Chapter 13

Employee reward

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Objectives

- To present the main historical and theoretical foundations underpinning contemporary employee reward practice.
- To define employee reward and identify the key components of reward.
- To explore the concept of reward management and the benefits and difficulties associated with introducing a strategic approach to reward.
- To consider key employee reward choices facing organisations in the contemporary era.
- To explore the economic and legal context for reward and the implications for employee reward practice.
- To identify the internal/organisational factors affecting organisational approaches to reward and the influence of sector.
- To consider key choices and emergent trends in terms of establishing pay levels, designing pay structures and determining criteria for pay progression.

Introductory case study

How do I get my pay up?

I've found out that one of my male colleagues who is in the rank below me has just negotiated a pay rise

30 January 2013

Dear Lucy

I work for a large firm that is getting much press on the importance of women's advancement in the workforce. I've recently found out by accident that one of my male colleagues who is in the rank below me has just negotiated a pay rise and is now paid slightly more than I am. I feel hard done by. What is the best strategy to get my pay up? Should I use my knowledge of his salary as a negotiating ploy? It feels wrong to me, but I'm sure others do it.

Middle manager, female, 45

Lucy's answer

The fact that this one man seems to be paid more than you doesn't prove a thing. It does not mean that you are underpaid. Even less does it mean your company is a great big hypocrite that doesn't actually care about women at all. It is a shame that you have let this unscientific snippet of data transform you from someone who was (I assume) fairly happy with her pay, into an aggrieved women, hinting darkly about discrimination.

The easiest thing for you to do is to try to erase this discovery from your mind, and go back to how you felt before. If you can't do that, then you should try to collect more information to see if you are, indeed, underpaid. I suspect you will find that your company is like most in that salaries are all over the place – that compared with some people you will look good, compared with others you'll look bad.

If you insist on obsessing about this one whippersnapper, at least do so logically. There are three reasons why he could be paid more than you: he might be perceived to be better at his work that you are; he might shout louder than you do; or he might recently have received an offer from another company and used that to get his salary up. If you want to play leapfrog, you'll find it hard to become demonstrably better at your work in a short space of time. It may also be tricky to rustle up a rival offer at a fat premium to your current salary in a hurry. That means all you have left is to try the shouting.

This is not an art, though it doesn't sound as if it comes easy to you. You need to marshal your arguments and make them loudly and unashamedly. Remember, people who make a nuisance tend to get paid more, as their bosses prefer quiet lives. However, do not even think of mentioning the pay of your colleague. I remember some years ago a woman journalist who made a discovery just like yours. When she complained to the boss that her pay was 20 per cent less than mine, she was told that was because she was 20 per cent less effective than I was. Result: she left the company shortly afterwards.

FT *Source*: Lucy Kellaway, *Financial Times*, 29 January 2013.

Introduction

As the introductory case illustrates, reward can be a contentious and highly emotive matter for employees and one that is difficult to manage appropriately. Without the full facts, it is impossible to judge whether the manager in the scenario is being discriminated against because of her gender and/or if she is being paid fairly for the work she performs. The case, and in particular Lucy's 'no holds barred' response, does, however, raise some interesting issues concerning the way in which reward systems are designed and managed in organisations. We learn from this case that ad hoc decisions are not uncommon where reward is concerned, transparency does not always take centre stage and objective criteria are not, or cannot, be routinely applied to assess performance and determine pay rates/salaries. The case also reveals the 'dark art' of reward as practised at times by both employees, especially those with bargaining power, and employers, keen to ensure maximum return on investment while avoiding the financial and reputational risk associated with an equal pay challenge. It is suggested that pay can entice employees to stay, drive them to leave, encourage them to hold their employers to ransom or, worse, turn productive and content employees into embittered and disenchanted job incumbents.

