following reward functions:

- It can act as an instrument that provides valued outcomes.
- It can be a symbol that indicates the recipient's value to the organization.
- It can act as a goal that people generally strive for although to different degrees.
- It can act as a general reinforcer because it is associated with valued rewards so often that it takes on reward value itself.

- ❖ Money motivates because it is linked directly or indirectly with the satisfaction of many individual needs. It satisfies the basic need for survival and security, if income is regular.
- ❖ It can also satisfy the need for self-esteem (it is a visible mark of appreciation) and status – money can set you in a grade apart from your fellows and can buy you things they cannot afford. Money satisfies the less desirable but nevertheless prevalent drives of acquisitiveness and cupidity. So money may in itself have no intrinsic meaning, but it acquires significant motivating power because it comes to symbolize so many intangible goals. It acts as a symbol in different ways for different people, and for the same person at different times. Pay is often a dominant factor in the choice of employer, and pay is an important consideration when people are deciding whether or not to stay with an organization.

But doubts have been cast on the effectiveness of money as a motivator by Herzberg et al (1957). As noted above, he claimed that, while the lack of it may cause dissatisfaction, money does not result in lasting satisfaction. There is something in this, especially for people on fixed salaries or rates of pay who do not benefit directly from an incentive scheme. They may feel good when they get an increase, apart from the extra money, it is a highly effective way of making people believe they are valued. But the feeling of euphoria can rapidly die away. However, it must be re-emphasized that different people have different needs, and Herzberg's two-factor theory has not been validated.

Some will be much more motivated by money than others. What cannot be assumed is that money motivates everyone in the same way and to the same extent. But do financial incentives motivate people? The answer, according to Kohn (1993), is absolutely not. He challenges what he calls the behaviourist dogma about money and motivation. And he claims that ‘no controlled scientific study has ever found a long term enhancement of the quality of work as a result of any reward system’. When you look at how people are motivated, claims Kohn, ‘It becomes disturbingly clear that the more you use rewards to “motivate” people, the more they tend to lose interest in whatever they had to do to get the rewards.’ He quotes research that has ‘repeatedly shown that the more salient or reinforcing the reward is, the more it erodes intrinsic interest’ and points out that ‘various devices can be used to get people to do something, but that is a far cry from making people *want* to do something’.

Pfeffer (1998) also posits that: ‘People do work for money, but they work even more for meaning in their lives. In fact, they work to have fun. Companies that ignore this fact are essentially bribing their employees and will pay the price in lack of loyalty and commitment.’ He believes that pay cannot substitute for a working environment ‘high on trust, fun and meaningful work’.

In contrast, Gupta and Shaw (1998) emphasize the instrumental and symbolic meaning of money. The instrumental meaning of money concerns what we get for it – better houses, clothes, cars, etc. The symbolic meaning of money concerns how it is viewed by ourselves and others – money signals our status in and worth to society. They take the basic behaviourist line on money: ‘When certain behaviours are followed by money, then they are more likely to be repeated. This means that employees will do the things for which they are rewarded; it also means that they ignore the things for which they are not rewarded.’

The views expressed by Kohn are overwhelmingly convincing except that he seems to think that the only types of rewards to be considered in this debate are financial. He did not recognize that non-financial rewards can motivate if properly handled. Pfeffer, however, makes this point when he emphasizes the importance of trust and meaningful work. Gupta and Shaw weaken their argument by adopting a crude behaviourist viewpoint.

To assume that financial incentives will always motivate people to perform better is as simplistic as to assume, like Kohn, that they never motivate people to perform better. Some people will be more motivated by money that others and, if handled properly, an incentive scheme can encourage them to perform more effectively as long as they can link their effort to the reward and the reward is worth having. Sometimes cash sums (bonuses) can be more effective rewards because they can be immediately converted into things that people want. But others may be less interested in money and will respond more to intrinsic or non-financial rewards. It seems likely that the majority will react positively to a judicious mix of both financial and non-financial rewards, although how positively will depend on their own needs and aspirations.

It should also be remembered that, while an increase in pay arising from a contingent pay scheme may motivate the people who get it, for a limited period perhaps it will almost certainly demotivate those who don't get it or feel that they are not getting enough compared with other people. The likelihood is that the number of people demotivated in this way will be larger than the number who have been motivated.

Paradoxically, therefore, contingent pay schemes are in danger of increasing the amount of demotivation existing in the organization rather than enhancing motivation.

As Lawler (1990) points out, people's feelings about the adequacy of their pay are based upon comparisons they make between their own and others'. External market comparisons are the most critical because they are the ones that strongly influence whether individuals want to stay with the organization. Many people, however, are unlikely to leave for pay reasons alone unless the increase they expect from a move is substantial.

He further suggests that, 'Sometimes it seems that individuals are never satisfied with the pay.' One of the reasons put forward by Lawler for low pay satisfaction is that individuals tend to seek unfavourable comparisons. First they look externally. If comparisons there are favourable, they then focus on internal comparisons. Only if these are favourable as well are they likely to be satisfied. He comments that: 'A finding
that employees are dissatisfied with pay is, in effect, a non-finding. This should not be expected.

3.0 CONCLUSION

The discussion in this unit elaborately and empirically explained both the positive and negative aspects of financial incentives and how this incentives affects employee's performance (output) and commitment in an organization.

4.0 SUMMARY

In this unit, we highlighted various benefits/argument for or otherwise of financial incentives in our 21st century organizations..

Unit 4 Motivation, Job Satisfaction and Performance

CONTENT

1.0 INTRODUCTION

There is no sufficient evidence that there is always a strong and positive relationship between job satisfaction and performance. A worker that satisfied is not necessarily a high performer and a high performer is not necessarily a satisfied worker.

2.0 MAIN CONTENT

2.1 Job Satisfaction and Performance

As highlighted in our introduction. There is no sufficient evidence that there is always a strong and positive relationship between job satisfaction and performance. A worker that satisfied is not necessarily a high performer and a high performer is not necessarily a satisfied worker. Satisfaction may lead to good performance but good performance may just as well be the cause of satisfaction.

The relationship between motivation and performance is even more complex. Vroom (1964) formulated it as $P = M \times A$ where P is performance, M is motivation and A is ability.

Note that the relationship is multiplicative – if the value of either M or A is zero, then there will be no performance. Performance depends on both motivation and ability.

A more recent formulation of the relationship has been produced by Boxall and Purcell (2003). This states that $P = M + A + S$ where P is performance, M is motivation, A is ability and S is scope to use and develop abilities. Note that the relationship is not multiplicative as in Vroom and there is an additional factor (scope). By including ability and scope as factors, the latter formulation underlines the importance of adopting an integrated approach to reward and other HR strategies. Motivation by pay or any other means is not enough. Reward strategies must be associated with human resource development and resourcing strategies to maximize their impact on performance.

3.0 CONCLUSION

The discussion in this unit elaborately and empirically explained both relationship between job satisfaction and performance. The unit concluded that Motivation by pay or any other means is not enough. Reward strategies must be associated with human resource development and resourcing strategies to maximize their impact on performance

4.0 SUMMARY

In this unit, we highlighted the relationship between job satisfaction and performance. Also a formula was developed by different scholars to expatiate on the topic

5.0 TUTOR-MARKED ASSIGNMENT

1. Is it true that only financial incentives motivate people?. Discuss
2. What similarities can be found in the various schools of thought as regards to motivation (Hint; Theories Of Motivation)
3. Do you think that there exist a relationship between job satisfaction and performance?. discuss

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MODULE 4 JOB EVALUATION

UNIT 1 NATURE, CHARACTERISTICS AND OBJECTIVES OF JOB EVALUATION

CONTENT

1.0 INTRODUCTION

In this unit, we shall be discussing the nature of job evaluation, its basic features or characteristics and the basic aim of job evaluation.

2.0 MAIN CONTENT

2.1. Nature of Job Evaluation

Job evaluation is a systematic process of defining the relative worth or size of jobs within an organization in order to establish internal relativities. It provides the basis for designing an equitable grade and pay structure, grading jobs in the structure, managing job and pay relativities and guiding the achievement of equal pay for work of equal value.

2.2 Characteristics of Job Evaluation

The following are the characteristics of Job evaluation:

1. ***Based on factual evidence***

The relative value or 'size' of jobs is determined on the basis of information on the characteristics of the jobs. In analytical schemes this information is assessed within a structured framework of criteria or factors.

2. ***Judgmental***

Human judgement has to be exercised at a number of points in the job evaluation process. Although job evaluations are based on factual evidence, this has to be interpreted. The information provided about jobs through job analysis can sometimes fail to provide a clear indication of the levels at which demands are present in a job.

The definitions in a factor plan used in an analytical scheme or grade definitions in a non-analytical scheme will not precisely indicate the level of demand that should be recorded. Judgement is required in making decisions on the level and therefore, in a point-factor or factor comparison scheme, the score.

The aim is to be objective, but it is difficult to eliminate a degree of subjectivity. As the EOC states (2003), 'it is recognized that to a certain extent any assessment of a job's total demands relative to another will always be subjective'.

A fundamental aim of any process of job evaluation is to ensure, as far as possible, that consistent judgements are made based on objectively assessed information. To refer to an evaluation as 'judgmental' does not necessarily mean that it is inaccurate or invalid. Correct judgements are achieved when they are made within a defined framework and are based on clear evidence and sound reasoning. This is what job evaluation can do if the scheme is properly designed and properly applied.

3. **Concerned with internal relativities**

When used within an organization, job evaluation in the true sense as defined above (ie not market pricing as described later) can only assess the relative size of jobs in that organization. It is not concerned with external relativities, that is, the relationship between the rates of pay of jobs in the organization and the rates of pay of comparable jobs elsewhere (market rates).

4. **Concerned with the job not the person**

This is the iron law of job evaluation. It means that when evaluating a job, the only concern is the content of that job in terms of the demands made on the job holder. The performance of the individual in the job must not be taken into account. But it should be noted that while performance is excluded, in today's more flexible organizations the tendency is for some people, especially knowledge workers, to have flexible roles. Individuals may have the scope to enlarge or enrich their roles and this needs to be taken into account when evaluating what they do. Roles cannot necessarily be separated from the people who carry them out. It is people who create value not jobs.

2.3 Objectives of Job Evaluation

- produce the information required to design and maintain equitable and defensible grade and pay structures;
- provide as objective as possible a basis for grading jobs within a grade structure, thus enabling consistent decisions to be made about job grading;
- establish the relative value or size of jobs, i.e. internal relativities based on fair, sound and consistent judgements;
- enable sound market comparisons with jobs or roles of equivalent complexity and size;
- be transparent – the basis upon which grades are defined and jobs graded should be clear;
- ensure that the organization meets equal-pay-for-work-of-equal-value obligations.

3.0 Conclusion

The discussion in this unit explained the nature, characteristics and the objectives of job evaluation among which are; produce the information required to design and maintain equitable and defensible grade and pay structures; provide as objective as possible a basis for grading jobs within a grade structure, thus enabling consistent decisions to be made about job grading; establish the relative value or size of jobs, i.e. internal relativities based on fair, sound and consistent judgements; among others.

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4.0 Summary

In this unit, we discussed on the nature, characteristics and objectives of job evaluation in our 21st century organizations

UNIT 2 TYPES OF JOB EVALUATION

CONTENT

1.0 INTRODUCTION

This unit will discuss on the various types of job evaluation which include; Analytical Job Evaluation, Non Analytical Job Evaluation and Market Pricing among others.

2.0 MAIN CONTENT

2.1 Types of Job Evaluation

The three main categories of job evaluation are analytical schemes, non-analytical schemes and market pricing. The first two rely on internal comparisons and do not directly ‘price’ the jobs, i.e attach rates of pay to them. Market pricing is not a job evaluation scheme as usually defined because it relies totally on external comparisons, but it’s included in this chapter because it is a method of determining the relative value of jobs, albeit in financial terms.

2.1.1 Analytical Job Evaluation

Analytical job evaluation is the process of making decisions about the value or size of jobs, which are based on an analysis of the level at which various defined factors or elements are present in a job in order to establish relative job value. The set of factors used in a scheme is called the 'factor plan', which defines each of the factors used (which should be present in all the jobs to be evaluated) and the levels within each factor. Analytical job evaluation is the most common approach to job evaluation The two main types of analytical job evaluation schemes are point-factor schemes and analytical factor comparison schemes, as described later. Another variety of analytical scheme is factor comparison but it is not used except by independent experts in equal pay cases and as a basis for the Hay Guide Chart method of job evaluation.

2.1.2 Non Analytical Job Evaluation

Non-analytical job evaluation compares whole jobs to place them in a grade or a rank order – they are not analyzed by reference to their elements or factors. Non-analytical schemes do not meet the requirements of equal value law. They operate either on a job-to-job basis in which a job is compared with another job to decide whether it should be valued more, or less, or the same (ranking and 'internal benchmarking' or job-matching processes) or a job-to-scale basis in which judgements are made by comparing a whole job with a defined hierarchy of job grades (job classification) – this involves matching a job description to a grade description.

2.1.3 Market Pricing

Market pricing is the process of assessing rates of pay by reference to the market rates for comparable jobs. It can be described as external benchmarking.

Generally, Organizations have to use some method of valuing jobs that ensures that their pay system is externally competitive or internally equitable. Every time a decision is made on what a job should be paid it requires the use of either job evaluation or market pricing. Job evaluation proper is all about creating an internally equitable grade structure to which pay levels or ranges are attached that take account of market rates although they are not allowed to drive the structure. But it can be resource-intensive. Market pricing is, in a sense, realistic and is not so bureaucratic or time-consuming as the conventional forms of job evaluation, although it ignores the claims of internal equity.

3.0 Conclusion

The discussion in this unit explained the three aim types of Job evaluation. The three main categories of job evaluation are analytical schemes, non-analytical schemes and market pricing. The first two rely on internal comparisons and do not directly 'price' the jobs, i.e. attach rates of pay to them.

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4.0 Summary

In this unit, we discussed the three basic types of job evaluation, (analytical scheme, non-analytical scheme and market pricing).

UNIT 3 PERFORMANCE MANAGEMENT AND REWARD

Performance management is a strategic and integrated process that delivers sustained success to organizations by improving the performance of the people who work in them and by developing the capabilities of individual contributors and teams. It is strategic in the sense that it is concerned with the broader issues facing the business if it is to function effectively in its environment, and with the general direction in which it intends to go to achieve longer-term goals. It is integrated in two senses: 1) **vertical integration** – linking or aligning business, team and individual objectives and core competences; and 2) **horizontal integration** – linking different aspects of human resource management, especially organizational development, human resource development and reward, to achieve a coherent approach to the management, development and motivation of people.

UNIT 4 THE REASON FOR PERFORMANCE MANAGEMENT.

CONTENT

1.0 INTRODUCTION

The fundamental purpose of performance management is to get better results from the organization, teams and individuals by understanding and managing performance within an agreed framework of planned goals, standards and competence requirements.

2.0 MAIN CONTENT

2.1 Reasons for Performance Management

As highlighted in our introductory part, the fundamental purpose of performance management is to get better results from the organization, teams and individuals by understanding and managing performance within an agreed framework of planned goals, standards and competence requirements. It is a process for establishing shared understanding about what *is* to be achieved, and an approach to managing and developing people in a way that increases the probability that it *will* be achieved in the short and longer term. It is owned and driven by line management. Performance management can also make a major contribution to the motivation of people by providing the foundation upon which many non-financial motivation approaches can be built. Essentially, performance management is concerned with the encouragement of productive discretionary behaviour. As defined by John Purcell and his team at Bath University, 'Discretionary behaviour refers to the choices that people make about how they carry out their work and the amount of effort, care, innovation and productive behaviour they display. It is the difference between people just doing a job and people doing a great job.' On the basis of their research on examining the relationship between HR practice and business performance, Purcell and his colleagues noted that 'the experience of success seen in performance outcomes helps to reinforce positive attitudes'. Performance management can help to define what success is and how it can be attained.

2.2 Performance Management Cycle

Performance management is a natural process of management. It is not a HRM technique or tool. As a natural process of management, the performance management cycle as shown in Figure 4.1 corresponds with William Deming's (5) Plan–Do–Check–Act model.

The performance management processes takes the following steps:

a. **plan** – agreeing objectives and competence requirements, identifying the required behaviours, producing plans expressed in performance agreements for meeting objectives and improving performance, and preparing personal development plans to enhance knowledge, skills and competence and reinforce the desired behaviours;
b. **act** – carrying out the work required to achieve objectives by reference to the plans and in response to new demands;
c. **monitor** – checking on progress in achieving objectives and responding to new demands, and treating performance management as a continuous process – 'managing performance all the year round' – rather than an annual appraisal event;
d. **review** – a 'stocktaking' discussion of progress and achievements held in a review meeting and identifying where action is required to develop performance as a basis for completing the cycle by moving into the planning stage.

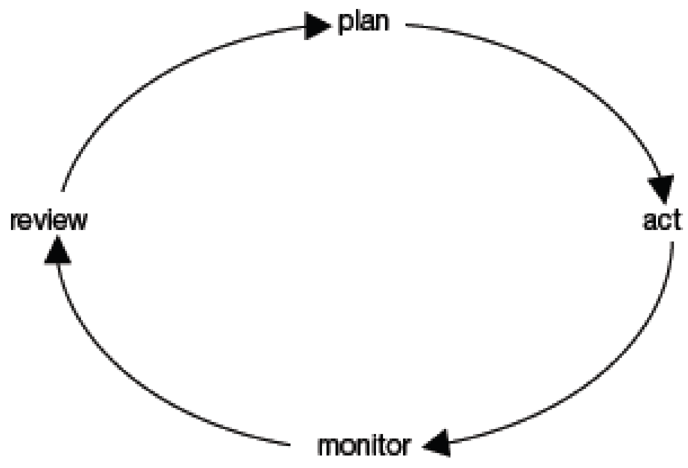

Figure 4.1 Performance Management Cycle

3.0 Conclusion

The discussion in this unit explained the reasons behind performance management and the performance management circle which are plan, act, monitor and review.

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4.0 Summary

In this unit, we discussed the reasons and steps to achieve a sound performance management system in our modern organizations.

UNIT 5 PERFORMANCE MANAGEMENT AS A MOTIVATING PROCESS.

CONTENT

1.0 INTRODUCTION

As discussed earlier in our previous unit (unit 4), Performance management, if carried out properly, can motivate people by functioning as a key component of the total reward process. It provides rewards in the form of recognition through feedback, opportunities to achieve, the scope to develop skills, and guidance on career paths. It can encourage job engagement and promote commitment. All these are non-financial rewards that can make a longer-lasting and more powerful impact than financial rewards such as performance-related pay.

2.0 MAIN CONTENT

2.1 Performance Management as a motivating Process

Performance management is, of course, also associated with pay by generating the information required to decide on pay increases or bonuses related to performance, competence or contribution. In some organizations this is its main purpose, but performance management is, or should be, much more about developing people and rewarding them in the broadest sense. Approaches to using performance management to motivate by non-financial means are discussed below. The rest of this unit will deal with performance management and pay.

2.2 Performance Management And Non-Financial Motivation

Non-financial motivation is provided by performance management through recognition, the provision of opportunities to succeed, skills development and career planning, and by enhancing job engagement and commitment.

2.2.1 Performance management and recognition

Performance management involves recognizing people's achievements and strengths. They can be thanked, formally and informally, for what they have done.

2.2.2 Performance management and the provision of opportunities to achieve

Performance management processes are founded on joint agreements between managers and their people on what the roles of the latter are and how their role can be developed (enriched). It is therefore an essential part of job or role design and development activities.

2.2.3 Performance management and skills development

Performance management can provide a basis for motivating people by enabling them to develop their skills. It provides an agreed framework for coaching and support to enhance and focus learning.

2.2.4 Performance management and career planning

Performance management reviews provide opportunities to discuss the direction in which the careers of individuals are going and what they can do – with the help of the organization – to ensure that they follow the best career path for themselves and the organization.

2.2.5 Performance management and job engagement

People are engaged with their jobs when they have an interest in what they do and a sense of excitement in their work. This can be created by performance management when it concentrates on intrinsic motivating factors such as taking responsibility for job outcomes, job satisfaction and achievement and fulfilment of personal goals and objectives.

One of the prime aims of performance management is to promote commitment to the organization and its goals by integrating individual and organizational objectives.

2.3 PERFORMANCE LEVEL

The rating scale format can either be behavioural, with examples of good, average and inadequate performance, or graphic, which simply presents a number of scale points along a continuum. The scale points or anchors in the latter may be defined alphabetically (a, b, c, etc), numerically (1, 2, 3, etc.) or by means of initials (ex for excellent, etc), which purports to disguise the hierarchical nature of the scale. The scale points may be further described adjectivally (eg exceptional, acceptable, unsatisfactory).

The following is a typical example of a five-point rating scale, which progresses downwards from highly positive to negative:

a. Outstanding performance in all respects.
b. Superior performance, significantly above normal job requirements.
c. Good all-round performance, which meets the normal requirements of the job.
d. Performance not fully up to requirements. Clear weaknesses requiring improvement have been identified.
e. Unacceptable; constant guidance is required and performance of many aspects of the job is well below a reasonable standard.

An alternative and increasingly popular approach is to have a rating scale such as the following four-point one, which provides positive reinforcement or at least emphasizes development needs at every level:

i. **Very effective** Consistently performs in a thoroughly proficient manner beyond normal expectations.
ii. **Effective** Achieves required objectives and standards of performance and meets the normal expectations of the job.

iii. **Developing** A contribution that is stronger in some aspects of the job than others, where most objectives are met but where performance improvements should still take place.

iv. **Basic** A contribution that indicates that there is considerable room for improvement in several definable areas.

