

Why Develop a Reward Strategy?

Current management academics and writers broadly agree that “the strategic aim of reward management is to develop and implement the reward policies, processes and practices required to support the achievement of the organisation’s business goals”¹. This opinion is echoed by many prominent writers in the area, including Lawler² (who introduced the concept of thinking and acting strategically around reward), Schuster and Zingheim³ (who developed ‘new pay’, particularly linking performance and pay), Flannery, Hofrichter and Platten⁴ (who outlined principles that support a successful reward strategy); and Kaplan and Norton⁵ (developers of the Balanced Scorecard).

However, there are two sides to every coin, and no discussion on reward is complete without mention of Alfie Kohn⁶, who believes that collaboration, meaningfulness and autonomy are more effective motivators than incentive plans, as incentive plans destroy teamwork and co-operation and fail to address many of the issues that are really holding back the organisation. To an extent, he is correct. Many pay-for-performance and incentive schemes do not deliver superior individual or organisational performance, but this is often because of the implementation. Kohn comments, “in many workplaces, incentive plans are used as a substitute for management”⁷. In such cases, is poor performance the fault of the reward system, or poor management?

Reward defines what an organisation is prepared to pay for to achieve strategic goals, and is therefore an important part of the management of people.

Linking Reward to Performance

It therefore makes sense to align strategic reward objectives with business objectives in the same way as other key business areas such as finance, operations, technology and IT. If strategic reward objectives are applied consistently across the organisation, reward (including fixed remuneration, incentives, recognition and the intangible elements) will support and reinforce the strategic direction of the business, driving individual and organisational performance.

This linkage between organisational strategy and business results is illustrated in the diagram, ‘The Components of Reward Management’. The diagram also shows the activities usually present in a reward management system, and their inter-relationships, including:

- Reward Strategy;
- Remuneration Policy;
- Performance Management;
- Contingent Pay (i.e. incentives and performance-related salary increases);
- Recognition; and
- Non-financial rewards (those intangible aspects of work, such as quality of work, inspiration and values, work-life balance, the work environment, and training and development opportunities).

¹ Armstrong, Michael and Murlis, Helen (2004) *Reward Management: A Handbook of Remuneration Strategy and Practice* 5th Edition, 2004, Kogan Page

² Lawler, E E (1990) *Strategic Pay*, Jossey-Bass

³ Schuster, JR and Zingheim, P K (1992) *The New Pay*, Lexington Books

⁴ Flannery, T P, Hofrichter, D A and Platten, P E (1996), *People, Performance and Pay*, Free Press

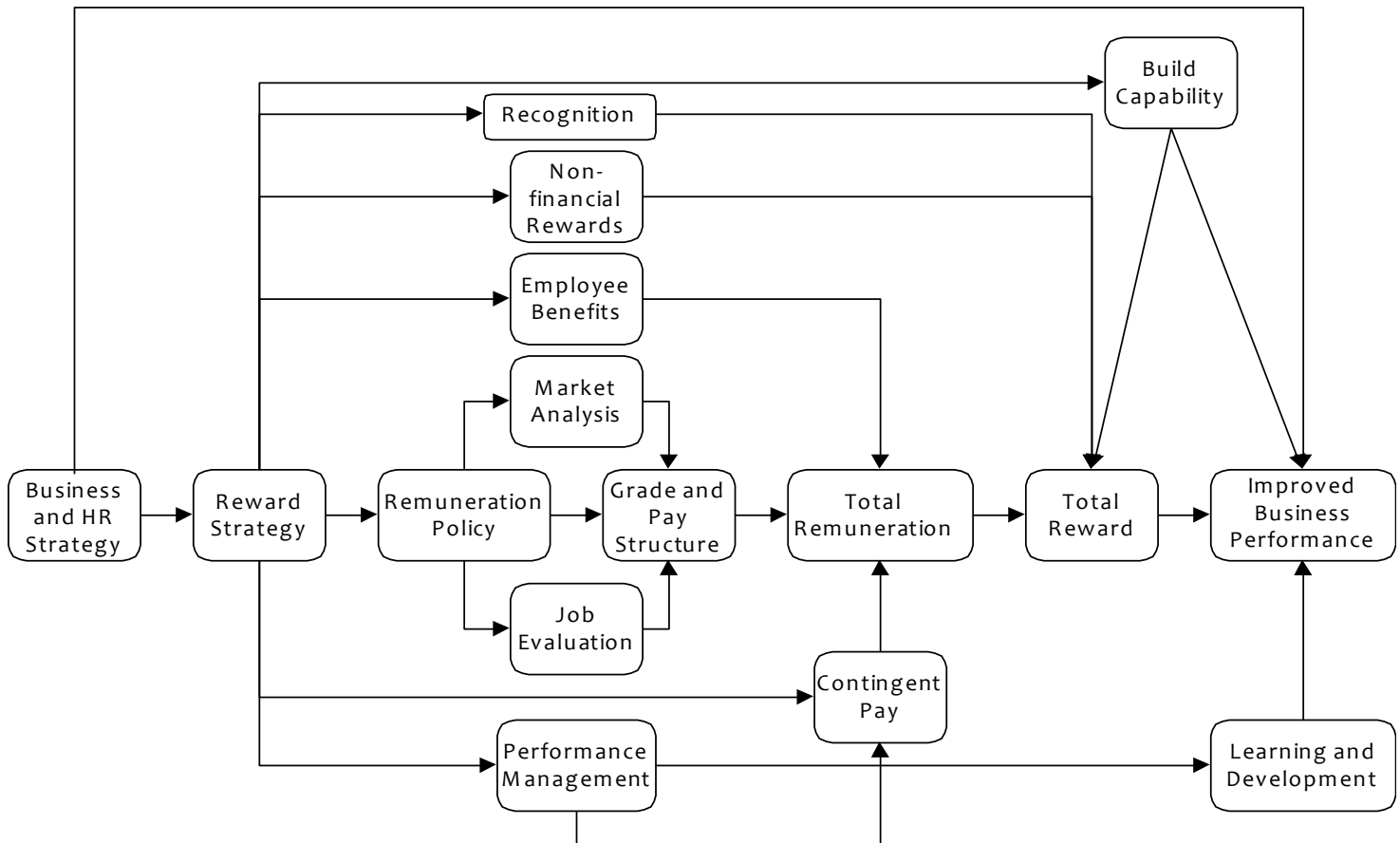
⁵ Kaplan, Robert S and Norton, David P (1996) *The Balanced Scorecard: Translating Strategy into Action*, HBS Press