This chapter identifies and discusses many of the issues raised by the introductory case study. It charts developments in employee reward and considers the practical ways in which reward management can be used, as part of a suite of human resource (HR) practices, to elicit employee engagement and drive individual and organisational performance. The chapter traces the historical path of reward, focusing initially on the nature of the wage–effort bargain and associated limited approaches to reward, revolving principally around the key construct of pay. The chapter then moves on to identify and explore the meaning of reward in the contemporary era, focusing upon reward as a potential strategic lever which can be used by organisations to encourage individuals and work teams to display behaviours that are consistent with organisational values and aligned with business goals. The overarching themes of the remainder of the chapter concern the economic and legal context for reward and the challenges associated with designing a reward strategy that is affordable, equitable and relevant, particularly in a testing economic environment. Embedded within these themes, emphasis is placed on pragmatic reward choices and dilemmas experienced by organisations in the twenty-first century, including decisions about the relative importance of internal equity and external pay comparability, the role of job evaluation, the factors which tend to be influential in shaping the reward 'mix', where to pitch pay, how to reward particular types of workers (e.g. top executives) and how to design pay structures and manage pay progression.

The historical and theoretical foundations of employee reward

We now outline and examine the extent to which human resource management (HRM) has developed current practical and theoretical issues surrounding the management of reward systems within modern organisations. A critical element of these discussions is the management of structures and strategies. This chapter introduces the notion of reward(s) as a central function in the development of a strategic role for HR functions and offers some explanation of the objectives of current reward management structures, strategies and systems.

'There's only one reason we come here – the money' has not been an unusual comment heard from employees in all organisations since the period of industrialisation. Such comments echo the nature of the employment relationship as a reward/effort bargain **(Chapter 10)**. Whether openly, covertly, personally or collectively, we all become involved in the resolution of this bargain at some time during our working life. This chapter discusses how management have resolved and continue to resolve their problem of converting the labour potential, obtained by their transactions in the labour market, into the labour performance they desire, simply securing the required effort levels without rewarding at levels detrimental to the generation of sufficient profit. In this sense, we view reward as a core function for HR managers and rewards as composed of more than the mere 'notes' in the pay packet. Terms such as 'pay', 'compensation' and 'remuneration' are all recognisable expressions, but as we argue in the following sections, 'reward' is something qualitatively different in that the issues covered encompass both financial and non-financial benefits.

The development of reward systems

As a distinctive concern for managerial functions, the topic of reward is a recent addition; indeed it is fair to say that reward management has often been viewed as the 'poor relation'. Within the early labour management literature, it was discussed in terms of the management of figures and procedures (Yates, 1937; Urwick, 1958). Such discussions clearly view 'reward' as solely a matter of financial benefits (wage/effort) rather than including consideration of the non-financial benefits. We can argue from this initial analysis that during the development of a 'factory-based' system, in the late nineteenth/early twentieth centuries, it appears wage, rather than effort, was the central concern. Moreover, this period was accompanied by a system within which owners frequently found difficulty in securing consistent levels of control of the effort side of the bargain (Lovell, 1977; Zeitlin, 1983; Hinton, 1986). Employees, who were until that time self-controlled and in many respects driven by subsistence needs, had worked in small 'cottage' industries within which the product of labour was owned by the producers (workers themselves; notably in regard to the skilled artisans) and they worked only as hard as necessary in order to meet their subsistence needs. As Anthony (1977: 5) suggests, 'A great deal of the ideology of work is directed at getting men [*sic*] to take work seriously when they know that it is a joke'.

Explore

- How has a cataclysmic shift away from pure subsistence to extreme consumerism impacted workers' attitudes to financial recompense and issues of control within the workplace?

Owners found that getting workers to keep regular hours and to commit the effort owners considered to constitute 'a fair day's work' was problematic. In response to this dilemma they employed the 'butty' system of wage management. Under this system, owners committed a specific level of investment to a selected group of workers (normally skilled artisans) who then hired labour on 'spot contracts' by the day. The major problem for the owners with this system was that these 'subcontractors' had control over the effort/reward bargain and were able to enrich themselves at the expense of the owners. The owners enjoyed little or no control over the process of production, so the system was economically inefficient and failed to deliver the returns (rents/profits) required or, more importantly, the returns that were possible from the process of industrialisation.

From this group of 'favoured' workers, along with the introduction of some university graduates, there grew a new management cadre. This was a slow process: Gospel (1992: 17) notes that generally, in UK industry, this group (management, technical and clerical) amounted to only 8.6 per cent of the workforce in most manufacturing organisations by the start of the First World War. It can be further argued that even within these organisations, the development of a dedicated, specialised managerial function was uneven and patchy. These changes did little to address the problems associated with the wage/effort bargain, meaning productivity was below optimum levels. A key component in these problems was that they were underpinned by the actuality that 'the managers' brain was still under the workers' cap', or more precisely that these new managers rarely possessed the skills or knowledge of the production process held by the workers. This led to lower than optimum levels of production and reduced profits, a system F.W. Taylor described as 'systematic soldiering'. This activity was engaged in by workers, according to Taylor (1964: 74), 'with the deliberate object of keeping their employers ignorant of how fast work can be done'. From his observations Taylor took the view that workers acting in this manner were merely behaving as 'economically rational actors' desiring their own best interests. It was clear, therefore, that management needed to take the reins of the production process and reclaim their right to determine the outcome of the wage/effort bargain.