3.0 Conclusion

Performance management is, of course, also associated with pay by generating the information required to decide on pay increases or bonuses related to performance, competence or contribution. Non-financial motivation is provided by performance management through recognition, the provision of opportunities to succeed, skills development and career planning, and by enhancing job engagement and commitment

4.0 Summary

In this unit, we discussed both the financial and non-financial motivating factors of performance management system in our modern organizations.

5.0 TUTOR-MARKED ASSIGNMENT

1. In your own words, what are the basic features, types and objectives of an effective job evaluation system?
2. What do you think are the reasons for performance management in our modern organizations?
3. Elaborately discuss the non-financial motivating factors of performance management

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Module 5

UNIT 1 GRADE, TYPES OF GRADE AND PAY STRUCTURE

CONTENT

1.0 INTRODUCTION

Pay is a key factor affecting relationships at work. The level and distribution of pay and benefits can have a considerable effect on the efficiency of any organization, and on the morale and productivity of the workforce. It is therefore vital that organizations develop pay systems that are appropriate for them, that provide value for money, and that reward workers fairly for the work they perform. Pay systems are methods of rewarding people for their contribution to the organization. Ideally, systems should be clear and simple to follow so that workers can easily know how they are affected. In considering rewards, it should be borne in mind that pay and financial benefits are not the only motivator for worker performance. Other important motivators for individuals may include job security, the intrinsic satisfaction in the job itself, recognition that they are doing their job well, and suitable training to enable them to develop potential. Grade and pay structures provide a logically designed framework within which an organization's pay policies can be implemented. They enable the organization to determine where jobs should be placed in a hierarchy, define pay levels and the scope for pay progression and provide the basis upon which relativities can be managed, equal pay achieved and the processes of monitoring and controlling the implementation of pay practices take place. A grade and pay structure can also serve as a medium through which the organization communicates the career and pay opportunities available to employees.

2.0 MAIN CONTENT

2.1 Grade Structure

A grade structure consists of a sequence or hierarchy of grades, bands or levels into which groups of jobs that are broadly comparable in size are placed. There may be a single structure, which is defined by the number of grades or bands it contains. Alternatively, the structure may be divided into a number of career or job families consisting of groups of jobs where the essential nature and purpose of the work are similar but the work is carried out at different levels.

2.1.1 Types of Grade Structure

The following are the types of Grade structure:

a. **Narrow-graded structures**, which consist of a sequence of narrow grades (generally 10 or more). They are sometimes called multi-graded structures;
b. **Career family structures**, which consist of a number of families (groups of jobs with similar characteristics) each divided typically into six to eight levels. The levels are described in terms of key responsibilities and knowledge, skill and competence requirements and therefore define career progression routes within and between career families. There is a common grade and pay structure across all the career families;
c. **Broad-graded structures**, which have fewer grades (generally six to nine);

d. **Broad-banded structures**, which consist of a limited number of grades or bands (often four to five). Structures with six or seven grades are often described as broad banded even when their characteristics are typical of broad grades;
e. **Job family structures**, which are similar to career families except that pay levels in each family may differ to reflect market rate considerations (this is sometimes referred to as market grouping). The structure is therefore more concerned with market rate relativities than mapping careers. The number of levels in families may also vary;
f. **Combined structures**, in which broad bands are superimposed on career/job families or broad bands are divided into families;
g. **Pay spines**, consisting of a series of incremental 'pay points' extending from the lowest- to the highest-paid jobs covered by the structure

Table 5.1 Description of different grade and pay structures

Types of Structures	Features	Advantages	Disadvantages
Narrow graded	– A sequence of job grades:10 or more – Narrow pay ranges, e.g.20%–40% – Progression usually linked to performance	– Clearly indicate pay relativities – Facilitate control – Easy to understand	– Create hierarchical rigidity – Prone to grade drift – Inappropriate in a delayered organization
Broad Graded	– A sequence of between six and nine grades – Fairly broad pay ranges, e.g. 40%–50% – Progression linked to contribution and may be controlled by thresholds or zones	As for narrow graded structures but in addition: – the broader grades can be defined more clearly – better control can be exercised over grade drift	– Too much scope for pay progression – Control mechanisms can be provided but they can be difficult to manage – May be costly

Broad Branded	– A series of, often, five or six 'broad' bands – Wide pay bands: typically, between 50% and 80% – Progression linked to contribution and competence	– More flexible – Reward lateral development and growth in competence – Fit new-style organizations	Create unrealistic expectations of scope for pay rises – Seem to restrict scope for promotion – Difficult to understand – Equal pay problems
Career Family	– Career families identified and defined – Career paths defined for each family in terms of key activities and competence requirements – Same grade and pay structure for each family	– Clarify career paths within and between families – Facilitate the achievement of equity between families and therefore equal pay – Facilitate level definitions	– Could be difficult to manage – May appear to be divisive if 'silos' emerge
Job Family	– Separate grade and pay structures for job families containing similar jobs – Progression linked to competence and/or contribution	– Can appear to be divisive – May inhibit lateral career development – May be difficult to maintain internal equity between job families unless underpinned by job evaluation	– Facilitate pay differentiation between market groups – Define career paths against clear criteria
Pay Spine	– A series of incremental pay points covering all jobs – Grades may be superimposed – Progression linked to service	– Easy to manage – Pay progression not based on managerial judgement	– No scope for differentiating rewards according to performance – May be costly as staff drift up the spine

Source: Armstrong (2007)

2.2 Pay Structure

Pay systems provide the foundation for financial reward systems. There are basic rate systems, where the worker receives a fixed rate per hour/week/month with no additional

payment. There are systems related in whole or part to individual or group performance or profit. There are systems based in part on the worker gaining and using additional skills or competencies Pay systems provide the bases on which an organization rewards workers for their individual contribution, skill and performance. Pay structures are different - they are used to determine specific pay rates for particular jobs, usually based on the nature of the job, its content and requirements. A pay structure provides the framework within which the organization places the pay rates for its various jobs or groups of jobs. Pay systems fall into two main categories:

- ❖ Those where pay does not vary in relation to achievements or performance, (basic rate systems), and
- ❖ Those where pay, or part pay, does vary in relation to results/profits/performance (including the acquisition of skills).

A grade structure becomes a pay structure when pay ranges, brackets or scales are attached to each grade, band or level. In some broad-banded structures as described later in this chapter, reference points and pay zones may be placed within the bands and these define the range of pay for jobs allocated to each band. Pay structures are defined by the number of grades they contain and, especially in narrow- or broad-graded structures, the span or width of the pay ranges attached to each grade. Span is the scope the grade provides for pay progression and is usually measured as the difference between the lowest point in the range and the highest point in the range as a percentage of the lowest point.

Pay structures define the different levels of pay for jobs or groups of jobs by reference to their relative internal value as determined by job evaluation, to external relativities as established by market rate surveys and, sometimes, to negotiated rates for jobs. They provide scope for pay progression in accordance with performance, competence, contribution or service.

There may be a single pay structure covering the whole organization or there may be one structure for staff and another for manual workers, but this is becoming less common. There has in recent years been a trend towards ‘harmonizing’ terms and conditions between different groups of staff as part of a move towards single status. This has been particularly evident in many public sector organizations in the UK, supported by national agreements on ‘single status’. Executive directors are sometimes treated separately.

2.2.1 Reasons for having Different Types of Pay Systems

The following are the reasons for developing different pay systems:

1. **Basic Rate Schemes**

Basic rate schemes tend to be job-based (ie the rate for the job). A grading structure may be developed through a job evaluation scheme which is used to put jobs into an appropriate grade or band in the organization. Pay increases may then depend on moving up a scale, skill development, promotion to another grade, or a general updating of pay levels.

2. **Incentive Schemes**

Incentive schemes may be short- or long-term. Schemes based on individual performance, such as weekly or monthly production bonuses or commission on sales, generally offer a short-term incentive. Longer-term schemes such as profit sharing and

share option schemes may not provide as much incentive to individual workers as schemes based on personal performance. They can, however, help to generate in workers a long-term interest in the success of the organization. Pay is not the only factor that might produces enhanced performance. As well as the job-related factors mentioned earlier, additional payments, non-contributory pension schemes, and non-cash benefits such as cars, life insurance, and assistance towards child care (eg workplace nurseries/creches) may all play a part. Nevertheless, the prospect of higher pay for increased output/quality often provides an incentive and many schemes are introduced in the clear expectation that performance will thereby be improved. Increases in pay are often linked to productivity or ‘self-financing’ pay schemes, especially where organizations have no ‘new’ money to put into the pay rates. In such systems the results of increases in productivity and efficiency can be shared between the employer and workers to their mutual benefit. There is an increasing trend for organizations to build a quality factor into incentive scheme calculations, offering additional payments for reductions in waste, good quality goods or services and increased customer satisfaction. Productivity and efficiency schemes can be based on individual, group or organization performance dependent upon the needs of the organization and the availability of suitable performance measures. Organizations often use a combination of systems to provide greater flexibility in the pay package to address particular needs. For instance, they may have a basic rate for the job, with a top-up increase that is self-financing, and an element for individual performance. This has been particularly common in the public sector and the privatized ex-public sector/agencies.

3.0 Conclusion

Pay is a key factor affecting relationships at work. The level and distribution of pay and benefits can have a considerable effect on the efficiency of any organization, and on the morale and productivity of the workforce. It is therefore vital that organizations develop pay systems that are appropriate for them, that provide value for money, and that reward workers fairly for the work they perform. Pay systems are methods of rewarding people for their contribution to the organization. There are 7 basic types of grading structures which are; Narrow-graded structures, Career family structures, , Broad-graded structures, Broad-banded structures, Job family structures Combined structures and Pay spines. While that of pay schemes are; basic rate and incentive schemes.

4.0 Summary

In this unit, we discussed the various types of pay and grading structures (schemes) in our modern organizations.

UNIT 2 DEVELOPING GRADE AND PAY STRUCTURES IN AN ORGANISATION

CONTENT

1.0 INTRODUCTION

This unit is concerned with approaches, options and guidelines for the development of grade and pay structures. It starts with a statement of guiding principles and, as an introduction to the process, quotes the views of some practitioners on managing design projects. The chapter continues with a description of the design process covering the analysis of present arrangements and the selection of a structure, including the criteria for choice, design options and the use of job evaluation. The focus is then on the design of the most typical structures, ie graded, broad-banded and career/job family structures. Because the approach to developing narrow and broad graded structures is the same, even if the result in terms of the number of grades is different, these two types of structure are considered together. The unit ends with a discussion of the process of implementing new or radically changed structures with particular reference to assimilation and protection issues.

2.0 MAIN CONTENT

2.1 Guiding Principles and Steps for Grade and Pay Structures

The following are the principles for grade and pay structure in an Organization:

- be appropriate to the culture, characteristics and needs of the organization and its employees;
- facilitate the management of relativities and the achievement of equity, fairness, consistency and transparency in managing grading and pay;
- facilitate operational flexibility and continuous development;
- be capable of adapting to pressures arising from market rate changes and skill shortages;
- provide scope as required for rewarding performance, contribution and increases in skill and competence;
- be constructed logically and clearly so that the basis upon which they operate can readily be communicated to employees;
- enable the organization to exercise control over the implementation of pay policies and budgets;
- be constructed logically and clearly so that the basis upon which they operate can readily be communicated to employees.

2.2 Implementing New Grade and Pay Structures

The implementation of new or revised grade and pay structures provides management challenge of considerable proportions. The scale of this challenge will be reduced if employees have a voice in its design. But it is essential to communicate the purpose and features of the new structure and how everyone will be affected. If, as usual, the new structure follows a job evaluation programme. It is necessary to manage the expectations of staff. They should be informed that, while no one will necessarily get extra pay, no one will lose pay when the structure is implemented. This means that assimilation and protection policies should be discussed and agreed prior to implementation. It is also necessary to ensure that training is provided for everyone concerned in administering reward.

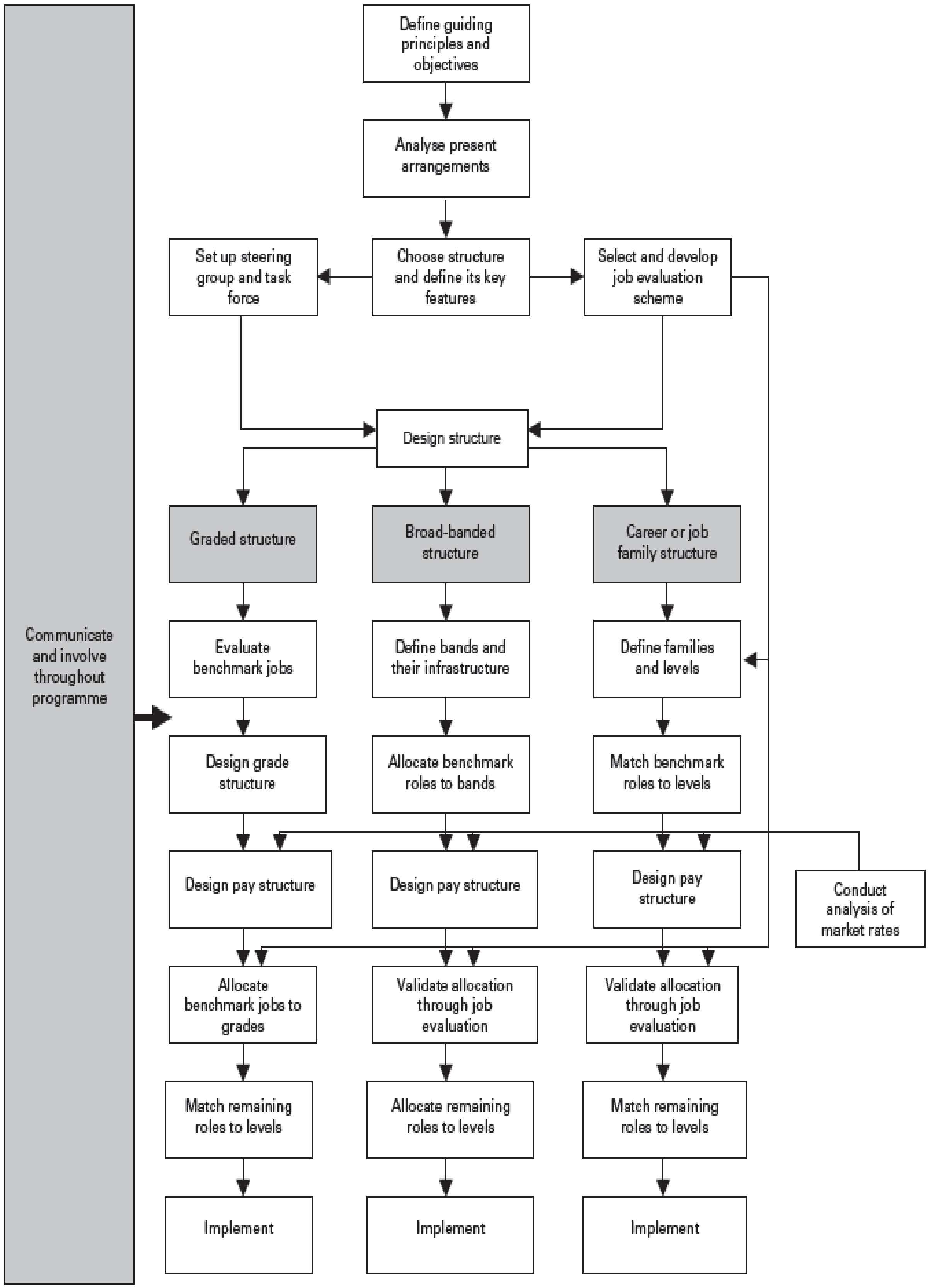
For the implementation, Armstrong and Brown (2001) suggested the following planned approach for implementation:

- Decide at the planning stage the overall change/transition strategy and timing;
- Model the transition into the new structure and develop policies to manage this Transition;
- Develop detailed operating responsibilities and guidelines for the new structure including the procedures for grading or regrading jobs and managing pay progression. The authority to make pay and grading decisions and methods of budgetary control should also be covered;
- Negotiate the introduction of the new arrangements with staff representatives and trade unions. They should have been involved throughout the process, but the detailed 'nitty-gritty' of actual pay levels and assimilation policies and procedures need to be thrashed out now;
- Produce and distribute communications about the new structure – how it works, who will be involved in managing it and how people will be affected. This is when the benefits of regularly involving and communicating with staff throughout the design and development programme will become apparent. Broad details of the proposed changes and the reasons for them should thereby be known already. The focus at the implementation stage can then be on the detailed designs and their individual impact. It is best to use line managers as the main communicators, helping them with relevant support (booklets, question-and-answer sheets, PowerPoint presentations, etc) to get the key messages over to their staff. Information technology (the intranet) can be used to identify and address specific staff concerns;
- Design and run training workshops for managers, and possibly all staff. In the case of broad-banded structures and some career/job family structures, managers are likely to have more freedom and discretion in positioning staff in bands or family levels and adjusting their pay. But they may well need more than an operating manual and entries on the intranet to help them manage this in an appropriate and fair manner. HR should be prepared to provide coaching to managers as well as more formal courses. They must make themselves available to give guidance, especially to the less committed or experienced managers. A cadre of line managers can be trained to coach their colleagues on managing pay in the new structure;
- Run a pilot or simulation exercise, operating the new approach in parts of the organization, to test its workability and robustness. In one organization

recently, for example, the new system was initially introduced in the IT department, where the market pressures were greatest; this assisted in estimating the HR support required for full roll-out, and also indicated the emphasis required in the staff communication and 'branding' of the changes when full implementation occurred;

- ❖ Full implementation and roll-out. This will include giving every person information on how the new structure affects them and on their right to ask for a review of their grading if they are dissatisfied.

Figure 5.2 Grade and Pay Structure



Source: Armstrong, 2007

2.3 Assimilation policy

The hard part of implementing arrives when the assimilation of staff to the new structure has to take place. It is necessary to have a policy on where staff will be assimilated to the new structure. This is usually at their existing salary or, in the case of a revised pay spine, on the nearest point in a new incremental scale above their existing salary. The following categories of staff should be covered by the assimilation policy:

i. ***Employees with current pay and pay potential both within the new pay range.*** In some ways this group is the easiest to deal with and the majority of staff will normally be included in it. The wider the grades the more likely that is to be the case. One point at issue is whether or not any increase should be awarded on transition and the answer should be 'no' except when, as mentioned above, the policy is to move each person's pay to the nearest higher pay point. Good advance communications should have conveyed the fact that job evaluation and a new pay structure do not necessarily mean any increase in pay. But some people in this group may still feel disadvantaged at seeing others getting increases. This negative reaction can be decreased by introducing the new structure at the same time as any annual pay increase, so that everyone gets at least something. It is necessary to be aware of the possibility of creating equal pay problems when assimilating staff to their new scale. For example, if two people with broadly equivalent experience and skills are on different current salaries and are assimilated into the same new grade but at those rates, it would appear that there is no equal pay problem – they are both on the same grade with the same grade and salary potential. But an equal value issue is only avoided if a lower-paid woman or man has the opportunity to catch up with the higher-paid man or woman within a reasonable period (say three or four years).

ii. ***Employees whose current pay is within the new pay range but pay potential higher than the new maximum.*** No immediate increase is necessary in this circumstance but employees should be told what will happen if progression to the old maximum was based on service only, ie automatic annual increases to the maximum. This guarantee will have to be retained and, contractually, it may be necessary to go on awarding increments to the maximum of the previous scale. However, once a person's pay passes the maximum for the grade as a result of service-related increases, this will then become a red-circle situation and should be treated. If progression to the old maximum was not guaranteed, but was based on performance, competencies, etc, then the new range maximum should normally be applied. Care will be needed to ensure that this does not adversely affect any specific category of employees, particularly female staff.

iii. ***Employees whose current pay is below the minimum for the new grade***. Both justice and equity demand that, if someone has now been identified as being underpaid, that situation should be rectified as quickly as possible. Correcting this situation, by raising the pay to the minimum of the new pay range, should normally be the first call on any money allocated to the assimilation process. Each case should, however, be taken on its merits. If someone has recently been appointed to a post and given a pay increase at that time, it may be appropriate to wait until that person has completed a probationary period before awarding another pay increase. If the total cost of rectifying underpayments is more than the organization can afford, it may be necessary, however unpalatable to 'green-circle' them and phase the necessary increases, say one portion in the current year and the rest in the next year – it is undesirable to phase increases over a longer period unless the circumstances are exceptional. The simplest approach is to place a maximum on the increase that any one person may receive. This can be in absolute terms (eg maximum of £3,000) or in percentage increase terms (eg maximum of 25 per cent of current pay). Another alternative is to use an annual 'gap reduction' approach (eg pay increase of 40 per cent of the difference between current pay and range minimum or £600, whichever is the greater).. Again, if any delay in rectifying underpayment situations is necessary and some staff are to be green-circled, it must not disadvantage one staff group more than another. Most organizations introducing job evaluation for the first time (or replacing an outdated scheme) and using the outcome to devise a new pay structure will find that more women than men have to be green-circled. Failure to correct these underpayments would be a perpetuation of gender bias.

iv. ***Employees whose current pay is above the maximum for the new grade.*** These situations, which lead to red-circling, are usually the most difficult to deal with. They normally include a high proportion of people (often male) who have been in their current job a long time and who have been able to benefit from a lax approach to pay management in the past. People can take different attitudes about what should be done about these situations and, as a result, the most protracted of the implementation negotiations are often centered on 'how to handle the red circles' (protection policy). At one end of the scale is the argument that these people are now known to be receiving more pay than the job is worth and that this should be stopped as soon as possible, especially if the organization needs that money to pay more to those people who have been (or are still) receiving less than they should. The opposite stance is that these people have become accustomed to a standard of living based on the pay that the organization has been willing to provide up to now and they should not suffer just because new standards are being applied. This is the principle that is usually adopted but there are different ways of applying it.