⁶ Kohn, Alfie (1999) *Punished by Rewards: The Trouble with Gold Stars, Incentive Plans, A's, Praise and Other Bribes*, Houghton Mifflin Co.

⁷ Alfie Kohn, quoted in Flannery, Hofrichter and Platten (1996)

The Components of Reward Management

Adapted from Reward Management (5th edition), Armstrong & Murlis, Kogan Page 2004



Reward can be described as the reason 'why people come to work' and consists of three key related aspects:

- remuneration for employee's efforts, time and results;
- performance recognition and improvement;
- motivation and engagement.

There are many different views around reward, and there is no one 'best practice' approach that is appropriate for all organisations. Instead, I believe there is a 'best fit' approach to reward for each individual organisation, which takes into account the unique climate, culture and environment in that organisation.

Reward Philosophy

In order to determine this ‘best fit’ approach, top management will need to have a unified view of both the overall direction of the business, and how reward can support that. This can be expressed in the form of a statement of the guiding principles (a reward philosophy) that underpin reward strategies and policies within the organisation. In developing a reward philosophy, it can be tempting to use statements such as:

“Our organisation will reward employees in a fair, equitable, consistent and transparent manner that recruits, retains and motivates that calibre of employee we need to achieve organisational objectives”.

While this sounds robust, there is room for multiple interpretations of words like ‘fair’, ‘equitable’ and ‘transparent’, and it is important that top management have a clear and unified understanding of what this means in the context of their organisation.

Reward Strategy

The components of an effective Reward strategy are⁸:

- Clearly defined goals and a well-defined link to business objectives;
- Well-designed pay and reward programmes, tailored to the needs of the organisation and its people, and consistent and integrated with one another;
- Effective and supportive HR and reward processes.

In order to achieve this, an organisation first needs to agree:

- What do we want to reward people for?
- In what form should we reward?
- How much should we reward?

These three aspects need to be considered together to ensure that the different aspects of reward (fixed remuneration, variable remuneration and non-cash rewards) are moving in the same direction. Reward practices in an organisation are most effective when they are designed to contribute in an integrated way to the achievement of the business objectives through greater employee engagement, and their development must continuously bear this in mind.

For more information on how to develop a reward strategy that will reinforce performance improvement in your organisation, contact Iola Goulton at Bay Reward Consulting, on 07 576 4762 or 021 802 041 or via email at igoulton@bayreward.co.nz.

⁸ Brown, D (2006) *Reward Strategies: From intent to impact*, CIPD, London, quoted in Chapter 3, Armstrong, Michael and Helen Murlis (2004) *Reward Management: A Handbook of Remuneration Strategy and Practice 5th edition*, Kogan Page, London