Explore

- Can you think of any contemporary work situations in which the brain is still 'under the worker's cap'?
- What impact does this have on reward decisions and outcomes?

Taylor, as the so-called 'father of scientific management', developed a system of measuring work, which assisted the process of reclaiming managerial rights. Jobs were broken down into specific elements which could then be timed and rated, while in the process, returning the determination of the speed of work to management and allowing for the development of pay systems which reflected, however crudely, performance. This scientific system devised by Taylor became the basis of countless pay systems operating effectively alongside the routinisation and deskilling of work, which is often associated with scientific management within the literature (see, for example, Braverman, 1974; Hill, 1981; Littler, 1982, 1985; Wood, 1982; Thompson, 1983; Burawoy, 1985). While this allowed management to reassert their control over the level of outputs, to relocate the managers' brain under their own hats and hence the determination of the wage/effort bargain, it did generate problems in relation to managerial attempts to convince workers to take work seriously. In straightforward terms, we can suggest that the 'measured work' techniques advocated by adherents of Taylorism further separated conception from execution and led to feelings of alienation. Alienation can be defined as 'various social or psychological evils which are characterised by a harmful separation, disruption or fragmentation which sunders things that properly belong together' (Wood, 2000: 24); in our terms that means the separation of workers from that which they produce. Blauner (1964) argued that such an objective state is created as an offshoot of the subjective feelings of separation which workers experience under modern production systems. These feelings and their outcomes can be briefly outlined in the following manner (adapted from Blauner, 1964):

- *Powerlessness* – the inability to exert control over work processes.
- *Meaninglessness* – the lack of a sense of purpose, as employees only concentrated on a narrowly defined and repetitive task and therefore could not relate their role to the overall production process and end product.
- '*Self-estrangement*' – the failure to become involved in work as a mode of self-expression.
- *Isolation* – the lack of sense of belonging.

Although scientific management originated at the beginning of the twentieth century, its legacy has lived on in many areas. Similar experiences have been reported in the design of work in service industries and call centres (Ritzer, 1997, 2000; Taylor and Bain, 1999; Taylor and Bain, 2001; Callaghan and Thompson, 2001). The solution to this problem has been sought, following Taylor's notion of humans as economic actors, by the introduction of various reward systems and mechanisms, the core objectives of which were originally to operationalise effective control over the wage/effort bargain and later with current systems to alleviate the feelings of alienation and generate commitment to organisational goals.

In this regard, it is possible to argue that such reward systems are not designed in the 'perfect world' that some commentators have imagined. Rather they are controlled by various external and internal stimuli and operate within a complex landscape. These incentives or pressures can be broken down and identified in simple terms that highlight some of the more complex debates we address within this chapter. In no particular order, we can see that they include the ability of the organisation to pay, which in the current times of financial restraint and turbulence is greatly reduced. To this we can add the bargaining strength – both internally and more widely – of trade unions and of groups of workers in key organisational roles.

While the decline in trade union membership alongside the rise in non-union forms of representation (Dundon and Rollinson, 2004; Gollan, 2007), and the increased importance of small firms (Marlow *et al*., 2005), especially within the private sector, may have weakened trade union power, there are still sectors within the economy where organisations have to make a judgment about the residual power available to trade unions. Such residual power is also a dynamic force behind moves to maintain differentials in line with existing custom and practice. A further element in this consideration is the wider increase in the 'cost of living', which places strains on employers and employees. This is exacerbated by rapid technological change which influences labour markets and available skills patterns. While organisational and technological change may have increased productivity, and hence arguably created increased profits, employers must decide what percentage of such increases can be used to develop wage systems that reflect current effort. These pressures have been crystallised into three main features that affect the amount of pay and/or level of increase awarded (Milkovitch and Newman, 1996):

- labour market pressures – supply and demand;
- product markets – competition and demand;
- organisational factors – sector, technology and size.