2.4 Protection policies

Indefinite protection that is, maintaining the difference between current pay and the range maximum for as long as the employee remains in the job, is highly undesirable, first because it will create permanent anomalies and, second, because, where there are a lot of men in this situation (which is often the case), it will perpetuate unacceptable gender gaps. The Equal Opportunities Commission in its Good Practice Guide: Job evaluation schemes free of sex bias (4) states that red-circling 'should not be used on such a scale that it amounts to sex discrimination'. And, as stated by the Equal Pay Task
Force (5): 'The use of red or green circling which maintains a difference in pay between
men and women over more than a phase-in period of time will be difficult to justify.' Because of these considerations, the most common approach is now to provide for red-circled employees to receive any across-the-board (cost of living) increase awarded to staff generally for a protection period, which is usually limited to three or four years. They will no longer be entitled to general increases after the time limit has

been reached (ie they will ‘mark time’) until their rate of pay falls within the new scale for their job. They will then be entitled to the same increases as any other staff in their grade up to the grade maximum. If a red-circled individual concerned leaves the job, the scale of pay for the job reverts to the standard range as set up following job evaluation. Where there is an incremental pay structure it is usual to allow staff to continue to earn any increments to which they are entitled under existing arrangements up to the maximum of their present scale.

If there is no limit to the protection period, red-circled staff continue to be eligible for general increases for as long as they remain in their present job. They are then on what is sometimes called a ‘personal to job holder’ scale to be worth the current salary, then they may well be underused in their existing job. Throughout the protection period, and particularly at the start of it, every attempt should be made to resolve the red-circle cases by other means. If job holders are thought Attempts should be made to resolve this by either increasing the job responsibilities so that the job will justify regrading to a higher grade or moving the person concerned to a higher-graded job as soon as an appropriate vacancy arises.

3.0 Conclusion

This unit was concerned with approaches, options and guidelines for the development of grade and pay structures. It starts with a statement of guiding principles and, as an introduction to the process, quotes the views of some practitioners on managing design projects. The chapter continues with a description of the design process covering the analysis of present arrangements and the selection of a structure, including the criteria for choice, design options and the use of job evaluation. The unit ends with a discussion of the process of implementing new or radically changed structures with particular reference to assimilation and protection issues.

4.0 Summary

In this unit, we discussed the guiding principles, steps for grades and pay structures. Efforts was made in discussing assimilation and protection issues as it relates to reward management.

UNIT 3 EQUAL PAY FOR EQUAL WORK

CONTENT

1.0 INTRODUCTION

The equal-pay-for-work-of-equal-value legal framework is based on the provisions of European legislation, the 1970 Equal Pay Act as amended by the Equal Pay (Amendment) Regulations 1983, plus the case law. The legislation essentially provides that pay differences are allowable only if the reason for them is not related to the sex of the job holder. The Act and its amendment are implemented through employment tribunals. The same principles of fairness and equity of course apply to other potential areas of discrimination because of race, religion, disability or age that results in pay inequities.

Discrimination arises when equal people are treated unequally. Pay discrimination can take place because of race, sex, disability or age. For instance, historically, its generally accepted in a man's world that women's place was in the home, unless the need arises for them to carry out menial and underpaid jobs. Women's work has been undervalued because of the low rates of pay. It has been a vicious circle. Prior to the Equal Pay Act in 1970, collective agreements tended to have only one rate of pay for women workers, with no differentiation between grades of work or levels of skill.

2.0 MAIN CONTENT

2.1 Equal Pay Claim

Equal pay claim, which may be supported by a completed equal pay questionnaire, can be made to an employment tribunal on any of the following three grounds:

i. where the work is like work, meaning the same or very similar work;
ii. where the work is work rated as equivalent under a job evaluation 'study';
iii. where the work is of equal value 'in terms of the demands made on a worker under various headings, for instance, effort, skill, decision'.

If a tribunal finds that the work is the same, equivalent or of equal value it can invoke the equality clause in the legislation and rule that the man and the woman should be paid the same. The following are reasons for unequal pay claims

1. Proof that work is unequal

The onus is on the employer to prove that the complainant is not carrying out like work, work rated as equivalent or work of equal value when compared with the comparator. If the employer applies job evaluation to provide support to a claim that the jobs are not equal, it must be analytical, unbiased and applied in a non-discriminatory manner. Analytical means that the scheme must analyse and compare jobs by reference to factors such as, in the words of the Equal Pay Regulations, 'effort, skill, decision'. Slotting jobs on a whole job comparison basis is not acceptable as a defence. The legislation and case law do not specify that a point-factor or a scored factor comparison scheme should be used, and even if an 'analytical matching' process is followed.

2. Genuine Material Factor.

The legislation provides for a case to be made by the employer that there is a 'genuine material factor' creating and justifying the difference between the pay of the applicant and the comparator. A genuine material factor could be the level of performance or length of service of the comparator, which means that he or she is paid at a higher level than the applicant in the pay range for a job. But this only applies if the basis for deciding on additions to pay and the process of doing so are not discriminatory. The Crossley case referred to above is an example of where a tribunal found that length of-service criteria could be discriminatory if they meant that women are paid less than men and find it hard to catch up.

Pay differences because of market supplements can be treated as genuine material factors as long as they are 'objectively justified'. In the case of a claim that market pressures justify unequal pay the tribunal will need to be convinced that this was not simply a matter of opinion and that adequate evidence from a number of sources was available. In such cases, the tribunal will also require proof that the recruitment and retention of the people required by the organization were difficult because pay levels were uncompetitive.

If there is any doubt as to whether or not work is of equal value, employment tribunals
will require an independent expert to prepare a report. The expert must:

- evaluate the jobs concerned analytically;
- take account of all information supplied and representations that have a bearing on the question;
- before reporting, send the parties a written summary of the information and invite representations;
- include the representations in the report, together with the conclusion reached on the case and the reason for that conclusion;
- take no account of the difference in sex, and at all times act fairly.

2.2 How to avoid equal pay claims.

To avoid successful equal pay claims, which can be very expensive and time-consuming, there are five things an organization must do:

a. Use a non-discriminatory analytical job evaluation scheme designed and operated to avoid discrimination as explained later in this unit.
b. Conduct regular equal pay reviews or audits as described in the next chapter and take action if they reveal pay discrimination.
c. Ensure that there is objective and non-discriminatory justification for any differences in pay between men and women.
d. Adopt a non-discriminatory grade and pay structure as will be described in the next module.
e. Ensure that everyone is aware that one of the most important core values of the organization is the provision of equal opportunities to enable women to have the same chance as men to progress their careers and therefore be given

equal pay for work of equal value. Steps must be taken to ensure that this core value is acted upon.

2.3 Avoiding Discrimination in Job Evaluation

The main points on avoiding discrimination made by the Equal Opportunities Commission in its Good Practice Guide: Job evaluation schemes free of sex bias and in case law are:

i. The scheme should be analytical.

ii. The scheme should be appropriate for the jobs it is intended to cover – it should incorporate all the important and relevant differentiating characteristics of those jobs.

iii. The scheme should be designed and operated to measure fairly all significant features of jobs typically carried out by women as well as of those generally carried out by men.

iv. The factors should operate fairly.

v. The factor and level definitions should be exact, and detailed descriptions should be provided for each factor.

vi. The factors should cover all important job demands. A scheme will be discriminatory if it fails to include or properly take into account a demand such as caring that is an important element in the jobs carried out by women – the exclusion of an important factor will result in it being undervalued compared with other jobs.

vii. Knowledge and skills factors should measure what is actually required for the job (not recruitment level or what the current job holder has), measure all forms of knowledge and skills, not just occupational knowledge, measure actual knowledge (qualifications as indicators, not determinants) and avoid measuring years of experience.

viii. The factor levels should represent clear and recognizable steps in demand and be defined in absolute, not relative, terms, ie they should define the differences in terms of what is done at each level not in terms such as small, bigger or big.

ix. There should be no double-counting of factors.

x. Factors that are characteristic of jobs largely held by one sex should not unjustifiably have a greater number of levels than the number of levels in factors mainly held by the other sex.

xi. Factors that are characteristic of male-dominated jobs should not have a wider dispersion of scores than factors that are characteristic of female-dominated jobs.

xii. There should be a rationale for the scoring and weighting system, eg relative value of factors to the organization, agreed relative values – it should not just give the answer people want.

xiii. The method of scoring for each factor should be reasonably similar.

xiv. Variation between points should reflect real differences in demand.

xv. The weighting system should not favour men or women.

xvi. The selection of benchmark jobs should not favour men or women.

xvii. Job evaluation on the basis of a traditional organizational job description is likely to be unsatisfactory because it leaves evaluators to use their own experience or make assumptions when assessing jobs against factors for which no information is provided.

xviii. Job analysts, facilitators and evaluators should be trained on how to avoid bias.

xix. The selection of grade boundaries should be objectively based on the evidence provided by job evaluation, irrespective of the sex of the job holders.

xx. The outcome of a new job evaluation scheme should be monitored to check for sex bias; other things being equal, it is to be expected that a new job evaluation scheme will result in some upward movement of female-dominated jobs as historical pay discrimination is eliminated, particularly those that show typical features of work carried out by women, relative to other jobs.

xxi. Existing schemes should be kept up to date and reviewed to ensure that sex discrimination has not crept in.

xxii. Evaluation outcomes should be properly recorded with reasons, consistency should be checked by factor and by whole job and the outcome should be revised if there is good reason, e.g. faulty job information or a bad evaluation day.

3.0 Conclusion

The equal-pay-for-work-of-equal-value legal framework is based on the provisions of European legislation, the 1970 Equal Pay Act as amended by the Equal Pay (Amendment) Regulations 1983, plus the case law. The legislation essentially provides that pay differences are allowable only if the reason for them is not related to the sex of the job holder. The Act and its amendment are implemented through employment tribunals. Discrimination arises when equal people are treated unequally. This units concludes that in order to avoid discrimination in job evaluation, Knowledge and skills factors should measure what is actually required for the job (not recruitment level or what the current job holder has), measure all forms of knowledge and skills, not just occupational knowledge, measure actual knowledge (qualifications as indicators, not determinants) and avoid measuring years of experience, there should be no double-counting of factors and factors that are characteristic of male-dominated jobs should not have a wider dispersion of scores than factors that are characteristic of female-dominated jobs among other factors.

4.0 Summary

In this unit, we discussed ways to settle equal pay claim, ways to avoid equal pay claims. Finally, ways to avoid discrimination in job evaluation

UNIT 4 BONUS SCHEMES

CONTENT

1.0 INTRODUCTION

Bonus schemes provide cash payments to employees that are related to the performance of their organization, their team or themselves, or a combination of two or more of these. Bonuses are often referred to as 'variable pay' or 'pay at risk'.

2.0 MAIN CONTENT

2.1 Bonus Scheme

A defining characteristic of a bonus is that it has to be re-earned, unlike increases arising from individual contingent pay schemes such as performance- or contribution related pay or pay related to service, which are consolidated into base pay. Such payments can be described as 'gifts that go on giving'. Cash bonuses may be the sole method of providing people with rewards in addition to their base pay or they may be paid on top of individual contingent pay.

2.2 Aims of Bonus Schemes

The aims of bonus schemes may differ, but typically they include one or more of the following:

- Enable people to share in the success of the organization and therefore increase their commitment to it;
- Provide a reward that recognizes past performance or achievements and encourages individuals and teams to perform well in the future;
- Provide rewards related to business performance to increase motivation, commitment and engagement;
- Provide a direct incentive that increases motivation and engagement and generates higher future levels of individual and team performance;
- Ensure that pay levels are competitive and will attract and retain good-quality people.

2.3 Category of people covered by Bonus Scheme

Bonus schemes based on organizational or individual performance are often only provided for directors and, possibly, senior managers on the grounds that they make the greatest impact on results and should be incentivized and rewarded for their contribution to those results. But this may frustrate other staff who, with justification, could argue that they also make a contribution that deserves a cash reward. They are based on organizational performance may be made available to all staff to provide a general reward and encourage identification with the business. Such bonuses can be in addition to contingent pay. They are sometimes provided in organizations that have team pay for certain categories of staff, eg branch staff in a financial services company, but are unable to extend team payments to other categories of staff who do not work in such well-defined teams. Combination plans may also be applied to all staff although they are sometimes restricted to senior managers. Bonuses based on individual performance may also be paid to all categories of staff or restricted to certain categories, eg directors or sales staff**.**

2.4 Criteria for Designing Bonus Scheme

The following are the criteria for designing Bonus Scheme:

- ❖ It should provide a clear line of sight between effort or contribution and the reward;
- ❖ It should be designed to meet defined objectives;
- ❖ It should result in meaningful rewards;
- ❖ It should be based on realistic, significant and measurable key performance indicators (KPIs) for organizational and team bonus schemes or combination plans;
- ❖ It should be based on a well-established and effective process of performance management for individual bonuses;
- ❖ It should operate fairly, equitably, consistently and transparently;
- ❖ It should be appropriate for the type of people to which it applies;
- ❖ It should be reasonably easy to understand and manage, ie not over-complex;
- ❖ It should contain arrangements to restrict (cap) the maximum payment to an acceptable sum;
- ❖ It should only provide for payment if a demanding threshold of performance is achieved;
- ❖ It should be self-financing;
- ❖ It should provide for review at regular intervals to decide whether the scheme needs to be amended, replaced or cancelled;
- ❖ It should provide scope to moderate corporate bonuses by reference to personal performance.

2.5 Introducing a Bonus Scheme

For an Organization to introduce a bonus scheme, the following are required:

- ❖ Define responsibilities for introducing, maintaining and evaluating the scheme.
- ❖ Consult with those concerned on the purpose and features of the scheme.
- ❖ Pilot-test it if at all possible in a department or division or on a representative sample of employees to obtain information on how well the formula works,

the appropriateness of the measures, the cost of the scheme, its impact, the effectiveness of the process of making decisions on bonuses (eg the application of performance management) and the reactions of staff.

- Prepare a description for communication to staff of the purpose of the scheme, how it works and how staff will be affected.
- Make amendments as necessary in the light of the test.
- Ensure that the scheme is bedded down in the organization's day-to-day operating processes, including management reports and performance reviews.
- Define operating and control processes including responsibilities, the achievement of fairness and consistency and cost control.
- Draw up a budget for the costs of the scheme.
- Prepare a plan for introducing the scheme covering the agreement of performance indicators and targets, methods of reviewing performance, the process of deciding on bonus payments and communications.

2.6 Types of Bonus Scheme

The table below summarised the features of the different types of bonus scheme and advantages and disadvantages.

Table 5.3 summary of types of Bonus Schemes

Approach	Advantages	Disadvantages
Bonus only	– Has to be re-earned. – Can be related to corporate or team performance as well as individual performance, thereby increasing commitment and enhancing teamwork. – Cash sums, as long as they are sizeable, can have a more immediate impact on motivation and engagement.	– May be perceived as arbitrary. – Many people may prefer the opportunity to increase their base pay rather than rely on potentially unpredictable bonus payments. – If unconsolidated, the payment will not be pensionable.
Bonus and Contingent pay	Get best of both worlds: consolidated increases and cash payments	– Potentially complex. – The impact made by either bonuses or consolidated payments might be dissipated, especially when the sums available are divided into

two parts.

3.0 Conclusion

Bonus schemes provide cash payments to employees that are related to the performance of their organization. Aims of bonus schemes include; Enable people to share in the success of the organization and therefore increase their commitment to it; Provide a reward that recognizes past performance or achievements and encourages individuals and teams to perform well in the future;

Provide rewards related to business performance to increase motivation, commitment and engagement among others. Certain criteria were highlighted for effective bonus scheme which include; It should operate fairly, equitably, consistently and transparently; It should be reasonably easy to understand and manage, ie not over-complex and It should be self-financing among others.

4.0 Summary

In this unit, we discussed bonus schemes, aims of bonus scheme, criteria for a good a bonus scheme. Finally, the various types of bonus schemes used in our organizations.

5.0 TUTOR-MARKED ASSIGNMENT

1. What are the different grading and payment schemes available to organizations in Nigeria?

1. Why do you think we have different pay schemes in Nigeria?
2. What principles can guide Nigerian organizations in building and implementing a good pay schemes?
3. How do you think Nigerian managers can avoid discrimination in Job evaluation?
4. What are the aims and criteria for designing an effective bonus schemes?

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Module 6 Compensation

Unit 1 Concepts, Objectives, significance, Components and Policies
Unit 2 Compensation Design and Philosophy
Unit 3 Tying Compensation to retention and Human Resource
Unit 4 Wages theories
Unit 5 Downsizing and Voluntary Retirement Scheme

UNIT 1 CONCEPTS, OBJECTIVES, SIGNIFICANCE, COMPONENTS, POLICIES AND TYPES OF COMPENSATION.

CONTENT

1.0 INTRODUCTION

Compensation is a systematic approach to providing monetary value to employees in exchange for work performed. Compensation may achieve several purposes assisting in recruitment, job performance, and job satisfaction.

2.0 MAIN CONTENT

2.1 Concept of Compensation

Compensation management is the process of establishing and maintaining an equitable wage and salary structure, an equitable cost structure. It involves job evaluation, wage and salary survey, profit sharing and control of pay costs. The two most important functions of compensation are:

- Equity function;
- Motivation Function.

Compensation of employees for their services is important responsibility of human resource management. Every organization must offer good wages and fringe benefits to attract and retain talented employees with the organization. If at any time, the wages offered by a firm are not competitive as compared to other firms, the efficient workers may leave the firm. Therefore, workers must be remunerated adequately for their services. Compensation to workers will vary depending upon the nature of job, skills required, risk involved, nature of working conditions, paying capacity of the employer, bargaining power of the trade union, wages and benefits offered by the other units in the region or industry etc., Considering that the current trend in many sectors (particularly the knowledge intensive sectors like IT and Services) is to treat the employees as “creators and drivers of value” rather than one more factor of production, companies around the world are paying close attention to how much they pay, the kind of components that this pay includes and whether they are offering competitive compensation to attract the best talent

Dessler (1974), sees Employee compensation to refer to all forms of pay going to employees and arising from their employment.” The phrase ‘all forms of pay’ in the definition does not include non-financial benefits, but all the direct and indirect financial compensations.

According to Bergmann (1988), compensation consists of four distinct components: Wage or Salary + Employee benefits +Non-recurring financial rewards+ Non-pecuniary rewards.

Compensation refers to a wide range of financial and non-financial rewards to employees for their services rendered to the organization. It is paid in the form of wages,
salaries and employee benefits such as paid vacations, insurance maternity leave, free travel facility, retirement benefits etc., Monetary payments are a direct form of compensating the employees and have a great impact in motivating employees.
The system of compensation should be so designed that it achieves the following objectives.

- ❖ The capable employees are attracted towards the organization
- ❖ The employees are motivated for better performance
- ❖ employees do not leave the employer frequently.

2.2 Objectives of Compensation Management

1. To Establish a Fair and Equitable Remuneration

Effective compensation management objectives are to maintain internal and external equity in remuneration paid to employees. Internal equity means similar pay for similar
work. In other words, compensation differentials between jobs should be in proportion of differences in the worth of jobs. External equity implies pay for a job should be equal to pay for a similar job in other organizations. Payments based on jobs requirements, employee performance and industry levels minimize favoritism and inequities in pay.

2. To Attract Competent Personnel

A sound wage and salary administration helps to attract qualified and hardworking people by ensuring an adequate payment for all jobs. For example, IT companies are competing each other and try their level best to attract best talents by offering better compensation packages.

3. **To Retain the Present Employees**

By paying competitive levels, the company can retain its personnel. It can minimize the incidence of quitting and increase employee loyalty. For example, employees' attrition is high in knowledge sectors (Ad-agency, KPO, BPO etc.,) which force the companies to offer better pay to retain their employees.

4. **To Improve Productivity**

Sound wage and salary administration helps to improve the motivation and morale of employees which in turn lead to higher productivity. Especially, private sectors companies' offer production linked compensation packages to their employees which leads to higher productivity.

5. **To Control Cost**

Through sound compensation management, administration and labour costs can be kept in line with the ability of the company to pay. If facilitates administration and control of pay roll. The companies can systematically plan and control labour costs.

6. **To Improve Union Management Relations**

Compensation management based on jobs and prevailing pay levels are more acceptable to trade unions. Therefore, sound wage and salary administration simplifies
collective bargaining and negotiations over pay. It reduces grievances arising out of wage inequities.

7. **To Improve Public Image of the Company**

Wage and salary programs also seeks to project the image of the progressive employer and to company with legal requirements relating to wages and salaries.

8. **To Improve Job Satisfaction**

If employees are happy with their jobs and would love to work for the company. They are expected get fair rewards in exchange of their services.

9. **To Motivate Employees**

Employees have different kinds of needs. Some of them want money so they work for the company which gives them higher pay. Some of them value achievement more than money, they would associate themselves with firms which offer greater chances of promotion, learning and development. A compensation plan that hits workers' needs is more likely to motivate them to act in the desired way.

10. Peace of Mind

Offering of several types of insurances to workers relieves them from certain fears, as a result, workers now work with relaxed mind.

11. Increases Self-Confidence

Every human being wants his/her efforts to get acknowledgment. Employees gain more and more confidence in them and in their abilities if they receive just rewards. As a result, their performance level shoots up.

2.3 Significance of Compensation Management

Compensation and Reward system plays vital role in a business organization. Since, among four Ms, i.e. Men, Material, Machine and Money. Men has been most important
factor, it is impossible to imagine a business process without Men. Every factor contributes to the process of production/business. It expects return from the business process such as rent is the return expected by the landlord, capitalist expects interest and organizer i.e. entrepreneur expects profits. Similarly, the labour expects wages from the process. Labour plays vital role in bringing about the process of production/business in motion. The other factors being human, has expectations, emotions, ambitions and egos. Labour therefore expects to have fair share in the business/production process. Therefore, a fair compensation system is a must for every business organization. A fair compensation system will help an organization in the following ways:

- ❖ An ideal compensation system will have positive impact on the efficiency and results produced by employees. It will encourage the employees to perform better and achieve the standards fixed.

- It will enhance the process of job evaluation. It will also help in setting up an ideal job evaluation and the set standards would be more realistic and achievable.
- Such a system should be well defined and uniform. It will be applied to all the levels of the organization as a general system.
- It will raise the morale, efficiency and cooperation among the workers. It, being just and fair would provide satisfaction to the workers.
- An ideal compensation system will have positive impact on the efficiency and results produced by employees. It will encourage the employees to perform better and achieve the standards fixed.
- It will enhance the process of job evaluation. It will also help in setting up an ideal job evaluation and the set standards would be more realistic and achievable.
- Such a system should be well defined and uniform. It will be applied to all the levels of the organization as a general system. The system should be simple and flexible so that every employee would be able to compute his own compensation receivable.
- It should be easy to implement, should not result in exploitation of workers.
- It will raise the morale, efficiency and cooperation among the workers. It, being just and fair would provide satisfaction to the workers.
- Such system would help management in complying with the various labor acts.
- Such system should also solve disputes between the employee union and management.
- The system should follow the management principle of equal pay.
- It should motivate and encouragement those who perform better and should provide opportunities for those who wish to excel.
- Sound Compensation/Reward System brings peace in the relationship of employer and employees.
- It aims at creating a healthy competition among them and encourages employees to work hard and efficiently.
- The system provides growth and advancement opportunities to the deserving employees.

- A perfect compensation system provides platform for happy and satisfied workforce. This minimizes the labour turnover. The organization enjoys the stability.
- The organization is able to retain the best talent by providing them adequate compensation thereby stopping them from switching over to another job.
- The business organization can think of expansion and growth if it has the support of skillful, talented and happy workforce.
- A sound compensation system is a hallmark of organization's success and prosperity.
- The success and stability of organization is measured with pay-package given to its employees.

2.4 Components of Compensation

The following are the constituents of Compensation:

1. Basic Wages/Salaries

Basic wages / salaries refer to the cash component of the wage structure based on which other elements of compensation may be structured. It is normally a fixed amount which is subject to changes based on annual increments or subject to periodical pay hikes. Wages represent hourly rates of pay, and salary refers to the monthly rate of pay, irrespective of the number of hours put in by the employee. Wages and salaries are subject to the annual increments. They differ from employee to employee, and depend upon the nature of job, seniority, and merit.

2. Dearness Allowance

The payment of dearness allowance facilitates employees and workers to face the price increase or inflation of prices of goods and services consumed by him. The onslaught of price increase has a major bearing on the living conditions of the labour. The increasing prices reduce the compensation to nothing and the money's worth is coming down based on the level of inflation. The payment of dearness allowance, which may be a fixed percentage on the basic wage, enables the employees to face the increasing prices.

3. Incentives

Incentives are paid in addition to wages and salaries and are also called 'payments by results'. Incentives depend upon productivity, sales, profit, or cost reduction efforts. There are:

(a) Individual incentive schemes, and

(b) Group incentive programmes.

Individual incentives are applicable to specific employee performance. Where a given task demands group efforts for completion, incentives are paid to the group as a whole. The amount is later divided among group members on an equitable basis.

4. Bonus

The bonus can be paid in different ways. It can be fixed percentage on the basic wage paid annually or in proportion to the profitability. The Government also prescribes a minimum statutory bonus for all employees and workers. There is also a bonus plan which compensates the managers and employees based on the sales revenue or profit margin achieved. Bonus plans can also be based on piece wages but depends upon the productivity of labour.

5. Non-Monetary Benefits

These benefits give psychological satisfaction to employees even when financial benefit is not available. Such benefits are:

(a) Recognition of merit through certificate, etc.

(b) Offering challenging job responsibilities,

(c) Promoting growth prospects,

(d) Comfortable working conditions,

(e) Competent supervision, and

(f) Job sharing and flexi-time.

6. Commissions

Commission to managers and employees may be based on the sales revenue or profits of the company. It is always a fixed percentage on the target achieved. For taxation purposes, commission is again a taxable component of compensation.

The payment of commission as a component of commission is practiced heavily on target based sales. Depending upon the targets achieved, companies may pay a commission on a monthly or periodical basis.

7. Mixed Plans

Companies may also pay employees and others a combination of pay as well as commissions. This plan is called combination or mixed plan. Apart from the salaries paid, the employees may be eligible for a fixed percentage of commission upon achievement of fixed target of sales or profits or Performance objectives. Nowadays, most of the corporate sectors are following this practice. This is also termed as variable component of compensation.

8. Piece Rate Wages

Piece rate wages are prevalent in the manufacturing wages. The laborers are paid wages for each of the Quantity produced by them. The gross earnings of the labour would be equivalent to number of goods produced by them. Piece rate wages improves productivity and is an absolute measurement of productivity to wage structure. The fairness of compensation is totally based on the productivity and not by other qualitative factors.

9. Fringe Benefits

Fringe benefits may be defined as a wide range of benefits and services that employees receive as an integral part of their total compensation package. They are based on critical job factors and performance. Fringe benefits constitute indirect compensation as they are usually an extended of condition of employment and not directly related to performance of concerned employee. Fringe benefits are supplements to regular wages received by the workers at a cost from their employers. They include benefits such as paid vacation, pension, health and insurance plans, etc. Such benefits are computable in terms of money and the amount of benefit is generally not predetermined. The purpose of fringe benefits is to retain efficient and capable people in the organization over a long period. They foster loyalty and acts as a security base for the employees.

10. Profit Sharing

Profit-sharing is regarded as a stepping stone to industrial democracy. Profit-sharing is an agreement by which employees receive a share, fixed in advance of the profits. Profit sharing usually involves the determination of an organization's profit at the end of the fiscal year and the distribution of a percentage of the profits to the workers qualified to share in the earnings. The percentage to be shared by the workers is often predetermined at the beginning of the work period and is often communicated to the workers so that they have some knowledge of their potential gains. To enable the workers to participate in profit sharing, they are required to work for certain number of years and develop some seniority.

The theory behind profit-sharing is that management feels its workers will fulfill their responsibilities more diligently if they realize that their efforts may result in higher profits, which will be returned to the workers through profit-sharing.

2.5 Compensation Policy

It is a general practice the world over that employees make comparisons between themselves and their co-workers. They perceive what they get from a job situation (outputs) in relation to what they must put into it (inputs). They also compare their output-input ratio with the output-input ratio of their fellow-workers. If a person's ration and that of others are perceived to be equal a state of equity is said to exist. If they are unequal, inequity exists i.e., the individual (employee) considers himself/herself as 'under rewarded' or 'over rewarded'. When an employee envisions an equity, he may choose anyone or more of five alternatives:

i. distort either his own or other inputs or outputs;
ii. behave in the same way as to induce others to his own inputs or outputs;
iii. behave in some way as to change his own inputs or outputs;
iv. choose a different comparison referent; and
v. leave the job.

Equity approach recognizes that individuals are concerned not only with the absolute amount of money they are paid for their efforts but also with the relationship of this amount to what others are paid. They make judgment as to the relationship between their inputs and outputs with those of the others. Based on one's inputs such as effort, education and competence - one compares outputs - such as salary levels, raises and other factors. When people perceive an imbalance in their input output ratio relative to others tension is created. It may result in lower productivity, more absenteeism, etc. This tension provides the basis for motivation, as one strives for what he perceives as equity and fairness.

To get relief, the employee may decrease his inputs while holding his output constant, or increase his outputs while holding inputs constant - possibly resulting in fighting the system, increased absenteeism, or other undesirable behaviours.

2.5.1 Base compensation- Job

One of the most difficult functions of personnel management is that of determining rates of monetary compensation. Not only is it one of the most complex duties, but it is also one of the most significant to both the organization and the employee. It is important to the organization, because wages and salaries often constitute the greatest single cost of doing business; in 1929 employee compensation amounted to 58 percent of the nation's income, as compared with 75 percent in recent years. It is important to the employee because the paycheck often is the sole means of economic survival: it is also one of the most influential factors determining status in society. As far as the organization is concerned, employee compensation programs are designed to do three things:

i. To attract capable employees to the organization,
ii. To motivate them toward superior performance,
iii. To retain their service over an extended period of time.

When coupled with surveys of rates paid by competing firms, the organization can establish a pay policy that will meet its desired goal of attracting sufficient personnel to accomplish work tasks. In many cases, organizations prefer that their employees perform at a rate higher than average.

2.5.2 Factors Affecting Compensation Policy

Though a considerable amount of guesswork and negotiation are involved in salary determination, certain factors have been extracted as having an important bearing upon the final naira decision. Among these factors are the following:

i. Supply and demand for employee skills,
ii. Labor organizations,
iii. The firm's ability to pay,
iv. Productivity of the firm and the economy,
v. Cost of living, and
vi. Government.

Each of these will be discussed briefly in order to demonstrate the exceedingly complex nature of compensation. Perhaps a realization of these complexities will lead to a greater appreciation and acceptance of job evaluation despite its arbitrariness and scientific failings.

1. **Supply and demand and demand for employees.** The supply and demand for employees through the commodity approach to labour, is not completely correct, it is nevertheless true that a wage is a price for the services of a human being. The firm desires these services, and it must pay a price that will bring forth the supply, which is controlled by the individual worker or by a group of workers acting in concert. The primary practical result of the operation of this law of supply and demand is the creation of the "going-wage rate." It will be demonstrated later how the wage and salary survey of this going rate is incorporated into a job evaluation approach to wage determination. We shall discuss the charges of certain groups that the market going rate reflects fundamental biases towards female employees. This simple statement on the effect that the demand and supply of labor have on wages belies its complexity. It is not practicable to draw demand-and-supply curves for each job in an organization, even though, theoretically, a separate curve exists for each job. But in general, if anything works to decrease the supply of labor, such as restriction by a particular labor union, there will be a tendency to increase the compensation. If anything works to increase the employer's demand for labor, such as wartime prosperity, there will be a tendency to

increase the compensation. The reverse of each situation is likely to result in a decrease in employee compensation, provided other factors do not intervene.

In a strike for higher wages, the employer's demand for labor to meet a market need is pitted against a supply withheld by the union. Union leaders are often very adroit in selecting the appropriate time to strike as judged by the markets for the employer's products. To strengthen their control over the supply of labor, unions seek such goals as union or closed shops, regulated or restricted substitution of capital for labor through technology, and controlled entry into apprenticeship programs. All compensation must come from products sold in a market that is usually competitive in nature. Inequitable compensation to any or all will create trouble in maintaining the health of the organization. The increase in the strength of labor unions is due, in part; to the fact the employees' interests had not been receiving attention equal to that given to other components of the enterprise.

2. **Labour.** The ability to pay Labor unions have often demanded an increase in compensation on the basis that the firm is prosperous and able to pay. However, the fundamental determinants of the wage rate for the individual firm issue from supply and demand.
3. **Ability to pay** If the firm is marginal and cannot afford to pay competitive rates, its employees will generally leave it for better-paying jobs. Admittedly, this adjustment is neither immediate nor perfect because of problems of labor immobility and lack of perfect knowledge of alternatives. If the firm is highly successful, there is little need to pay far more than the competitive rate to obtain personnel. Such a firm, however, may choose to adopt a policy of paying above the competitive rate in order to attract a superior caliber of personnel. If firms in general are prosperous and able to pay, the tendency is to bid up the price of labor as a whole.
4. **Cost of Living.** Another formula hailed by many as the answer is the cost-of living adjustment of wages. Among the problems engendered by this approach are the following:

a. No cost-of-living formula will indicate what the base compensation should be-it merely indicates how that rate should vary;

b. This approach tends to increase monetary income but freeze real income, a result with which labor is not content; and

c. As in the case of productivity indexes, there are certain measurement problems in ascertaining cost-of-living increases. The Consumer Price Index of the Bureau of Labor Statistics, however, is widely accepted and followed by many employers and labor organizations. Cost-of-living adjustment of compensation constitutes no fundamental solution to equitable compensation to employees. It is useful as a stopgap device in times of inflation when labor is pressed to keep up with the rise in prices.

5. **Government** Our varying levels of government often have very specific things to say about wages and salaries despite the theoretical and nebulous nature of equitable compensation. There are at least three major federal laws that deal directly with the subject of compensation. Employees assigned to executive, administrative, or professional positions are usually excluded from coverage by the act. Labor organizations constantly press for increases in the minimum wage, decreases in the standard workweek, and increases in the penalty for overtime hours, all in the interest of increasing total compensation for labor.

2.5.3 Types of Compensation / Base and Supplementary Compensation

Total compensation returns are more transactional. They include pay received directly as cash (like base, merit, incentives, cost of living adjustments) and indirectly as benefits (like pensions, medical insurance, programs to help balance work and life demands, brightly coloured uniforms). Programme to pay to people can be designed in a wide variety of ways, and a single employer typically uses more than one.

1. Direct /Base Compensation

Direct compensation refers to monetary benefits offered and provided to employees in return of the services they provide to the organization. The monetary benefits include basic salary, house rent allowance, conveyance, leave travel allowance, medical reimbursements, special allowances, bonus, Pf/Gratuity, etc. They are given at a regular interval and at a definite time.

A. Basic Salary

Salary is the amount received by the employee in lieu of the work done by him/her for a certain period say a day, a week, a month, etc. It is the money an employee receives from his/her employer by rendering his/her services.

B. House Rent Allowance

Organizations either provide accommodations to its employees who are from different state or country or they provide house rent allowances to its employees. This is done to provide them social security and motivate them to work.

C. **Conveyance**

Organizations provide for cab facilities to their employees. Few organizations also provide vehicles and petrol allowances to their employees to motivate them.

D. Leave Travel Allowance

These allowances are provided to retain the best talent in the organization. The employees are given allowances to visit any place they wish with their families. The allowances are scaled as per the position of employee in the organization.

E. Medical Reimbursement

Organizations also look after the health conditions of their employees. The employees are provided with medical claims for them and their family members. These medical claims include health-insurances and treatment bills reimbursements.

F. Bonus

Bonus is paid to the employees during festive seasons to motivate them and provide them the social security. The bonus amount usually amounts to one month's salary of the employee.

G. Special Allowance

Special allowance such as overtime, mobile allowances, meals, commissions, travel expenses, reduced interest loans; insurance, club memberships, etc are provided to employees to provide them social security and motivate them which improve the organizational productivity.

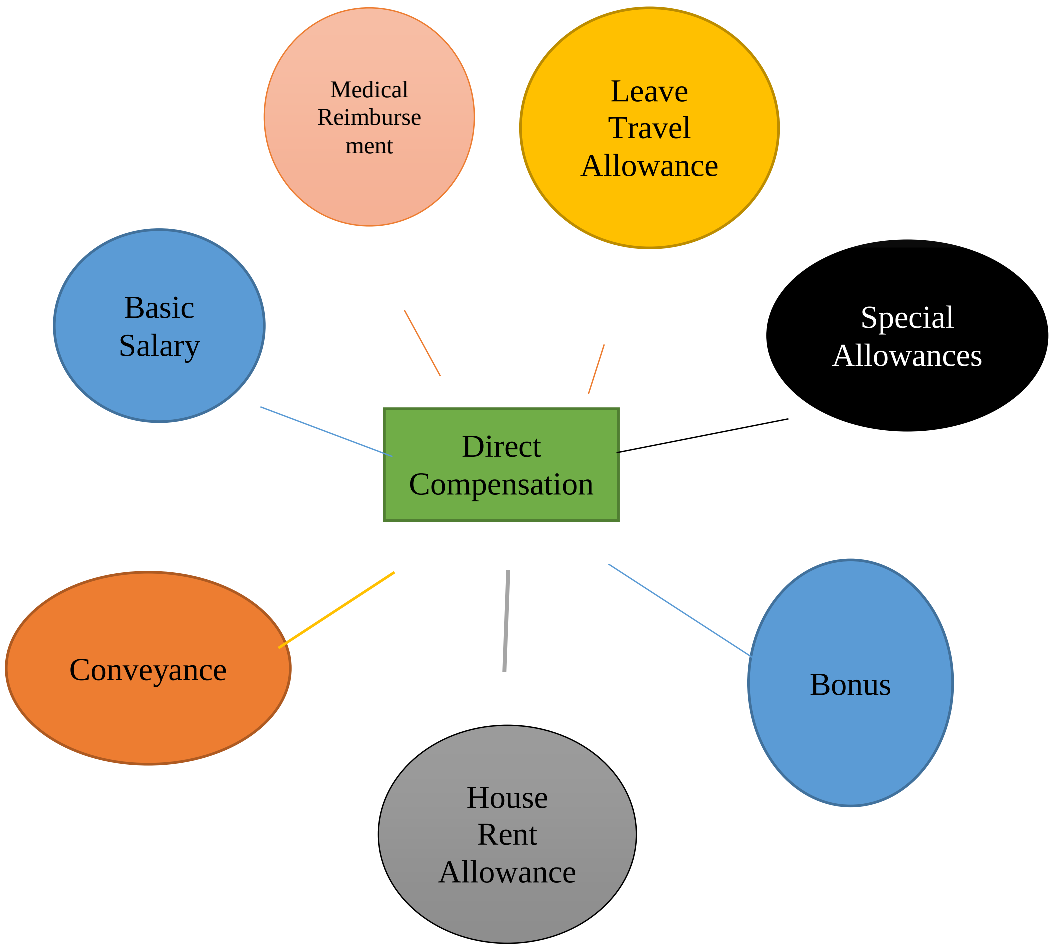

Figure 6.1 Direct compensation components

2. Indirect /Supplementary Compensation

Indirect compensation refers to non-monetary benefits offered and provided to employees in lieu of the services provided by them to the organization. They include Overtime Policy, Leave policy, Car policy, Hospitalization, Insurance, Leave travel Assistance Limits, Retirement Benefits, Holiday Homes.

A. Overtime Policy

Employees should be provided with the adequate allowances and facilities during their overtime, if they happened to do so, such as transport facilities, overtime pay, etc.

B. Leave Policy

It is the right of employee to get adequate number of leave while working with the organization. The organizations provide for paid leaves such as, casual leaves, medical leaves (sick leave), and maternity leaves, statutory pay, etc.

C. Holiday Homes

Organizations provide for holiday homes and guest house for their employees at different locations. These holiday homes are usually located in hill station and other most wanted holiday spots. The organizations make sure that the employees do not face any kind of difficulties during their stay in the guest house.

D. Flexible Timings

Organizations provide for flexible timings to the employees who cannot come to work during normal shifts due to their personal problems and valid reasons.

E. Insurance

Organizations also provide for accidental insurance and life insurance for employees. This gives them the emotional security and they feel themselves valued in the organization.

F. Leave Travel

The employees are provided with leaves and travel allowances to go for holiday with their families. Some organizations arrange for a tour for the employees of the organization. This is usually done to make the employees stress free.

G. Retirement Benefits

Organizations provide for pension plans and other benefits for their employees which benefits them after they retire from the organization at the prescribed age.

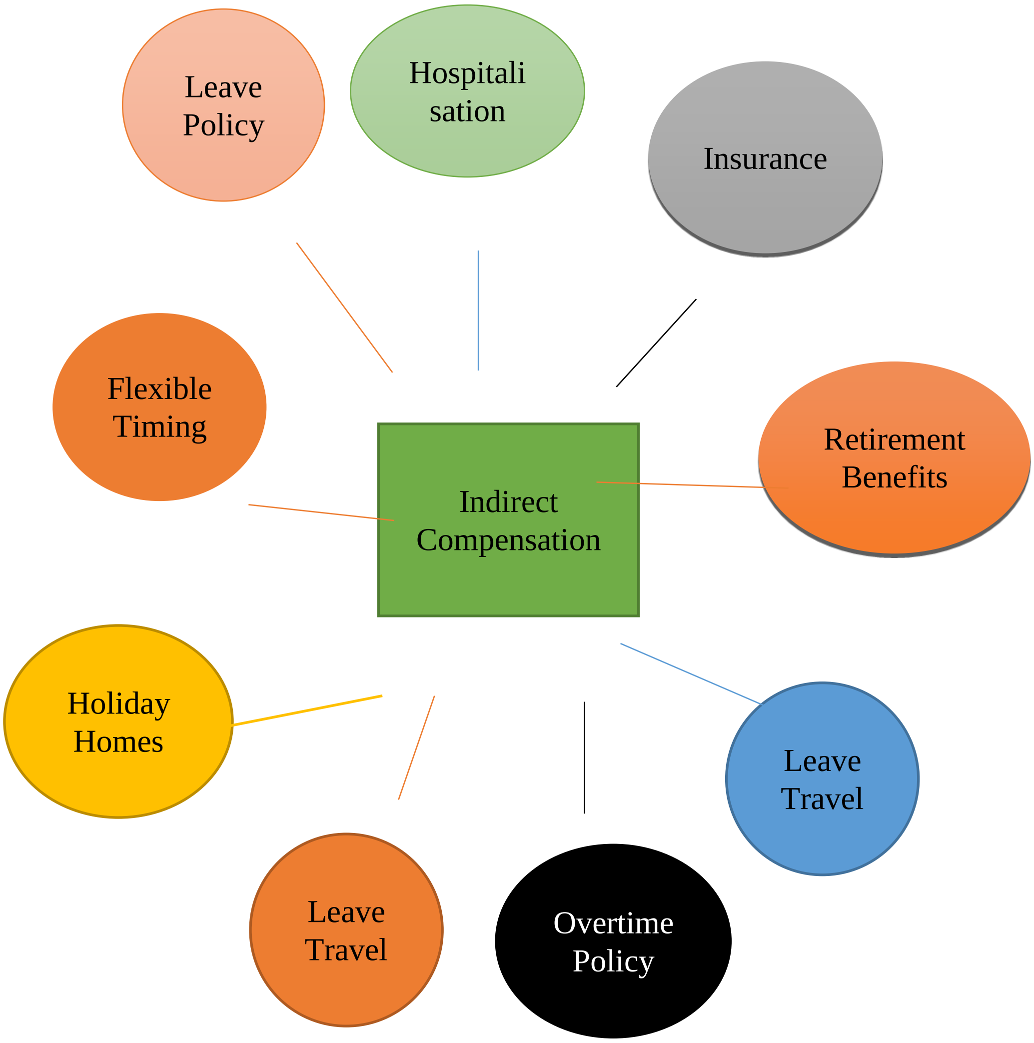

Figure 6.2 Indirect compensation Components

2.6. Factors to be considered when Deciding Compensation

Employers decide on what is the right compensation after taking into account the following points. The Job Description of the employee that specifies how much should be paid and the parts of the compensation package. The Job Description is further made up of responsibilities, functions, duties, location of the job and the other factors like environment etc. These elements of the job description are taken individually to arrive at the basic compensation along with the other components like benefits, variable pay and bonus. It needs to be remembered that the HRA or the House Rental Allowance is determined by a mix of factors that includes the location of the employee and governmental policies along with the grade of the employee.