These considerations increase discussion of the extent to which employers can successfully develop, design and control reward systems in the current volatile economic climate.

Design and debates

While this chapter often discusses reward systems in a manner that appears to offer a chronological explanation, we would note that the development of a 'new' system does not indicate the total removal of other older mechanisms. Evidence suggests that in many modern organisations we continue to find both 'old' and 'new' pay systems operating in tandem, delivering control on different levels for various groups of workers (Armstrong and Stephens, 2005; Armstrong, 2012).

In terms of the types of reward mechanism applied, we can note the application of a number of different mechanisms based on 'time worked'. Time rates are mechanisms whereby reward is related to the number of hours worked and are often applied to manual workers in the form of hourly rates and non-manual workers by the application of monthly or annual salaries. In the past, these rates were set in a number of ways which relied on the power of employers to unilaterally lay down the appropriate amount, by statutory enactment or by collective bargaining. Employer discretion has been limited in a number of ways by the introduction of statutory rules and regulations, ranging from the Truck Acts, enacted in the mid-nineteenth century, which required payment in cash – an attempt to prevent the misuse by employers of 'factory shop vouchers' – to the 1891 Fair Wages Resolution, which obliged employers on local or national government projects to pay the standard/recognised rate for a job. Both of these measures, along with the Wage Councils, which were first established in 1909, were modified or repealed in the 1980s – with the Agricultural Wages Board, due in part to employer support, being the only survivor. More recently the UK government put in place the National Minimum Wage Act (1999), which sets hourly rates across the whole economy for various groups of workers – primarily manual workers. These rates were set following meetings of the Low Pay Commission and graduated according to the age of the worker concerned. A new rate was established for apprentices (see page 000 for further details of the national minimum wage).

A criticism of time-based mechanisms is that they are often related to historic rather than current value, and can result in discrimination, demarcation disputes and a sense of injustice. Such time-related mechanisms are often based on the notion of a pay hierarchy in which groups of jobs/skills are banded. Although widely applied, basic versions of these instruments are poor in terms of relating wage to current effort, often rewarding effort that has been applied externally (gaining a recognised skill) and is inappropriate to current tasks. The advantages of these systems are that management can control wage costs by:

- limiting the access to various grades in the hierarchy;
- limiting the range of the grade (say 4 per cent top to bottom);
- demonstrating they are fair in relation to agreed procedures.

The problems created are not necessarily with the pay hierarchy system *per se,* but with the manner in which skills relating to specific grades are defined; solutions must then address the structure, strategy and rationale of the reward system rather than the application of such mechanisms.

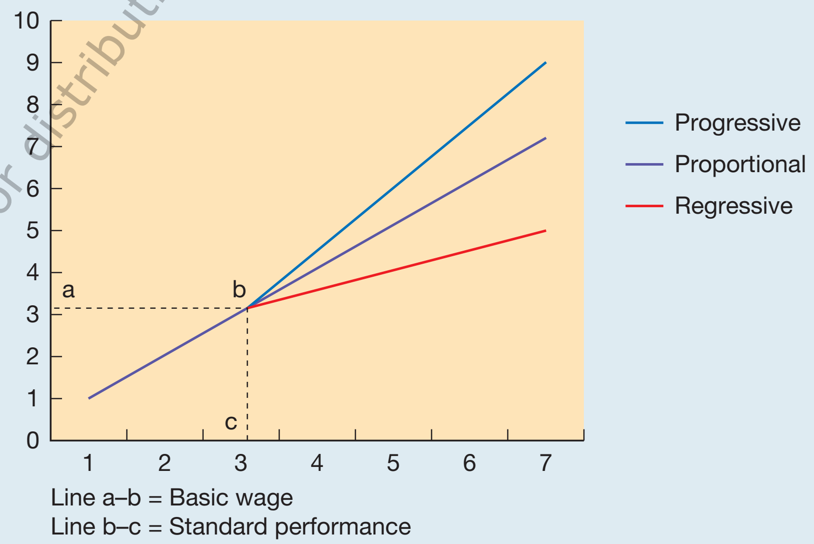
Bowey and Lupton (1973) developed a scheme for highlighting the manner in which such hierarchies are built and sustained. They argued that five factors are in play when selecting and deciding the location of each job within the hierarchy:

- skill
- responsibility
- mental effort
- physical effort
- working conditions.