Hence, it is common to find a minimum level of HRA that is common to all the employees and which increases in proportion to the factors mentioned above.

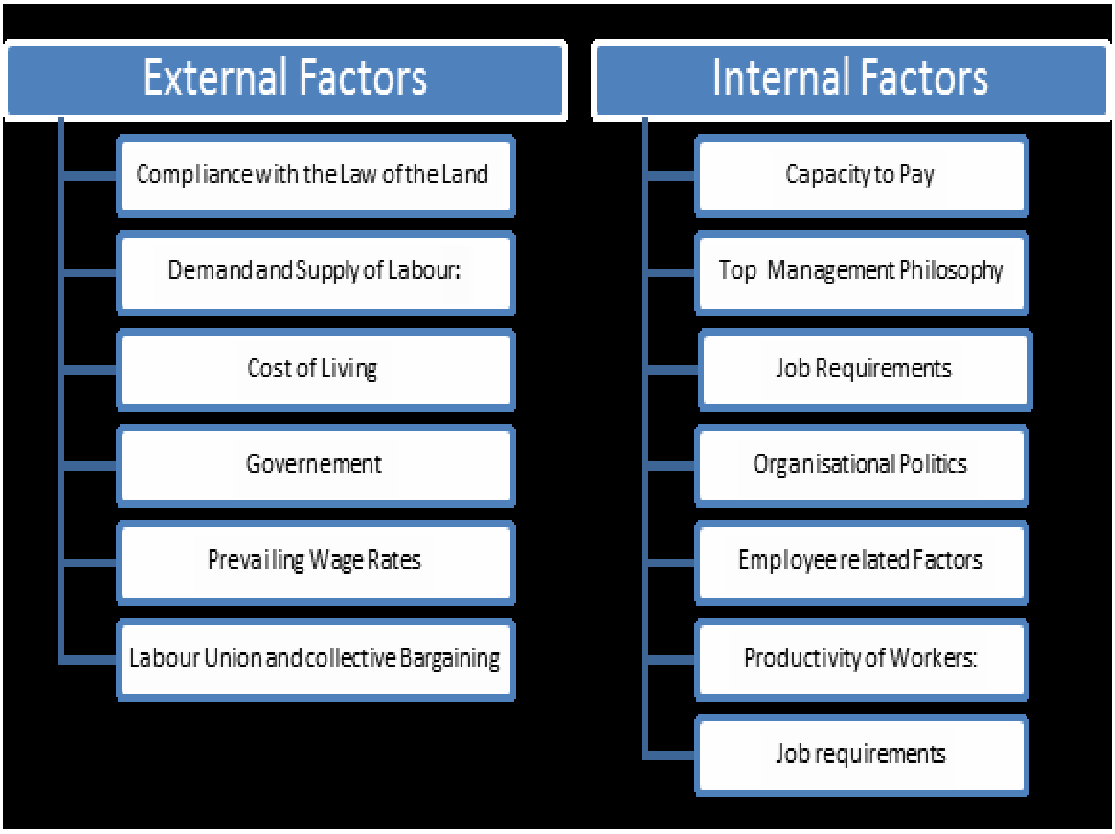

Figure 6.3 Determining factors in deciding compensation

The Job Evaluation that is a system for arriving at the net worth of employees based on comparison with appropriate compensation levels for comparable jobs across the industry as well as within the company. Factors like Experience, Qualifications, Expertise and Need of the company determine how much the employer is willing to pay for the employee. It is often the case that employers compare the jobs across the industry and arrive at a particular compensation after taking into account the specific needs of their firm and in this respect salary surveys and research results done by market research firms as to how much different companies in the same industry are paying for similar roles. The components of compensation that have been discussed above are the base requirements for any HR Manager who is in charge of fixing the compensation for potential employees. Hence, all HR professionals and managers must take this following aspect into account when they determine the compensation to be paid to employees.

1. External Factors

The following are the external factors to be considered in deciding compensation in an organization:

A. Demand and Supply of Labour

Wage is a price or compensation for the services rendered by a worker. The firm requires these services, and it must pay a price that will bring forth the supply which is controlled by the individual worker or by a group of workers acting together through their unions. The primary result of the operation of the law of supply and demand is the creation of the going wage rate. It is not practicable to draw demand and supply curves for each job in an organization even though, theoretically, a separate curve exists for each job.

B. Cost of Living

Another important factor affecting the wage is the cost of living adjustments of wages. This tends to vary money wage depending upon the variations in the cost of living index following rise or fall in the general price level and consumer price index. It is an essential ingredient of long-term labour contract unless provision is made to reopen the
wage clause periodically.

C. **Labour Union**

Organized labor are able to ensure better wages than the unorganized one. Higher wages may have to be paid by the firm to its workers under the pressure or trade union. If the trade union fails in their attempt to raise the wage and other allowances through collective bargaining, they resort to strike and other methods hereby the supply of labour is restricted. This exerts a kind of influence on the employer to concede at least partially the demands of the labour unions.

D. Government

To protect the working class from the exploitations of powerful employers, the government has enacted several laws. Laws on minimum wages, hours of work, equal pay for equal work, payment of dearness and other allowances, payment of bonus, etc., have been enacted and enforced to bring about a measure of fairness in compensating the working class. Thus, the laws enacted and the labour policies framed by the government have an important influence on wages and salaries paid by the employers. Wages and salaries can’t be fixed below the level prescribed by the government.

E. **Prevailing Wage Rates**

Wages in a firm are influenced by the general wage level or the wages paid for similar occupations in the industry, region and the economy as a whole. External alignment of wages is essential because if wages paid by a firm are lower than those paid by other firms, the firm will not be able to attract and retain efficient employees. For instance, there is a wide difference between the pay packages offered by multinational and Indian companies. It is because of this difference that the multinational corporations are able to attract the most talented workforce.

2. Internal Factors

Some of the internal factors that are considered when deciding compensation decision are:

A. Ability to Pay

Employer’s ability to pay is an important factor affecting wages not only for the individual firm, but also for the entire industry. This depends upon the financial position and profitability of the firm. However, the fundamental determinants of the wage rate for the individual firm emanate from supply and demand of labour. If the firm is marginal and cannot afford to pay competitive rates, its employees will generally leave it for better paying jobs in other organizations. But, this adjustment is neither immediate nor perfect because of problems of labour immobility and lack of perfect knowledge of alternatives. If the firm is highly successful, there is little need to pay more than the competitive rates to obtain personnel. Ability to pay is an important factor affecting wages, not only for the individual firm but also for the entire industry.

B. Top Management Philosophy

The wage rates to be paid to the employees are also affected by the top management’s philosophy, values and attitudes. As wage and salary payments constitute a major portion of costs and /or apportionment of profits to the employees, top management may like to keep it to the minimum. On the other hand, top management may like to pay higher pay to attract top talent.

C. Productivity of Workers

To achieve the best results from the workers and to motivate him to increase his efficiency, wages have to be productivity based. There has been a trend towards gearing wage increase to productivity increases. Productivity is the key factor in the operation of a company. High wages and low costs are possible only when productivity increases appreciably.

D. Job Requirements

Job requirements indicating measures of job difficulty provide a basis for determining the relative value of one job against another in an enterprise. Explicitly, job may be graded in terms of a relative degree of skill, effort and responsibility needed and the adversity of working conditions. The occupational wage differentials in terms of

a) Hardship,

b) Difficulty of learning the job

c) Stability of employment

d) Responsibility of learning the job and

f) Change for success or failure in the work.

This reforms a basis for job evaluation plans and thus, determines wage levels in an industry.

E. Employees Related Factor.

Many employees related factors interact to determine his remuneration. These include

i. **Performance:** productivity is rewarded with a pay increase. Rewarding performance motivates the employees to do better in future in the organisation.
ii. **Seniority:** Unions view seniority as the most objective criteria for pay increases whereas management prefer performance to effect pay increases.
iii. **Experience:** Makes an employee gain valuable insights and is generally rewarded
iv. **Potential:** organizations do pay some employees based on their potential. Young managers are paid more because of their potential to perform even if they are short of experience.

F. Organizational Politics

Compensation surveys, job analysis, job evaluation and employee performance are all involved in wage and salary decisions. Political considerations may enter into the equation in the following ways:

i. **Determination of firms included in the compensation survey**: managers could make their firm appear to be a wage leader by including in the survey those organizations that are below them in terms of pay.
ii. **Choice of compensable factors for the job evaluation plan:** Again, the job value determined by this process could be manipulated
iii. Emphasis placed on either internal or external equity and
iv. Results of employee performance appraisal may be intentionally disported by the supervisor.

Thus, a sound and objective compensation system may be destroyed by organizational politics.

3.0 Conclusion

Compensation is a systematic approach to providing monetary value to employees in exchange for work performed. Compensation refers to a wide range of financial and non-financial rewards to employees for their services rendered to the organization. Various objectives of compensation were highlighted which include; to establish a fair and equitable remuneration, to attract competent talents, to retain current employees, improve productivity and give a good reputation of the firm among other benefits. This unit will conclude by saying, When people perceive an imbalance in their input output ratio relative to others tension is created. It may result in lower productivity, more absenteeism, etc. This tension provides the basis for motivation, as one strives for what he perceives as equity and fairness. It should also be noted that, a sound and objective compensation system may be destroyed by organizational politics.

4.0 Summary

In this unit, we discussed the concept of compensation, the various objectives of compensation, components of compensation, compensation policy, internal and external factors that affects compensation policy was discussed among other things.

UNIT 2 COMPENSATION DESIGN, PHILOSOPHY AND TYPES

CONTENT

1.0 INTRODUCTION

Compensation design determines the value of specific, properly executed accomplishments toward the achievement of desired outcomes. The value of the accomplishment, not the level of activity, is used to establish the nature and amount of compensation. A compensation philosophy lays out the guiding principles for a company compensation policy.

2.0 MAIN CONTENT

2.1 Compensation Design

Compensation design determines the value of specific, properly executed accomplishments toward the achievement of desired outcomes. The value of the accomplishment, not the level of activity, is used to establish the nature and amount of compensation. Ultimately, compensation design should foster a productive and equitable, long-term relationship among members, and between each member and the organization.

The process begins by identifying desired outcomes for the organization or operating unit. Importance and value are attached to the results people achieve with reference to the need of the organization. Compensation is based on the achievement of results that are critical to organizational success. Attracting, retaining and motivating employees in today's business environment requires utilizing a host of tools including base pay, incentives, equity, performance management, and benefits. Balancing these tools in an equitable, affordable and real manner can present difficulties for even the most dedicated employers. No universal, standard programme exists that can meet every organization's needs. In order for the total rewards programme to work, it must fit the organization's culture and strategic initiatives and compensation objectives.

2.2 Compensation Design Policies

The following are the compensation design Policies:

- Pay for the person rather than just the job
- Built-in controls and cost constraints
- An understandable and equitable system
- Rewards for skill acquisition
- Management flexibility to assign a range of duties
- Internal equity among employees
- Parallel career paths for managers and technical employees
- Flexibility to adapt quickly to market changes
- External competitiveness to recruit and retail
- To reward performance through salary without grade promotions

2.2.1 Basic essentials of compensation Design

The following are the basic essentials of compensation Design:

1. Link with Productivity

Some part of the total pay should be linked to productivity. Such linkage is necessary because workers expect a share in productivity gains. This will help to control labour costs.

2. Maintain Real Wages

At least part of the increase in the cost of living should be neutralized so as to protect the real wages of labour. Dearness allowances are used in India for this purpose.

3. Internal Equity

It implies a proper relationship between wages paid for different jobs within the company. For example salary of a senior Manager is lower than a manager; there is lack of internal equity. Pay differentials should be related directly to differential in job requirements. Fair pay differentials between jobs can be established with the help of job evaluation.

4. External Competitiveness

Wages and salaries in the organization should be in line with wages and salaries for comparable jobs in other organization. Otherwise the organization may not be able to attract and retain competent personnel. Data relating to pay levels in other organizations
can be collected through wage and salary survey.

5. Increments

Compensation policy can be good motivator if pay increases are linked with merit. But annual increments should partly be linked to seniority or years of service. The logic for seniority based increments is that as a person accumulates experience his skill get sharpened and his efficiency tends to increase.

6. Built-in Incentive

Wage or salary plan should contain a built-in incentive so as to motivate employees to perform better. Such an incentive can be developed through performance based payment. A part of the total payment should be linked to individual or group performance. A sound performance appraisal system should be used to measure accurately and objectively the performance of individual employees.

2.4 Compensation Design Components

Determine the best total rewards philosophy for the organization. Reviewing the current compensation and benefits system to see how it compares to labour market competition and Formulating effective communication strategies focused on the value of the compensation, performance management and benefits programme.

1. Base Pay: To determine the base pay the following is to be taken into consideration:

- ❖ Conducting job analysis and documenting job content
- ❖ Developing systematic base pay structures
- ❖ Using market benchmarking or job evaluation methods
- ❖ Development of employer specific base pay strategic

- ❖ Analysis of employee base pay to new base pay structures and
- ❖ Job description development

2. Incentive Programme: To develop the incentive programme the following must be taken into consideration:

- ❖ Developing motivating variable pay programmes for production, office, management and sales employees that tie organizational strategies and goals to individual or team performance and
- ❖ Creating pay-for-performance system including performance appraisal tools and merit increase guidelines

3. **Benefits Programme:** To develop benefit programme the following must be considered:

- ❖ Assessing employees' satisfaction with your current benefit package through a Benefit Assessment Survey
- ❖ Analysis of current benefit offerings and recommendation of effective benefit changes

2.5 Compensation Philosophy

A company's compensation philosophy refers to the set of guiding principles that drive decision making about compensation. In its compensation philosophy, the firm will spell out why it makes the choices it does about how to pay employees. This philosophy

differs from business to business, but every company seeks to hire and retain the best talent, and it will express that sentiment in its compensation philosophy. All companies with employees must determine how and what to pay their workers and when to offer things like raises, bonuses and other incentives. Businesses of all types tend not to do this haphazardly. Rather, they evolve what is called a compensation philosophy. This is an actual plan for how employees are to be paid, when payments will rise, and when bonuses are appropriate. Such a plan is often made available to employees, so they have a sense of the organization's philosophy and can thus determine their treatment by the organization, as it relates to compensation, not just at present but also in the future.

2.5.1 Factors Determining Compensation Philosophy

Some of the factors that influence compensation philosophy include; present revenue of the company and expected profits in the future, market value of the jobs for which the company is hiring, and degree of competitiveness in the types of jobs a company offers. The way an organization views its employees and its responsibility to those employees factors into the development of a compensation philosophy too. Essentially, many different elements may contribute to the way an employer determines rate of pay, raises and bonuses.

Figure 6.4 Factors influencing compensation philosophy

It may be easy to create a compensation philosophy in some fields. For instance, those that require rising levels of expertise and education usually have set rates, and they may have a salary range that matches market value prices and that gives employees something to aim for. Hospitals, for example, can hire employees of numerous types, and clearly compensation will be different for nurses than it is for doctors or janitors.

2.5.2 Processes involved in Developing Compensation Philosophies

A compensation philosophy lays out the guiding principles for a company compensation policy. It serves as a mission statement of the company policy. The following are the tips for creating compensation Philosophy:

- ❖ Be as concise as possible. Company philosophy should be about two paragraphs in length.
- ❖ The Company to maintain an optimistic yet realistic tone.
- ❖ The Company should keep in mind that the organization has and will go through changes. Policy can change, but remember, company compensation philosophy should withstand these changes with few adjustments.

- The Company should ensure that compensation philosophy reflects some of the values already listed in your company's mission statement.
- The Company should see attractive, flexible, and market based pay, competitive in recruiting and retaining employees through high-quality compensation plans, or compensation program aligned with shareholder interest.

2.5.3 Types of Compensation Philosophy

Usually, there are two types of philosophies of compensation rates/wage rates including the productivity philosophy and purchasing power philosophy.

1. Productivity Philosophy: which relates to high wages and low unit cost of production which assumes:

- That the employers should provide the best possible tools, machines, goods and buildings etc., while the management should apply the latest production technique.
- That the production should increase without the uses of commensurate physical efforts of employees while the unit cost of production should decrease leading to lower prices of goods.
- That the market for goods should expand leading to enhanced sales volume and
- That the part of resultant enhanced profits should be used to increase the wages of the employees and remaining can be ploughed back in the business

2. Purchasing Power Philosophy: makes the following propositions:

- That the workers should be paid high wages because they form a large proportion of the work force and are equipped with a higher propensity to consume. It results in expansion of the economy's purchasing power supply
- That effective demand for goods and services produced should enlarge in each establishment
- That productivity per worker should increase while the unit cost of output should decrease leading to enhanced profits and
- That increased wages should be paid from this enhanced income to average the cycle.

2.6 Compensation Evaluation

Today's compensation systems have come from a long way. With the changing organizational structures, workers' need and compensation systems have also been changing.

From the bureaucratic organizations to the participative organizations, employees have started asking for their rights and appropriate compensations. The higher education standards and higher skills required for the jobs have made the organizations provide competitive compensations to their employees. Compensation strategy is derived from the business strategy. The business goals and objectives are aligned with the HR strategies. Then the compensation committee or the concerned authority formulates the compensation strategy. It depends on both internal and external factors as well as the life cycle of an organization

2.7 Approaches to Compensation

Compensation Management is an integral part of the management of the organization. Compensation is a systematic approach to providing monetary value to employees in exchange for work performed. It may achieve several purposes assisting in recruitment,

job performance, and job satisfaction. It is the remuneration received by an employee in return for his/her contribution to the organization. It is an organized practice that involves balancing the work-employee relation by providing monetary and non-monetary benefits to employees. It is a tool used by management for a variety of purposes to further the existence and growth of the company. It may be attuned according to economic scenario, the business needs, goals, and available resources. Compensation Management contributes to the overall success of the organization in several ways. There are three different main goals of compensation management recruiting, motivating and retaining good people have not changed over the time, but the ways in which some companies approach them differ dramatically from previous approaches. Performance based pay, tailored to the strategic circumstances of each organization, may consist of base pay, an annual bonus, and a choice of various other benefits. This is known as "total rewards" package.

1. Total Rewards Approach

It tries to place a value on individual rather than just the jobs. Widespread use of various inventive plans, team bonuses, organizational gain sharing programmes, and other designs serves to link growth in compensation to results. However, management must

address the following two main issues when using variable pay systems:

a. Should performance be measured and rewarded based on individual, group or organizational performance?
b. Should the length of time for measuring performance be short term (less than one year) or longer term (more than one year)

2. Traditional Compensation Approach

For some organizations, a traditional compensation approach makes sense and offers certain advantages in specific competitive situations. It may be more legally defensible, less complex, and viewed as more "fair" by average and below average employees. It reflects a logical, rational approach to compensating employees.

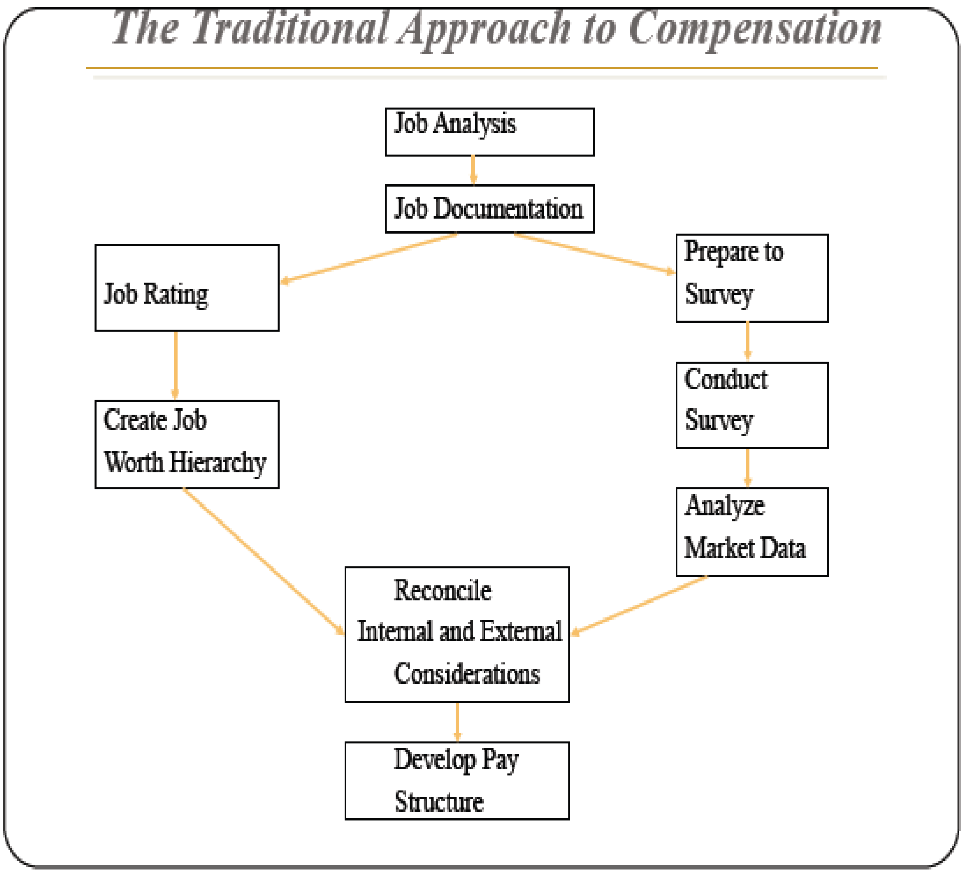

Figure 6.5 Traditional Approach to compensation

Total Reward Approach	Traditional Reward Approach
Variables pay is added to base pay	**Compensation is primary base pay**
Long term incentives are provided to all	Bonuses/perks are for executives alone
Flexible and portable benefits are offered	Fixed benefits are tied to long term tenure
Multiple plans, consider job family, location and business units	Organizational wide standard pay plan exists
Knowledge/ skill-based broad band's determine pay grade	Knowledge/ skill-based broad band's determine pay grade

Table 6.2 Total and Traditional Reward Approaches

3.0 Conclusion

Compensation is a systematic approach to providing monetary value to employees in exchange for work performed. Compensation design determines the value of specific, properly executed accomplishments toward the achievement of desired outcomes. A compensation philosophy lays out the guiding principles for a company compensation policy. Some of the factors that influence compensation philosophy include; present revenue of the company and expected profits in the future, market value of the jobs for which the company is hiring, and degree of competitiveness in the types of jobs a company offers. Finally, this unit concludes that if Compensation is a systematic approach aimed at providing monetary value to employees in exchange for work performed, then Compensation Management should be an integral part of the management of the organization.

4.0 Summary

In this unit, we discussed the concept of compensation design, its various policies, its essential components, compensation philosophy, factors determining compensation philosophy, types of compensation philosophy and approaches to compensation was discussed among other things.

UNIT 3 STRATEGIC COMPENSATION PLANNING, PROCESS OF DETERMINING COMPENSATION, EQUITY AND COMPENSATION AND COMPENSATION AS A RETAINING STRATEGY

CONTENT

1.0 INTRODUCTION

Once employees have done their jobs and been appraised, they expect to be paid. Each

employee's pay should make sense in terms of the company's overall pay plan. Developing a pay plan is as important in a small firm as a large one. Paying wage rates that are too high may be unnecessarily expensive, and paying less may guarantee interior help and high turnover.

2.0 MAIN CONTENT

2.1 Strategic Compensation Planning

Once employees have done their jobs and been appraised, they expect to be paid. Each

employee's pay should make sense in terms of the company's overall pay plan. Developing a pay plan is as important in a small firm as a large one. Paying wage rates that are too high may be unnecessarily expensive, and paying less may guarantee interior help and high turnover. Furthermore, internally inequitable wage rates will reduce morale and cause endless badgering by employees demanding rises.

The strategic compensation planning otherwise called the process of looking ahead at what an organization needs to do about its reward policies and practices in the future. The strategic compensation management deals with both ends and means. As an end, it describes a vision of what reward policies will look like in a few years' time. As a means, it shows how the vision will be realized. Therefore, strategic compensation management is also called visionary management. But it is also called empirical management which decides how, in practice, it is going to get there.

2.2 Process of Determination of Compensation

Today the compensation systems are designed aligned to the business goals and strategies. The employees are expected to work and take their own decisions. Authority is being delegated. Employees feel secured and valued in the organization. Organizations offer monetary and non-monetary benefits to attract and retain the best talents in the competitive environment. Some of the benefits are special allowances like mobile, company's vehicle; House rent allowances; statutory leaves, etc. The wage determination process consists of the following steps:

1. Traditional Compensation Systems

In the traditional organizational structures, employees were expected to work hard and obey the bosses' orders. In return they were provided with job security, salary increments and promotions annually.

Figure 6.6 Evolution of compensation system

The salary was determined on the basis of the job work and the years of experience the employee is holding. Some of the organizations provided for retirement benefits such as, pension plans, for the employees. It was assumed that humans work for money, there was no space for other psychological and social needs of workers.

Change in Compensation Systems

With the behavioral science theories and evolution of labour and trade unions, employees started asking for their rights. Maslow brought in the need hierarchy for the
rights of the employees. He stated that employees do not work only for money but there are other needs too which they want to satisfy from their job, i.e. social needs, psychological needs, safety needs, self-actualization, etc. Now the employees were being treated as human resource. Their performance was being measured and appraised based on the organizational and individual performance. Competition among employees existed. Employees were expected to work hard to have the job security. The compensation system was designed on the basis of job work and related proficiency of the employee.

2. Modern Compensation Systems

Figure 6.7 Steps in Modern Compensation Systems

a. The Salary/Wage Survey

It is difficult to set pay rates if one doesn't know what others paying, so salary survey of what others are paying will play a big role in pricing jobs. Virtually every employer conducts at least an informal telephone, newspaper, or internet salary survey.

b. Job Analysis

Job analysis is a systematic approach to defining the job role, description, requirements, responsibilities, evaluation, etc. It helps in finding out required level of education, skills, knowledge, training, etc for the job position. It also depicts the job worth i.e. measurable effectiveness of the job and contribution of job to the organization.

Thus, it effectively contributes to setting up the compensation package for the job position.

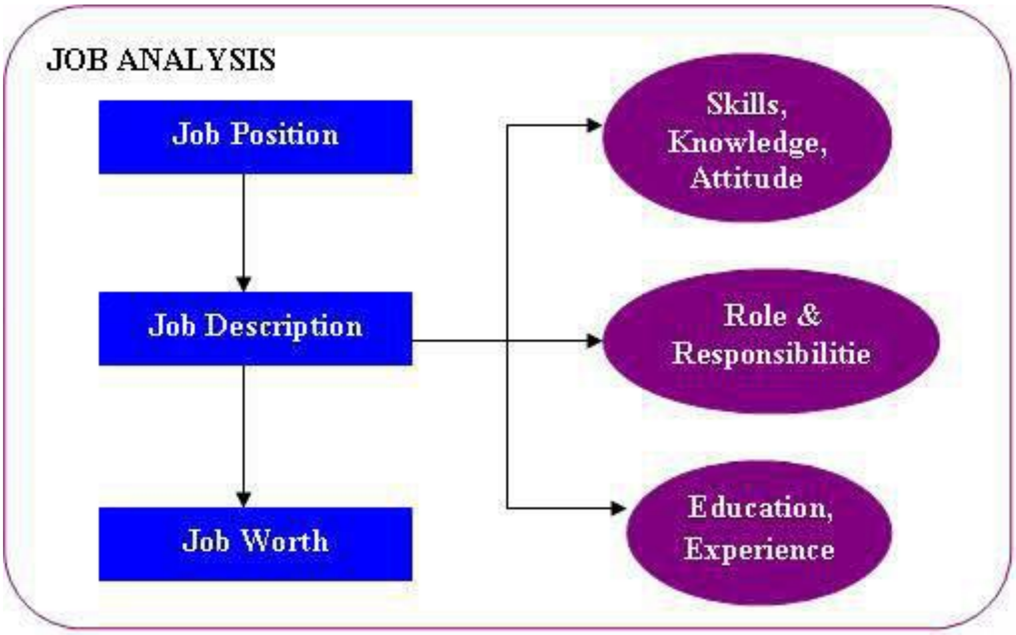

Figure 6.8 Job analysis

i. Job Description

Job description refers the requirements an organization looks for a particular job position. It states the key skill requirements, the level of experience needed, level of education required, etc. It also describes the roles and responsibilities attached with the job position. The roles and responsibilities are key determinant factors in estimating the level of experience, education, skill, etc required for the job. It also helps in benchmarking the performance standards.

ii. Job Position

Job position refers to the designation of the job and employee in the organization. Job position forms an important part of the compensation strategy as it determines the level

of the job in the organization. For example, management level employees receive greater pay scale than non-managerial employees. The non-monetary benefits offered to two different levels in the organization also vary

iii. Job Worth

Job Worth refers to estimating the job worthiness i.e. how much the job contributes to the organization. It is also known as job evaluation. Job description is used to analyze the job worthiness. It is also known as job evaluation. Roles and responsibilities helps in determining the outcome from the job profile. Once it is determined that how much the job is worth, it becomes easy to define the compensation strategy for the position.

c. Job Evaluation

The relative value of every job is determined through job evaluation. The relative job value is then converted into money value so s to fix. Wage Survey: Wage or salary surveys are conducted to find out wage or salary levels prevailing in the region or industry for similar jobs. Other organizational problems such as recruitment policy, fringe benefits, etc., are also considered.

2.3 Equity and Compensation

If our first goal of attracting capable employees to the organization is to be achieved. personnel must perceive that the compensation offered is fair and equitable. Equity is concerned with felt justice according to natural law or right. Homans's exchange theory predicts greater feelings of equity between people whose exchanges are in equilibrium. When an employee receives compensation from the employer, perceptions of equity are affected by two factor:

i. the ratio of compensation to one's inputs of fort, education, training, endurance of adverse working conditions, and so on.
ii. the comparison of this ratio with the perceived ratios of significant other people with whom direct contact is made. Equity usually exists when a person perceives that the ratio of outcomes to inputs is in equilibrium both internally with respect to self and in relation to others. Employee contributions exceed their outcomes of money resulting dissatisfaction often leads to efforts to reestablish equilibrium, such as "borrowing" from the supply room to increase rewards, trying to adversely affect the effort and pay of others, convincing self that pay is not out of line, quitting or frequently absenting oneself from the organization, promoting labor organization, and so on

2.4 Compensation as a retention strategy

Compensation can have a direct impact on employee retention. While employers may use employee incentives and monetary rewards to retain employees, there are ways to complement compensation that have a much greater impact. Based on the type of compensation, along with the terms and conditions of an employee compensation package, an employer can boost employee retention.

Employee retention refers to the number or percentage of employees your organization

retains. The term retention is often used in discussions about employee turnover. The differences between retention and turnover are subtly related; however, retention is more about improving satisfaction of current employees by providing challenges, development opportunities and incentives such as retention bonuses and compensation that encourages your most talented employees to stay with the company. Turnover, on the other hand, is inevitable within any organization. Turnover occurs both involuntarily and voluntarily for a number of reasons. Attempts to reverse turnover using retention strategy that includes compensation is ill-advised, not to mention counterproductive.

An effective retention strategy has several components that must be addressed in order to retain top employees. “Strategies for Staff Retention” outlines eleven key learning’s, which are summarized below and help define compensation’s role in the overall retention strategy. These are:

i. **A retention strategy is pragmatic.** An effective strategy leads to fewer turnovers which results in fewer costs due to turnover and increased productivity.
ii. **The culture and values of an organization are expressed primarily by its actions, and through the actions of management and employees.** When hiring new employees, cultural values should be in the forefront to ensure employees “fit” the organization’s needs.
iii. **Leadership and management’s responsibilities include motivating employees and encouraging commitment.** Their job is not just ensuring tasks are done, but also that employees are engaged.
iv. **Communication should reflect the culture and value of the organization.** Effective communication can inspire while poor communication can create an atmosphere of cynicism and distrust.
v. **A performance management system that compensates employees fairly leads to trust and commitment by employees.** In addition to above-market pay, employees seek flexible work schedules, opportunities for advancement, and a share in profits and operations of the organization.

vi. **Managing poor performance is just as important as recognizing good performance.** Non-performers can be a factor that demotivates good employees.

vii. **Terms and conditions are not key to a retention strategy as long as they are perceived as competitive with the market and equitable among employees.** The organization should regularly benchmark its salaries and benefits against others in the market and communicate to employees that their salary and benefits are distributed in a fair and equitable manner.

viii. **Effective resourcing strategies and policies provide a competitive advantage.** Hiring and promoting the right people ensures companies have the right people in place to succeed in achieving the organization's business strategy.

ix. **Promotions provide employees with a motivating factor to remain at an organization and to be productive.** A clear and well-communicated promotion policy provides guidelines and prevents resentment in the future.

x. **Career development motivates employees and also allows them to build skills for promotion.** Opportunities for personal and professional growth occur through training and education, challenging assignments and career movement.

xi. **Talent management provides a channel to monitor and maintain morale and motivation.** When the learning curve begins to plateau, talented individuals are at risk of getting bored and underperforming or looking for opportunities outside the organization.

1. Function

Companies concerned with employee retention will make concessions to ensure employees are satisfied and that morale is high. Pay increases and bonuses are examples of ways a company can compensate employees to encourage continued employment.

2. Strategies

Some companies may offer employees attractive benefits such as flexible work schedules, vacation time and attractive health insurance packages in lieu of higher wages. Some employees may find flexibility in the workplace a greater benefit than money, which may influence the employee to stay with a company when times get tough.

3. Reason for Employees Switch Over

Employees looking voluntarily to make a change want to continue their career with a company that offers promotion and development opportunities, a collegial work environment and a leadership team that's openly appreciative of its human capital. Compensation and benefits may be important factors in the decision to look for employment elsewhere; however, many reports indicate compensation is low on the list of priorities in looking for another position. Employees have an intrinsic need for respect, motivation and challenging work, which are compelling reasons for seeking employment elsewhere. Employers who consider compensation as part of the strategy for employee retention are headed in the right direction, but are looking at just one half of the equation. Compensation coupled with better opportunities to develop employee skills is a more complete way of formulating an effective retention strategy.

Factor	Description
Lack of challenge and opportunity	The position not offering adequate challenges and the opportunity to learn new tasks and responsibilities
Lack of career advancement opportunities	Not being able to advance in one's career within a reasonable time and with higher levels of performance.
Salary	Not being paid at or above market and not having internal and external equity.
Lack of Recognition	Not being rewarded fairly for work performed. Rewards may be financial or non-financial.
Ineffective Leadership	The inability of leaders to develop and communicate the Company's vision and effectively developing employees to maximize their potential.
Not having the opportunity for a flexible work schedule	The inability to work a flexible work schedule including reduced hours, telecommuting, four ten-hour days per week and job-sharing
Inadequate emphasis on teamwork	The lack of effort exerted by employees and

	leaders to foster a teamwork type environment.
Lack of trust in senior management	Lack of confidence in the Senior Management to do what is right for the employees.
Too long of a commute	The distance an employee has to commute to and from work.
Inadequate opportunities for training & development	The unavailability and inadequate opportunity to take classes at local colleges and universities and participating in the in-house training program.
Low overall job satisfaction	Not feeling a sense of satisfaction from performing one's job.

Table 6.3 Reasons for employees leaving organization

4. Tying Compensation to Retention

One of the most effective ways compensation can have a positive impact on employee retention is to construct an employee development plan that promises employees career track opportunities with the company. Being on an upward career track should come with corresponding salary and merit increases. In addition, performance-based bonuses motivate employees in terms of aligning their individual goals with company goals. Implementing incentives such as stock options, profit sharing and spot rewards are other ways compensation affects retention. These forms of compensation demonstrate how critical employee performance is to the organization's overall profitability. Spot rewards are usually not as lucrative; however, they provide immediate recognition, reward and compensation when company leadership observes an employee performing superior work. Appreciation is key to employee retention, and if compensation is a part of recognition, then compensation is likely to increase employee retention.

5. Successful Human Resource Retention Strategies

Employee retention is a critical goal for any organization. The successful retention of employees is always a business priority, even during tough economic times when there are more employees available for open positions. Strategies to improve retention include understanding what motivates employees, providing open channels of communication, maintaining competitive pay and benefits packages and providing employees opportunities for making decisions that impact them. Employee rewards represent an important factor in keeping employees engaged, loyal and productive. Each employee is different and will have different motivations. Fortunately, managers can choose from a number of incentives —monetary and non-monetary — to impact retention, including pay, benefits, recognition, involvement and flexibility. Even small organizations can compete against larger companies by focusing on those rewards that are most valued by their employees.

2.5 Understanding What Motivates an Employee

Employees are not all alike in terms of their beliefs, attitudes and preferences. This has an impact on HR's ability to develop strategies to successfully motivate and retain an increasingly diverse employee audience. Understanding what motivates employees is the first step toward developing pay, benefits and policies that increase motivation and, ultimately, retention. This can be done formally through quantitative surveys that provide an indication of overall workforce preferences and relative weights. It can also be done through ongoing communication between supervisors/managers and employees and through a culture of open communication where employees feel free to share their thoughts and concerns.

A. Providing Open Channels of Communication

Providing open channels of communication is an important means of ensuring that the organization is getting input on issues that matter to employees on an ongoing basis. Open channels of communication start at the employee/supervisor level, but that should not be the only opportunity employees have to give or receive feedback. Other communication channels include a company intranet, a suggestion program, online forums and social media channels, company meetings and any number of other opportunities for employees to interact with each other, with their managers and supervisors and with the organization's leaders.

B. Maintaining Competitive Pay and Benefits Packages

Organizations operate within an increasingly competitive environment, even when economic times are tough. Organizations are always concerned about attracting and retaining the most qualified and effective employees. Ensuring that pay and benefits packages are competitive is a key part of this process. HR professionals should be constantly monitoring the external pay and benefits environment, paying particular attention to the organizations that they compete directly with for employees, generally those within the same geographical area or industry where staff members are being recruited.

C. Clear Direction and Open Feedback

Employees need to know what is expected of them and how their work contributes to the overall successful performance of their work team, department, division and the organization at large. Goals should be clear and measurable, with opportunity for employees to influence the establishment and monitoring of these goals. Feedback should be open, immediate and specific so that employees have a clear understanding of how they might change their actions and behaviors or increase their skills and knowledge in specific areas to improve their performance.

D. Understanding the Competitive Landscape

No business operates in a vacuum. Employers need to have a solid understanding of their competition relative to employee recruitment and retention, including an understanding of the pay and benefit packages offered by other organizations. Competition may be local, regional or even national depending on the position and the availability of candidates. Importantly, pay alone is often not the most important factor in retaining employees. For instance, today's employees who often find themselves juggling the demands of both children and parents often appreciate flexibility in the workplace, which can be accommodated through flexible schedules, the ability to work remotely and an understanding of work/life balance needs.

E. Understanding Employee Motivators

To be effective in administering reward packages that positively impact retention, employers must understand the motivators that drive their employees to high levels of performance. While there is much literature on the subject, organizations will vary depending on their industry, geography and the unique make-up of their employee population. One way of understanding employee motivators is to literally ask employees what motivates them to perform at high levels — this can be done one-on-one or through quantitative surveys or employee assessments.

F. Recognizing the Impact of Non-Monetary Incentives

Employees are motivated by more than money. Non-monetary incentives can have a major impact on employee satisfaction, engagement and retention. Non-monetary incentives include such things as recognition, the opportunity to be involved in decisions that impact their daily work, opportunities for learning and development, and work/life balance and flexibility. Since no two employees will be impacted in the same way, companies that have a variety of ways to reward employees allow their managers and supervisors to be flexible in their implementation of these rewards.

G. Ongoing Assessment and Modifications

The effectiveness of reward packages is impacted by internal and external factors and it is important for employers to continually monitor, evaluate and adjust their rewards and benefits packages to ensure that they continue to meet employees' needs. Changes in the competitive landscape, in the economy, in employee needs and in demographics can all impact how effectively existing packages meet employee needs. Ongoing assessment of both internal drivers and external environmental impacts can help ensure that companies' reward packages serve to drive retention in a positive way.

How do you make them feel?

Small things add up. Many decisions are made, at least partly, based on how an individual feels. Being proactive about giving compliments to employees and pointing out what they are doing right can help increase positive vibes at your workplace. Looking for win-win solutions in conflict situations also helps promote positive feelings. Take the time to form meaningful relationships and connect with others.

H. Encourage Work-Life Balance

Offer flexible working arrangements, such as telecommuting. Even allowing telecommuting one day a week goes a long way in promoting positive retention rates.

However, make sure that whatever options for flexibility you provide are distributed fairly among employees.

I. Offer horizontal mobility and training

People specialize in a wide variety of skills. Offer some form of continued training that increases an employee's ability to achieve greater horizontal and vertical mobility. If someone is getting bored with his job, finding a way that he can contribute in a different department, while still using the skills in his current department, helps retention.

J. Benefits

Offer competitive benefits packages which best fit the needs of the employee. Think about a specific type of pension plan that is competitive with what other similar companies are offering. Also consider health and life insurance premiums that are reasonable.

K. Perks

Bring in bagels or donuts once a week. Find ways to include environmental stewardship such as incentives for carpooling or riding a bicycle. Some businesses offer reduced gym membership fees or have a gym on site where employees can work out while on the clock.