Using these factors it is possible to identify similarities between jobs rather than, as is the case with standard job evaluation schemes, differences. Following the identification of these similarities, it is possible to locate various jobs within the pay hierarchy. What is more difficult is to translate this identification into a pay structure due to the various allocation or availability of the elements which make up an individual pay packet. Most conspicuous are the differences in the elements that are included in the individual pay packet at each level. So, for example, elements such as overtime, shift premium, individual bonus payments and other special allowances lead to increased earnings for some groups but not others. It is possible, in part, to explain the gender differences in earnings by reference to these elements. Hellerstein and Newmark (2006) argue that the difference in directly observable reward may be founded on either productivity differences or pure (taste-based) discrimination. In adopting this residual wage approach to wage discrimination, they suggest it is possible to estimate the true level of taste-based wage difference – whether looking at ethnicity, gender, age, disability or other forms of discrimination (see the discussion on equal pay later in this chapter).

Conboy (1976) noted that the key advantage of these time-based instruments is that both parties have a clear idea of the 'wage' element of the bargain. For management the problem is that these mechanisms do not give any clear indication of the 'effort' element of the bargain. This has led to time rate instruments being complicated by the addition of 'performance' elements, often in the form of 'piece-rates' or other complex 'bonus' calculations in an attempt to determine acceptable effort levels (e.g. predetermined motion time systems and measured daywork). The traditional form of such schemes can be demonstrated using the diagram shown in Figure 13.1.

Figure 13.1 The traditional form of time rate instruments



Many schemes give guaranteed basic earnings which are then supplemented in ways which we can class as proportional (wages increase in direct relationship to output), progressive (wages increase more than output) or regressive (wages increase at a slower rate than output).

An important element in this discussion concerns the manner in which the 'base' element is decided. We have become familiar with the notion of a national minimum wage, which sets the minimum rate for specified groups; outside of this scheme, organisations need some mechanisms by which to assign values to various roles within the organisation. Traditional mechanisms (and in a slightly modified manner 'new pay' systems) have been related to hierarchy calculations or simplistic forms of job evaluation scheme. A job evaluation scheme operates by allocating values to each of a series of elements (e.g. skill or responsibility) and then measuring each 'job' in order to arrive at an agreed 'score'. The scores are then placed on the pay spine or grading structure in relation to accepted criteria. These criteria will be formed by the interaction of two sets of relativities. Scores will need to reflect 'external relativities', by which we mean the situation that appears to hold in relation to external markets and environmental conditions, and 'internal relativities', meaning an appearance of fairness in relation to other jobs/roles within the organisation. In the basic form, these schemes introduce us to the notion of reward packages under which different elements can be rewarded in various ways. However, these schemes fell out of favour in some respects because they are seen to 'pay the job' rather than 'pay the worker', and as such were difficult to relate to individual performance.

Time-based pay is clearly the simplest form of wage payment system, easily understood by both parties; it allows the development of 'overtime' payments for work completed in addition to the contracted hours in any given period and formed the basis of the creation of systems classed as payment by results (PBR). Early PBR schemes were time-based in that they used the time accumulated by the pace of work as a percentage of the time allowed to form a foundation for the calculation of performance payments. So, in a simple form, if a task is timed to take eight minutes but is completed in six then there is a saving of 25 per cent, but the increase in performance is 33.333 per cent in that if the job is completed in six minutes then the two minutes left is equal to a third of the new job time. From the employer's point of view, therefore, paying a 25 per cent bonus leaves a surplus per piece of 8.333 per cent. This adds to the perceived advantages of PBR when linked to hierarchical reward systems by providing increased worker effort. During the twentieth century, such structures/systems were widely used in British industry in an attempt to increase productivity. However, they are associated with a number of detrimental effects and disadvantages. Often the rates were negotiated following a work-measurement exercise which led to discontent and disillusionment. Too often operators can find easy ways around the rate in order to secure high earnings without the expected higher performance; these routes around the scheme often resulted in a reduced level of quality – in part because workers felt under pressure to produce and in part because quality and speed do not always combine. Further, by leaving the production levels in the hands of the workers, it undermines managerial attempts to secure control and, indeed, may even be said to have resulted in both a loss of managerial prerogative and the abrogation of managerial roles. As these rates were often set within tightly defined employer/trade union collective agreements, they encouraged the increase – notably during the 1950s–1970s – of local shop agreements, which resulted in considerable 'wage drift' during a period of economic restraint. Many of these problems are to some extent mirrored in the bonus schemes operating in the financial sector in the twenty-first century, which attract considerable disdain against the current backdrop of wage stagnation or decline for many others.