2.6 Effective Steps to Retain Employees

Retaining your workforce requires consistent effort. Once you attract and bring that great new employee on board, the last thing you want to do is lose him to a competitor. For optimal success, write a retention plan that addresses events throughout the employee lifecycle. Influencing whether your employees to stay or leave begins with initial recruiting.

i. **Recruit with integrity**. The key to recruiting an employee who stays is selling them an accurate picture of your business. Resist promising what is not real. A new employee who feels lied to is more likely to leave.

ii. **Develop a hiring process that explains your company value proposition**. Make sure employees who manage the hiring process can communicate reasons to join and stay**.** Keep the hiring process high-touch (lots of contact), and treat your candidate with respect.

iii. **Implement an orientation process for employees with the end goal of retention**. To combat early attrition, space orientation activities over the first month and require frequent manager and employee one-on-one meetings. Effective employee orientation promotes retention.

iv. **Create training programs** that place the new employee in key meetins, in interactions with key players, and that provides her with the tools necessary to do the job. To reduce attrition, provide early opportunities for trial and error in a supportive environment.

v. **Provide mentorship for your new employee**. Train mentors to demonstrate passion for their work. Strong mentors are key to effective employee-retention plans.

vi. **Engage in fair evaluation processes**. If the new employee's first evaluation experience is poor, she will begin to question her value to the business. Key to an effective evaluation process is delivery of feedback that is not just manager to employee but is also employee to manager.

vii. **Manage the employee departure process well**. Even if you do everything right, some employees will need to leave. Exit interview processes need to encourage honesty. Share exit data in aggregate form to the whole organization, and openly work to combat problem areas. If an employee feels respect on his way out, he will certainly share that feeling with people still employed by you.

2.7 WAGE THEORIES

Labour is an important factor and also a peculiar factor of production. Among all factors labour alone perishable and inseparable from the labourer. At any time, the landlord may withhold the supply of land or the capitalist may withhold supply of capital but the

labourer is forced to sell labour at whatever price is available in the market. Because of this peculiarity, there is always a danger that the labour shall get less than what is actually due to him. It is on account of this important aspect of wage determination that from the very early times economists have formulated theories explaining the determination of wages.

There are many theories of wages, but most of them are either wrong, or insufficient to explain the rate of wages. A consideration of the earlier theories in spite of their defects and shortcomings will help us in properly comprehending easily the explanation of wages by modern economists.

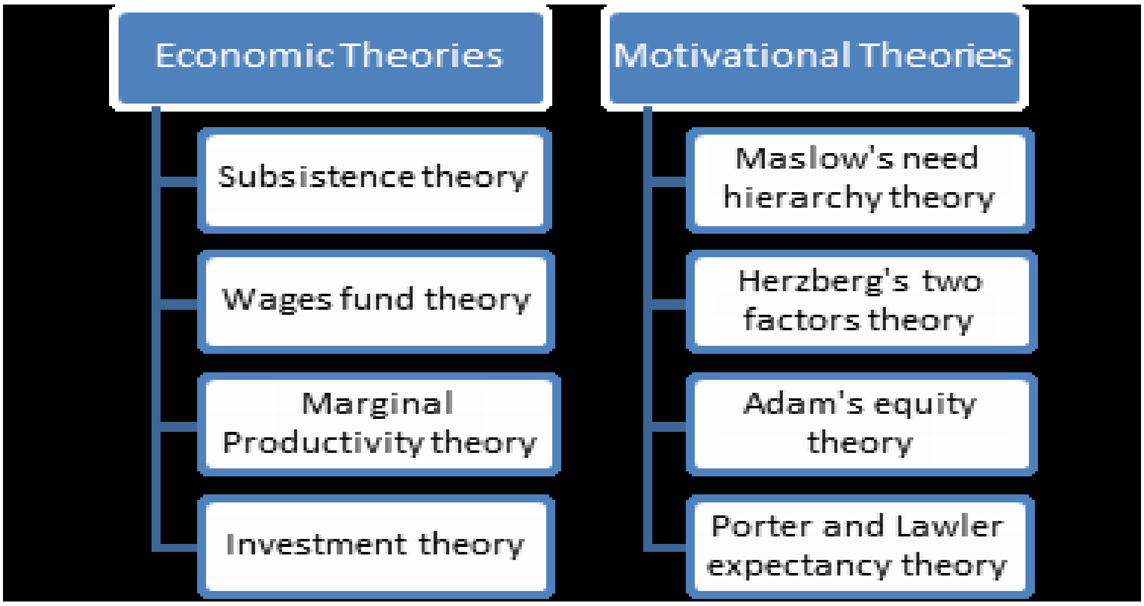

Figure 6.8 Wage Theories

A theory is a generalization that expresses relationship between facts. Compensation theories attempt to explain the magnitude and composition of the reward packages and its impact upon the behavior of the employees. To be meaningful and practically useful, a theory must address specific and important questions. Two distinct branches of compensation theories are:

2.7.1 ECONOMIC THEORIES

The Central Questions of a Wage Theory

There are three types of questions which a wage theory attempts to answer. These are discussed below:

- ***Wage Level Related Questions?***

What determines the general wage level or causes it to be what it is? General wage level is defined as an average, or some measure of central tendency, of wage rates for some given universe. The wage level in question may be for a job, an occupation, an establishment, a plant, a firm, an industrial grouping, or an entire country.

- ***Wage Structure Questions?***

The theory attempts to generalize what determines the wage structure? A wage structure has been defined as a hierarchy of jobs, for some defined universe, to which wage rates have been attached.

- ***Variations in Wage Rates and Structures:?***

Why do wage rates and structures vary widely between nations, firms industries and geographic regions?

A. The Subsistence Theory of Wages

This theory was formulated by the French economists Physicorates later elaborated by David Ricardo Lassale who called this theory as iron law of wages. This theory is based on two assumptions namely

i. The law of diminishing return applies to industry
ii. There is a rapid increase in population

Analysis of the Theory

The theory stated that the wages of labour always remained at the subsistence level. Just the normal value of a commodity under free competition is determined by its cost of production, so value of commodity 'labour' is determined by its cost of production. This theory meant that the minimum subsistence are required for the support of the labourer and that of his family in order to expense a continuous supply of labour. According to the theory, the labourer should be paid just enough to live and perpetuate his clan. The theory quotes if wages exceeded the minimum subsistence level, population would increase and with it supply of labour, until wages were again at bare subsistence level. If on the other hand, wages fell below the level there would be a reduction in population and therefore in the supply of labour, until wages were raised to the subsistence level. Thus the theory is closely associated with the doctrine of Malthusian over population.

Criticism Against the Theory

- There is no reason why a labourer should increase the number of children in his family if he gets a higher wage. It would be more natural for the labourer to think of improving his standard of living instead of increasing the number. The standard of living when once improved will powerfully influence the rate of wages in future.
- If the subsistence theory was accepted, the wages of all labourers, assuming the each has an equally big family to support, would be more or less equal. But in practice we find it is not so. More efficient labourers get higher than less efficient. The theory is too pessimistic and does not contemplate about the role of efficiency in determining wages.

- ❖ It is absurd to imagine that the labour population would increase if the wage rate were increased above subsistence. The former is a long-term phenomenon, while the change in wage rate is a short-term phenomenon.
- ❖ The theory considered only the supply side of labour, but not the demand side. Even taking the analogy of general theory of value, the positive role is played by demand and the supply gets adjusted. The former is a long phenomenon, while the change rate is a short-term phenomenon.
- ❖ Any way the theory contains an element of truth as it indicates that wages cannot fall below a certain minimum level.

B. Wage Fund Theory

Introduced by John Stuart Mill (1891), this theory assumes that there is a fixed wages fund (Lump Sum) which is distributed equally among all the labourers. In other words:

$$\text{Wage level per worker} = \frac{\text{Wage Fund (a fixed sum in the short-run)}}{\text{No. of Labourers}}$$

Thus, if the fund is large, wages would be high, if it is small wages would be reduced to the subsistence level. The demand for labour and the wages that could be paid are determined by the size of the fund. J.S. Mill said that wages mainly depend upon the demand and supply of labour or the proportion between population and capital available. The amount of Wages Fund is fixed. Wages cannot be increased without decreasing the number of workers and vice versa. It is the wages fund which determines the demand for labour. However, the supply of labour cannot be changed at a given time. But if the supply of labour increases along with increase in population, the average wages will go down. Therefore, in order to increase the average wages, firstly, the wages fund should be enlarged, secondly, the number of workers asking for employment should be reduced.

Analysis of the Theory

- ❖ It puts more emphasis on demand of labour (wages fund) compared to the supply of labour

- It attempts to study wage level in the short-term. It tried to take into account long run too by suggesting wage fund might grow or shrink in the long run but that was not the focal point of the theory.
- The theory generalizes about the general level of wages for an entire economic system, however it can be applied to an employer.
- Just like subsistence theory, this theory also attempts to answer the question of wage level and not of wage structure and differentials. The reasons may be that they were developed during the time when economies, even of America and Europe were agrarian.
- In the short run, many organizations, particularly those in the public sector, do allocate a fixed run for payment of wages. However, critics argue that the assumption of a fixed sun itself is wrong as the sum can be increased. Even J.S. Mill also accepted this criticism.

Criticism Against the Theory

- The wage fund theory is criticized on the following grounds:
- It is not clear from where the wages fund will come
- No emphasis has been given to the efficiency of workers and productive capacity of firms
- This theory is unscientific, as wages fund is created first and wages are determined later on. But, in practice, the reverse is true.
- This theory does not explain differences in wages at different levels and in different regions
- This theory is more applicable to pure agrarian society where the gap between two crops is too big. Now as labour moved to manufacturing and there is a move to pay for performance, it is possible to pay workers out of the surplus of current operations also.

C. Marginal Productivity Theory of Wages

The general theory of distribution has been extended to wages and this has come to be known a marginal productivity theory of wages. The theory as has been studied assumes
certain conditions to enumerate the concept of marginal productivity. This theory was

developed by Phillips Henry Wicksteed (England) and John Bates Clark (USA). According to this theory, wages are based upon an entrepreneur's estimate of the value that will probably be produced by the last or marginal workers. In other words, it assumes that wages depend upon the demand and supply of labour.

Consequently, workers are paid what they are economically worth. The result is that the employer has a larger share in profit as he has not to pay o the non-marginal workers.

As long as each additional worker contributes more to the total value than the cost or wages, it pays the employer to continue hiring. Where this becomes uneconomic, the employer may resort to superior technology. It is said to be the most highly perfected and logically contributed theory of wages. As it is based on economics, this remains the best theory to explain the long-run wage levels of an economic system as well as understanding of short run wage determination within the firm.

It is based on the assumptions of a perfect economy which are as under.

- ❖ Homogeneous factors of production
- ❖ Multiplicity of buyers and sellers- so many that no one can control supply and demand
- ❖ Certain fixed factors of production
- ❖ Perfect knowledge
- ❖ Full employment of all the resources
- ❖ Perfect knowledge
- ❖ Full employment of all the resources
- ❖ Perfect mobility of factors of production
- ❖ Profit maximization as the guiding force
- ❖ Law of diminishing returns

Analysis of the Theory

- ❖ It is totally emphasized demand for labour and supply of labour has not received its due importance
- ❖ It was developed making assumptions about a firm operating in short-run. However, it has been refined and has greater usefulness when applied to long run problems.
- ❖ The theory can be used for the study of both for the micro as well as macro level. When factors of production are presumed to be constant, it is applicable

at micro level; when all the factors can be increased or decreased, it becomes operational at macro level.

- Just like subsistence theory and wages fund theory, this theory also attempts to answer the question of “wages level” only.
- This theory focuses on productivity and productivity is undoubtedly a crucially important concept to practitioners.

Criticism Against the Theory

- In practice, the employers offer wages less than the marginal productivity of labour. In many cases, the labour unions are able to bargain for wages higher than the marginal productivity of labour.
- This theory is based on perfect competition in the market which is solely found in practice
- It is wrong to assume that more labour could be used without increasing the supply of production facilities.

D. Investment Theory of Wages

This theory was developed by Gilelman for the replacement of marginal productivity theory. Whereas marginal productivity theory focuses on the output of labour. Investment theory concentrates on labour inputs, another side of the same coin. The theory proposes that the productivity of an individual employee is a function of his personal attributes with which his labour is combined. Workers attributes include values, personality, and physical abilities.

In a sense, however, these attributes are reflected in education, training, and experience. Highly motivated, emotionally mature and energetic individuals are essentially investments in productivity. The larger the investments possessed by workers, the wider the geographic scope of the labour market in which he has a potential to participate. So he is highly mobile. Wages are related to mobility potential.

Analysis of the Theory

- It focuses both on the supply of and the demand for labour. It emphasizes worker’s investment in productivity
- Its emphasis is on short-run

- It emphasizes the micro aspect
- It tries to answer wage structure as well as the wage level
- If wages are assumed to be a return on investment, logically one would assume that the larger the investment, the higher the wage. However, in practice, this will not be true always as employees seek a number of other satisfaction from job, income being only one of them.

Further, the wage decisions are influenced by the organization's policy in regard to job design, employment and lay-off as these factors affect profitability of the organization and its ability to pay. Generally stated, employment (demand for labour) is a function primarily of the demand for output and only several times removed it is a function of wages as wages affect costs, costs –prices – demand- employment. Despite its limitations, the theory can be tested empirically and has great value for the practitioners.

2.8 Differences between Compensation and Reward

In a layman's language the word Compensation means something, such as money, given or received as payment or reparation, as for a service or loss. Reward means something given or received in recompense for worthy behavior or in retribution for evil acts.

The word Compensation may be defined as money received in the performance of work, plus the many kinds of benefits and services that organizations provide their employees.

On the other hand, the word Reward or Incentive means anything that attracts an employees' attention and stimulates him to work. An incentive scheme is a plan or a programme to motivate individual or group performance. An incentive programme is most frequently built on monetary rewards (incentive pay or monetary bonus), but may also include a variety of non-monetary rewards or prizes.

3.0 Conclusion

In a layman's language the word Compensation means something, such as money, given or received as payment or reparation, as for a service or loss. Reward means something given or received in recompense for worthy behavior or in retribution for evil acts. Compensation can have a direct impact on employee retention. While employers may use employee incentives and monetary rewards to retain employees, there are ways to complement compensation that have a much greater impact. Finally, this unit will conclude by saying, understanding what motivates employees is the first step toward developing pay, benefits and policies that increase motivation and, ultimately, retention.

4.0 Summary

In this unit, we discussed the strategic compensation planning, processes of determining compensation (traditional and modern), compensation as a strategy, reasons for employees switching over, understanding what motivate an employee, effective steps to retain employees and theories of wages were discussed among other things.

UNIT 4 FRINGE BENEFITS, OBJECTIVES, TYPES/AREAS COVERED, PRINCIPLES, FACTORS DETERMINING/REASONS FOR DOWNSIZING, VOLUNTARY RETIREMENT SCHEME, REASONS FOR DOWNSIZING, PARADOX OF DOWNSIZING, REASONS FOR PREPARING PROCEDURE, STEPS IN INTRODUCING AND IMPLEMENTING VRS, CHALLENGES IN IMPLEMENTING EMPLOYEE EXIT, ADVANTAGES AND DISADVANTAGES OF VRS, MERGERS AND ACQUISITION.

CONTENT

1.0 INTRODUCTION

Fringe benefits are indirect form of compensation given to employees in addition to the various forms of cash pay- base pay, dearness allowance and inventive pay. In the course of our discussion, we shall explain the objectives, types, principles, factors determining downsizing and various challenges in implementing employee exist in our 21st century modern organizations.

2.0 MAIN CONTENT

2.1 Concept of Fringe Benefits

Fringe benefits are indirect form of compensation given to employees in addition to the various forms of cash pay- base pay, dearness allowance and inventive pay. They provide a quantifiable value for individual employees. They are the indirect form of compensation as they are not related to the performance but are granted to the employees for just being a member of the organization. They are called benefits as the employees stand benefited on account of such provisions. They are not in the form of wages, salaries and time related payments. For example, key executives in large companies might also enjoy fringe benefits like use of time-share condominiums, paid continuing education, use of a company jet, use of a company credit card, discounted or free health club memberships, and a significant amount of paid vacation. The primary effect of fringe benefit, type of compensation is to retain the employee in the organization on a long term basis. There is little or no evidence that the tremendous variety of supplementary pay plans often termed fringe benefits served to motivate employees to higher productivity. For example, in a study of 550 white collar employees, it was concluded that the average employee was aware of about one half of the supplementary pay programme feature- this despite an unusually comprehensive and active programme of communication with respect to employee benefits available. One of these firms most costly and widely publicized benefits; a disability wages was essentially unheard of by 60% of those responding to the questionnaire. When asked if they felt that they knew enough about these plans over three quarters replied that they did. Also, in a second study in another company 249 new employees were queried concerning their knowledge of benefits explained during a comprehensive induction programme. A correlation between knowledge and attitude towards the company's fringe benefit programmes proved to be quite low. Despite the absence of motivational affects employee benefit programme make up a significant portion of most personnel department budgets. Therefore, it should be a major concern in any organization to make their employees abreast about the fringe benefit programmes in order to motivate them and thereby improving the status of their organization.

2.1.1 Objectives of Fringe Benefits

The employer's views are that fringe benefits form an important part of employee incentives to obtain their loyalty and retaining them. The following are the objectives of fringe:

- To create and improve sound industrial relations
- To boost up employee morale.
- To motivate the employees by identifying and satisfying their unsatisfied needs.
- To provide qualitative work environment and work life.
- To provide security to the employees against social risks like old age benefits and maternity benefits.
- To protect the health of the employees and to provide safety to the employees against accidents.
- To promote employee's welfare by providing welfare measures like recreation facilities.
- To meet requirements of various legislations relating to fringe benefits.
- To create a sense of belongingness among employees and to retain them. Hence, fringe benefits are called golden hand-cuffs.

2.1.2 Types/ Areas covered by Fringe Benefits

Some of the Fringe benefits offered to employees in an organization are:

1. For Employment Security

Benefits under this head include unemployment, insurance, technological adjustment pay, leave travel pay, overtime pay, level for negotiation, leave for maternity, leave for

grievances, holidays, cost of living bonus, call-back pay, lay-off, retiring rooms, jobs to the sons/daughters of the employees and the like.

2. For Health Protection

Benefits under this head include accident insurance, disability insurance, health insurance, hospitalization, life insurance, medical care, sick benefits, sick leave, etc.

3. For Old Age and Retirement

Benefits under this category include: deferred income plans, pension, gratuity, provident fund, old age assistance, old age counseling, medical benefits for retired employees, traveling concession to retired employees, jobs to sons/daughters of the deceased employee and the like.

4. For Personnel Identification, Participation and Stimulation

This category covers the following benefits: anniversary awards, attendance bonus, canteen, cooperative credit societies, educational facilities, beauty parlor services, housing, income tax aid, counseling, quality bonus, recreational programs, stress counseling, safety measures etc.

5. Employee Security

Physical and job security to the employee should also be provided with a view to promoting security to the employee and his family members. The benefit of confirmation of the employee on the job creates a sense of job security. Further a minimum and continuous wage or salary gives a sense of security to the life.

6. Retrenchment Compensation

The Industrial Disputes Act, 1947 provides for the payment of compensation in case of lay-off and retrenchment. The non-seasonal industrial establishments employing 50 or more workers have to give one month's notice or one month's wages to all the workers who are retrenched after one year's continuous service. The compensation is paid at the rate of 15 days wage for every completed year of service with a maximum of 45 days wage in a year. Workers are eligible for compensation as stated above even in case of closing down of undertakings.

7. Lay-off Compensation

In case of lay-off, employees are entitled to lay-off compensation at the rate to 50% of the total of the basic wage and dearness allowance for the period of their lay-off except for weekly holidays. Lay-off compensation can normally be paid up to 45 days in a year.

8. Health Facility

Employee's health should be taken care of in order to protect the employee against accidents, unhealthy working conditions and to protect worker's capacity. In India, the

Factories Act, 1948, stipulated certain requirements regarding working conditions with a view to provide safe working environment.

9. Safety Facility

Provisions relating to safety measures include fencing of machinery, work on or near machinery in motion, employment of young person's on dangerous machines, striking gear and devices for cutting off power, self-acting machines, easing of new machinery, probation of employment of women and children near cotton openers, hoists and lifts, lifting machines, chains ropes and lifting tackles, revolving machinery, pressure plant, floors, excessive weights, protection of eyes, precautions against dangerous fumes, explosive or inflammable dust, gas etc. Precautions in case of fire, power to require specifications of defective parts of test of stability, safety of buildings and machinery etc.

10. Accident or Health Plans

The value of accident or health plan coverage provided by the employer is usually not included in the income. However, benefits may be taxable to employee. If employer does not pay the entire cost of your health insurance, employee may be able to enter into a "salary reduction agreement" with employer. Under these agreements, employer reduces salary or wages by the amount of cost of the health insurance and pays the full amount.

11. Adoption Assistance

Employee may be able to exclude from your income amounts paid or expenses incurred by your employer for qualified adoption expenses if employee attempt to adopt an eligible child.

12. DeMinimis Benefits

These are benefits having a minimal value. If the cost is so small it would be unreasonable for the employer to account for it, the value is not included in employee income. Examples would include use of the copy machine, coffee, discounts at company cafeterias, and the cost of company picnics.

13. Holiday Gifts

If employer gives employee a ham, turkey, or other item of nominal value at Christmas or other holidays, it is not included in employee income. However, cash, gift cards, or similar items are included in the income regardless of the amount.

14. Qualified Employee Discounts

These are not taxable if the discount for services does not exceed 20%. Discounts for merchandise are limited to the employer's gross profit percentage. No discounts are allowed for real estate, stock, or other investment property. This is available to employees, spouses, dependents and retirees.

15. Working Condition Benefits

These include items such as professional dues paid by the employer or subscriptions to professional publications and are not included in income.

16. Qualified Transportation Fringe Benefits

Employer may provide to the employee transit passes and tokens for parking. These amounts are excluded from employee income. Also, transportation in a commuter highway vehicle, provided by employer, between employee home and place of work is not taxable income.

17. Recreation and Athletic Facilities

The use of employer-owned athletic or recreation facilities is not taxable income. This benefit is available for employees, spouses, dependents and retirees.

18. Educational Assistance

Employer provides educational assistance to employee to go for higher studies, training, children's education etc., Benefits consist of items or awards which are supplementary to normal pay. Some– such as pensions and sick pay - are essential entitlements, so the common term 'fringe benefits' is perhaps misleading. Certain provisions of the maintenance of adequate standards of living have been underwritten by the state, which has legislated for employees and employers alike to, bear some of the cost. They are awarded to anyone who meets certain qualifying conditions and as such are independent of the employer's discretion and performance considerations. Other benefits such as cars, medical insurance and 'perks', are more in the nature of optional extras and as such may be part of the recruitment retention and incentives strategies of the organization.

19. Pension Provisions

Pensions are generally regarded as the most important benefit after basic pay. They are a kind of deferred pay, building up rights to a guaranteed income on retirement (or too dependents on death). They are financed by contributions from the company, with facilities for contribution by employees as well.

20. Sick Pay

It is understandable that sickness or other enforced absence from work would haunt workers with the prospect of lost earnings, unless there was some son of provision for genuine sufferers. Many employers supplement the state benefit by additional sick pay schemes, which may be tailored to the organization's particular objectives (looking after long serving employees, or generosity from the outset to attract recruits'.

21. Maternity Leave and Maternity Pay

Benefit given to the female employees of an organization when a baby(ies) is born

22. Holidays

This is a benefit, which is often taken for granted, but it was only recently working Time Regulations 1998 in India, that any formal entitlement to annual leave was formulated. Employees who have been continuously employed for 13 weeks are entitled to 15 days' leave per annum, rising to 20 days for leave commencing after November 1999. Although this varies from organisations to others and from country to country, and may be granted by contract terms. Additional holiday entitlements may be regarded as a fringe benefit, including sabbaticals and long-service leaves.

23. Company Cars

It is a highly-regarded benefit in the UK, especially among managerial staff for whom they have connotations of status, despite the reduction in tax incentives over the years - and those whose work requires extensive road travel (eg. sales and service staff).

24. Employer-Provided Vehicles

Employer provides a vehicle employees personal use is a taxable non cash fringe benefit. Employer must determine the actual value of the benefit and include that amount on employees account.

25. Retirement Planning Services

Employer has a qualified retirement plan, qualified retirement planning services provided by the employer to employee and his spouse are not included in employee income. This does not include the value of tax preparation, accounting, legal, or brokerage services provided by employer. These items are taxable income to employee.

26. Retirement Plan Contributions

Employer's contributions qualified retirement plans for the employee are not included in his income. Generally speaking, contributions into a non-qualified plan are taxable income.

27. Stock Options

These are classified as non-statutory or statutory options. If it is a non-statutory option employee will have income when he receives the option, when he uses the option, or when he sells or otherwise dispose of the option. With a statutory option, employee does not recognize any income until you sell or exchange your stock from the option. Employer can tell you which type of options employees have.

28. Meals and Lodging

Meals provided by an employer may be excluded from an employee's income if the meals are furnished on the employer's premises and are for the convenience of the employer. Lodging provided by an employer may be excluded from an employee's income if it is furnished on the employer's premises, is for the convenience of the employer, and is required that the employee accept the lodging as a condition of employment.

29. Educational Programmes

In-house study opportunities, or sponsorship of external study (not necessarily work-related).

30. Family-friendly Policies

Such as workplace nurseries, term-time hours' contracts, career break schemes. It has been recognized that certain benefits must be supplied by the organization for its employees, regardless of whether it wants to or not. With few exceptions, the hiring of any employee requires the organization to pay social security premiums, workmen's compensation, etc. Similarly, the payment of these costs by the organization provides the employee with financial protection at retirement, termination, or as a result of injury, and it also provides to the workers' dependants in case of the employees' death

31. Transport Assistance

Examples may include loans for the purchase of annual season tickets, or bulk buying of tickets by employers for distribution to staff.

32. Housing assistance

Allowances to staff who have been transferred or relocated removal and traveling expenses, lodging, convincing fees and so on or assistance with house purchase bridging loan, preferential mortgage terms.

33. Medical Benefits

Provision of private medical and/or dental insurance. Some medical services may also be provided at the workplace: For example, eye and hearing tests (where relevant to the industrial context).

34. Catering Services

Most commonly, subsidized food and drink at the workplace or Luncheon Vouchers

35. Recreational Facilities

It is a subsidy and organization of social and sports clubs or provision of facilities such' as a gymnasium or bar.

36. Allowances

For telephone costs, professional subscriptions or work related reading matter. Discounts or preferential terms on the organization's own products services. Bank employees, for example, may receive: a mortgage subsidy: discounts on unit trusts or insurance products; bonus interest on accounts or savings plans; or reduced interest rates on overdrafts and loans.

37. Dependent Care Benefits

These benefits are employee-financed programs that provide care for an employee's children or other dependents. The care must be care that would qualify for the dependent care credit if the employee had paid the amounts.

38. Employee Death Benefits

These are payments made to the family or friends of a relative who dies. They may or may not be taxable, depending on the facts and circumstances. If the payments were for past services such as bonuses, accrued wages, or unused vacation pay they are taxable income to the family. The important issue here is if the employee would have received these payments had he lived.

2.1.3 Principles of Fringe Benefits

The following principles must govern the administration of fringe benefits:

i. Benefits and services must be provided to the employees on the basis of a genuine interest in the protection and promotion of their well-being. The management should not feel that the fringes are thrust upon them. Nor should the management feel that they are providing the benefits as a matter of charity.
ii. The benefits must satisfy a real need. Employees resist or are indifferent to any benefit which is not like by them
iii. The benefits must be cost-effective
iv. The benefits should be as broad based as possible
v. Administration of the benefits should be preceded by sound planning
vi. The wishes of employees expressed by their union representatives and the bargaining power of the union must be considered
vii. Employees should be educated to make use of the benefits.

2.1.4 Factors Determining /Reasons for Offering Fringe Benefits

When a company wants to hire or keep an employee, they look at all the standard and non-standard compensation they can offer. The set of perks the business comes up with

is known as a fringe benefits package. Creating one of these packages is challenging because even though the company wants to look like a good, competitive employment choice, they cannot make offers that put financial strain on the business. They must find a balance between meeting or exceeding market expectations and maintaining the company budget. Companies also know that employees will want benefits to increase over time, so they need to create a package that has room to grow. The following are the main reason company offers fringe benefits:

1. Social Security

The employers must pay in whole or in part for certain legally mandated benefits and insurance coverage also known as social security. According to ILO, social security refers to the protection which society provides for its members through a series of public measures against the economic and social distress that otherwise would be caused by the stoppage or substantial reduction of earnings resulting from sickness, maternity, employment injury, unemployment invalidity, old age and health.

2. Paternalistic or Humanistic Consideration

Historically, fringe benefits were introduced with humanistic considerations to support wage compensation with certain infrastructure or facilities to provide for health, education and housing as also social, cultural, religious and recreational activities.

3. Tax Considerations

There are individual and organizations to develop ingenious methods of avoiding the obligations through restructuring the pay packet. The various fringe benefits like house rent, education expenses, travel charges and many more are shown as re-imbursement of expenditures. However, in recent years the tax authorities are taking exception to such camouflaging and disallowing non-wage benefits beyond certain limits.

4. Utilization of Leisure Time

There is awareness about the effects of off-duty life style on working life and vice versa. The importance of leave and holidays for rest and recuperation is increasingly being understood. Keeping these in mind, organizations are providing various facilities for leave travel including expenses of travel maintenance of guest houses etc.

5. Competitive considerations

A variety of incentives and benefits are being offered like company housing liberal loan facilities, construction of schools or re-imbursement of education expenditure, membership in clubs/professional associations, sponsorship for training and conference abroad etc to attract and retain people based on the competitor's companies in the field.

6. To Meet Price Rises

Rising prices and cost of living has brought about incessant demand for provision of extra benefit to the employees. Employers too have found that fringe benefits present attractive areas of negotiation when large wage and salary increases are not feasible.

7. To Attract and Retain Best Talents

As organizations have developed more elaborate fringe benefits programs for their employees, greater pressure has been placed upon competing organizations to match these benefits in order to attract and keep employees. Recognition that fringe benefits are nontaxable rewards has been major stimulus to their expansion.

8. To Protect Employees from Adverse Impact

Rapid industrialization, increasingly heavy urbanization and the growth of a capitalistic economy have made it difficult for most employees to protect themselves against the adverse impact of these developments. Since it was workers who are responsible for production, it was held that employers should accept responsibility for meeting some of the needs of their employees. As a result, some benefits-and-services programs were adopted by employers.

9. Due to Government Legislation

The growing volume of labor legislation, particularly social security legislation, made it imperative for employers to share equally with their employees the cost of old age, survivor and disability benefits.

10. Collective Bargain by Trade Unions

The growth and strength of trade unions has substantially influenced the growth of company benefits and services.

11. Labour Scarcity and Competition

Labor scarcity and competition for qualified personnel has led to the initiation, evolution and implementation of a number of compensation plans.

2.2 Concept of Downsizing

Downsizing is a positive and purposive strategy, a set of organizational activities undertaken on the part of management of an organization and designed to improve organizational efficiency, productivity, and/or competitiveness. Downsizing thus defined falls into the category of management tools for achieving desired change, much like “rightsizing” and “re-engineering”. Clearly, the definition is overly expansive. Downsizing may and very likely will impact or impinge on systemic change efforts such as the introduction of “total quality management, “reengineering,” or “reinventing” initiative. They are not one and the same. Downsizing does not necessarily imply a reduction in the assets of the organization; for example, an organization may contract out a function that was previously done by permanent employees. The elimination of the jobs of the employees constitutes downsizing.

2.2.1 The Paradox of Downsizing

Information will be examined as a prime determinant in the value of a stock. Specifically, the choice of how many workers a firm wil1 hire or fire may be interpreted as news that signals the health of that firm. Downsizing will be defined in the context

of a special case of the labor input strategy of a firm. Questions relating to how downsizing functions as a signal of firm health will be raised, and the methods for answering those questions will be presented. The economy was strong, inflation was falling, and real GNP was growing at a steady, confident pace. Corporate profits had reached historically high levels, and investors were on a buying spree in the stock market, pushing it from one record close to the next. Unemployment had fallen to a level that many economists felt was consistent with non-accelerating inflation. Expectations of inflation were abated, and the boom seemed to be poised to last for a long time, with no economic downturn in sight. At the same time, the major corporations in the US appeared to be firing workers by the hundreds of thousands, and job insecurity had risen to a surprisingly high level. Regardless of seniority, the company's profitability, or the surging demand for the firm's outputs, the threat to an employee of finding a pink slip in the next pay envelope was real and widespread. No job seemed safe.

The above statements, describing the US economy in the mid1990s, seem inconsistent not only with a standard textbook characterization of an economic boom, but also with any historically observable relationship between the labor market and other economic arenas, such as the financial market or the goods market. Politicians and unions pointed to the greed of corporate America, and the insensitivity of management to the contributions and value of workers. Standard micro economies were at a complete loss to explain the phenomenon. If strong firms were anticipating a greater demand for their products during the economic boom, and labor costs were not rising excessively relative to productivity, why were firms firing workers? The term "downsizing" was coined to describe the action of dismissing a large portion of a firm's workforce in a short period of time, particularly when the firm was highly profitable. In a standard downsizing story, a profitable firm well-poised for growth would announce that it was firing a large percentage of its workforce. The equity market would get excited, and initiate a buying frenzy of the firm's stock. This goes counter to a standard micro-economic analysis, in which a weak firm anticipates a slump in the demand for its products, and lays off workers, while a strong firm foresees a jump in the demand for its products, and hires more workers to increase production.

In Nigeria, during Chief Obasanjo's regime (199-2007), the issues of downsizing and right sizing were put up. Many workers in public sectors were lay off. The private sector was not left out too. These affected many people/families negatively. Standard micro economies were at a complete loss to explain the phenomenon. If strong firms were anticipating a greater demand for their products during the economic boom, and labor costs were not rising excessively relative to productivity, why were firms firing workers? The term "downsizing" was coined to describe the action of dismissing a large portion of a firm's workforce in a short period of time, particularly when the firm was highly profitable. In a standard downsizing story, a profitable firm well-poised for growth would announce that it was firing a large percentage of its workforce. The equity market would get excited, and initiate a buying frenzy of the firm's stock. This goes counter to a standard micro-economic analysis, in which a weak firm anticipates a slump in the demand for its products, and lays off workers, while a strong firm foresees a jump in the demand for its products, and hires more workers to increase production.

2.3 Voluntary Retirement Scheme

The Governments in most countries, depending on the systems of their economy, adopts policies whereby it relaxes and in certain instances removed restrictions on import and export. This usually results in significant changes in industrial and business sectors. One of the important aspects of the liberalized economic policy is the Exit Policy. Under this policy the government allows business and industrial establishments, to reduce their excess staff and employees. The reduction of excess staff is a result of restructuring of organisations due to modernizing, applying new technology and new methods of operation, so that the industrial organisations could operate economically and withstand the competition with companies and organisations which have accepted foreign collaborations, innovative methods and technology up gradation, rendering some employees surplus.

This policy usually results in retrenchment which involves a lot of legal hurdles and complex procedures, the Government authorized schemes of voluntary retirement of employees after offering them suitable voluntary retirement benefits, and giving some tax relief on such payments to employees who are eligible to retire voluntarily under the guidelines issued by the Government and Income Tax authorities

In some instances, most of the public sector undertakings were not cost effective. The trade unions have been opposing retrenchment under the existing labour laws. The government, therefore, found a solution to the problem of surplus staff by allowing voluntary retirement both in public and private sectors. The human resources in the industrial sector have become surplus on account of:

a) existing level of technology
b) will become surplus with adoption of newer technologies and technological up-gradation.

2.3.1 The Reasons for Proposing VRS

i. Recession in business
ii. Intense competition, which makes the establishment unviable unless downsizing is resorted to
iii. Changes in technology, production process, innovation, new product line
iv. Realignment of business - due to market conditions
v. Joint-ventures with foreign collaborations
vi. Takeovers and mergers
vii. Business re-engineering process
viii. Product/Technology obsolescence.

2.3.2 Procedure for Voluntary Retirement Scheme

The employer has to issue a circular communicating his decision to offer voluntary retirement scheme - mentioning therein.

i. The reasons for downsizing
ii. Eligibility i.e. who are eligible to apply for voluntary retirement
iii. The age limit and the minimum service period of employees who can apply (Employees who is 40 and above and those who have completed minimum 10 years of service in the establishment.)
iv. The benefits that are offered. It should be noted that employees who offer to retire voluntarily are entitled as per law and rules the benefits of Provident

Fund,' Gratuity and salary for balance of privilege leave up to the date of their retirement, besides the voluntary retirement benefits.

v. The right of an employer to accept or reject any application for voluntary retirement.

vi. The date up to which the scheme is open and applications are received for consideration by the employer.

vii. The circular may indicate income tax incidence on any voluntary retirement benefits.

viii. It should also indicate that those employees who opt for voluntary retirement and accept the benefits under such scheme shall not be eligible in future for employment in the establishment.

2.3.3 Steps to be taken for introducing and implementing voluntary retirement scheme

a) If the company is public sector undertaking obtain approval of the government.

b) Identify departments/employees to whom VRS is to be offered (Target group of employees -age above 40 years and employees with more than 10year service in the company or organisation).

c) If there is a union of employees 'in the establishment involve the union by communicating to them the reasons, the target group and the benefits to be offered to those who opt for the scheme.

d) Formulate terms of V R S and benefits to be offered are to be mentioned in the circular or communication to employees and decide the period during which the scheme is to be kept open.

e) Motivate the managers through counseling.

f) Counselling employees is an essential part of implementing the scheme. The counselling should include what the retiring employee can do in future i.e. rehabilitation, how to manage the funds received under the scheme.

g) After receipt of applications for accepting VRS, scrutinize, decide whose applications are to be accepted and those whose are not to be accepted.

h) For those whose application are to be accepted prepare a worksheet showing the benefits each will receive including other dues like Provident Fund, gratuity and earned leave wages for the balance un-availed earned leave, and tax incidence involved.

2.3.4 The challenges in implementing employees Exit

i. The reasons and need to introduce VRS should be discussed with all management staff including top management.

ii. The effect of downsizing including on the work or activities of the establishment carried on is to be considered i.e. post reduction operations to be carried on should also be planned - post plan reduction employee deployment.

iii. Ensure all concerned employees and managers participate in the decision making to down size.

iv. The downsizing plan should match with the Strategic plans of the company.

v. Transparency should be seen and used in choice of persons to be retired.

vi. Be prepared to manage the after effects of the downsizing both social and psychological.

vii. Motivate employees who will stay with the company, remove their apprehensions and fears, if any.

viii. Provide professional assistance to employees who agree to accept V R to plan their post retirement, activities and financial management including, out placement.

ix. The VRS should be made attractive and no pressures should be used to ease out people.

2.3.5 Advantages of Voluntary Retirement Scheme

i. There is no legal obstacle in implementing VRS - as is predominantly encountered in retrenchment under the labour laws.

ii. It offers to the employee an attractive financial compensation than what is permitted under retrenchment under the law.

iii. Voluntary nature of the schemes precludes the need for enforcement, which may give rise to conflicts and disputes.

iv. It allows flexibility and can be applied only to certain divisions, departments where there is excess manpower.

v. It allows overall savings in the employee costs thus lowering the overall costs.

2.3.6 Disadvantages of Voluntary Retirement Scheme

a) To certain extent it creates fear, a sense of uncertainty among employees. Sometimes the severance costs are' heavy and outweigh the possible gains. Trade unions generally protests the operation of such schemes and may cause disturbance in normal operations. Some of the good, capable and competent employees may also apply for separation which may cause embarrassment to the managements.

b) It is found in practice that organisations may have to repeat the scheme if there is no response or poor response to the scheme by the employees. However, there are instances when the managements have really made the schemes very attractive by making it "Golden Hand Shake."

c) It is incumbent on the establishments that they do not recruit similar staff immediately after the implementation of voluntary retirement scheme. Such recruitment, in spirit and essence is contrary to the principle of staff being excessive or surplus.

d) Restructuring a means of implementing strategic change aimed at improving performance by reducing the level of differentiation and integration and downsizing the number of employees to decrease operating costs.

2.4 Mergers and Acquisitions

The implications of a merger or acquisition on pay and conditions of employment do not seem to be considered seriously enough in most take-over battles. Executives and employees are too often pawns in a game of chess played by remote grandmasters. However, acquisitions or mergers do not always live up to expectations and one of the principal reasons for failure is the demotivation of managers and staff. This is inevitable if insufficient attention is paid to their needs and fears as well as any existing imbalances between the reward strategies and remuneration levels of the organizations set to merge. This issue has assumed increasing significance as globalization leads to mega-mergers between organizations starting from very different places in the reward philosophy spectrum.

The degree to which staffs are affected by a merger or acquisition does of course, vary, at one extreme the holding company adopts a completely ‘hands-off approach, leaving the acquired company to run its own business, in its own way, and with its own terms and conditions of employment as long as it delivers the goods, At the other extreme, the acquisition is merged entirely into the parent company and all terms and conditions

of employment are ‘harmonized’. The employees affected, however, might have different views about the extent to which the process is harmonious. Between these two extremes there is a measure of choice. In some cases, it is only the pension scheme that is merged. In others, it is the pension scheme and all the other benefits that are harmonized, leaving separate pay structures. In making decisions about what should be done and how, the points on the following check-list should be considered jointly and in advance by the parties concerned.

The advantages seem obvious. A common basis is established throughout the group which facilitates movement and a consistent approach to salary administration. The disadvantage is the disturbance and potential cost of merging, bearing in mind the regarding and salary increases that might be necessary as well as the expense of job evaluation.

Why go to all this trouble if the operations in the respective companies are dissimilar and they are located in entirely different parts of the country? It could even be damaging. If salary structures have to be merged, how should this be done? The choice is between:

a) A full job evaluation exercise involving re benchmarking which may be disturbing, time consuming and expensive but may now have to be looked at in the light of recent equal values cases; or
b) The arbitrary slotting of jobs into the new structure using existing job descriptions (if any):- This could result in gross inequities unless full job descriptions are available or there is already a good fit between the two salary structures; or (c) A compromise between (a) and (b), slotting in jobs without a full evaluation if the fit is obvious, but evaluating doubtful or marginal cases. Note that if pay is negotiated with a trade union or staff association they would have to be involved and they will obviously fight against any detrimental changes.

c) Using this as an opportunity to adopt a new structure based on job family models/generics and broader pay bands.

3.0 Conclusion

Fringe benefits are indirect form of compensation given to employees in addition to the various forms of cash pay- base pay, dearness allowance and inventive pay. They provide a quantifiable value for individual employees. They are the indirect form of compensation as they are not related to the performance but are granted to the employees for just being a member of the organization. Companies also know that employees will want benefits to increase over time, so they need to create a package that has room to grow. Downsizing is a positive and purposive strategy, a set of organizational activities undertaken on the part of management of an organization and designed to improve organizational efficiency, productivity, and/or competitiveness. Voluntary retirement scheme can be said to be incumbent on the establishments, this is because management might not recruit similar staff immediately after the implementation of voluntary retirement scheme. Notwithstanding, voluntary retirement scheme allows flexibility and can be applied only to certain divisions, departments where there is excess manpower.

4.0 Summary

In this unit, we discussed the concept of fringe benefits, its types, objectives, principles and reasons for fringe benefits, concept of downsizing, its paradox, voluntary retirement scheme, reasons and requirements for VRS were discussed among other things.

5.0 TUTOR-MARKED ASSIGNMENT

1. In your own words, what do you understand by the term fringe benefits, what types are in our organizations and why do organizations practice it?
2. What is downsizing and why do you think organizations practice it?
3. What do you understand by the term voluntary retirement scheme and why do you time employee propose for it?
4. What theories do you think are guiding wages?
5. What are the various policies and philosophies guiding compensation

6. What are the various ways through which an organization can retain and attract potential or current employees?

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