We can conclude then that such PBR systems, while originally crude, developed alongside the more extensive division of labour achieved by the increasing use and application of technology, ergonomics (pseudo-scientific work measurement) and mechanical production methods. These early techniques can easily be applied to such divided work because of four basic characteristics (adapted from Conboy, 1976):

- short job cycles;
- high manual content (which, using sophisticated ergonomic processes, can be measured);

- batch production (with repeated orders/processes);
- no marked fluctuations in required outputs.

The simplistic assumptions underlying these and other PBR systems are twofold. First, workers are motivated to increase performance (work harder) by money, and secondly, any increases in output will result in equivalent increases in wages. The schemes are intended to be self-financing and designed to reduce 'wasteful activity' in that they can be used to redesign the labour process. While such schemes now enjoy less popularity than they have in previous decades, there is still evidence that they are used in relation to specific groups of workers.

Hierarchy schemes in general continue to find favour, especially among salaried staff. A key element of such schemes is the practice of incremental progression. Such schemes operate on the simple premise that advancing years of service result in additional reward because of loyalty or greater experience. While they have recently been challenged – on the basis that they discriminate on the grounds of age – they continue to form a foundation for the solution of the labour problem for many organisations.

Explore

- To what extent do you think the solutions to the labour problem suggested so far reflect management's inability to clearly determine the 'effort' side of the bargain?

Having set out the basic framework within which the wage/effort bargain can be viewed, we now move on to consider more recent reward developments. In the discussion that follows we move from an analysis of solutions to the labour problem founded on 'cash' reward to a series of arguments that indicate more complex and considered solutions.

Employee reward in the contemporary era

The subject of reward, which has been described as a 'bundle of returns offered in exchange for a cluster of employee contributions' (Bloom and Milkovich, 1996: 25), is vast and continually evolving . This is a rather loose definition and sheds little light on what form 'returns' might take or what contribution employees might make to reap such returns. Usefully, the definition does, however, capture the multiplicity of returns and possible employee contributions, suggesting that reward comprises a blend of offerings and that employees' contributions can be numerous and eclectic.

The notion of a *range* of different forms of return in exchange for employee contributions of various types signals a departure from a narrow focus upon wages and effort. Wages or monetary return for the effort expended by employees, as discussed in the opening part of this chapter, remain important to the employment relationship; however, the advent of the concept of reward, and more pointedly reward management, prompts organisations to consider the differing ways in which employees positively impact the organisation via a range of contributions (not restricted to effort) and how best to signify organisational appreciation. The practice of reward veers away from a single dimensional focus on wages and instead emphasises a plethora of financial and non-financial returns employees might potentially receive in exchange for favourable contributions to the organisation. In terms of employee contributions to the organisation, effort becomes but one input among many potential offerings; indeed, its value to the organisation may well be considered less important and less attractive than other employee behaviours, e.g. measureable *outcome-related* contributions. It is thus clear that reward is a more inclusive term than wages or payment and that it is used to denote a diverse range of devices at the organisation's disposal to recognise the role played by individuals and teams in the operation, and ultimate success, of the business. Reward steps beyond the perimeters of compensation, remuneration and benefits terminology, where emphasis is placed on pay and other settlements which carry a monetary value, to a new plane in which almost anything could be construed as a return to employees for exhibiting desirable behaviour, from a cash bonus or health care benefit to employee involvement in decision-making, increased role responsibility, autonomy, access to more interesting work and other factors relating to the nature of the work itself and the environment in which it is carried out.

The aims of reward management, according to Armstrong (2012: 21), are to:

- support the achievement of business goals by developing a performance culture and stimulating high performance;
- define what is important in terms of behaviours and outcomes;
- align reward practices with employees' needs;
- reward people according to the value they create;
- motivate and win the engagement of employees;
- add value through the introduction of effective but affordable reward practices.

Components of reward

As indicated in the preceding section, reward comprises several elements, extending beyond base pay and thus presenting employers with a number of complex decisions. The first of these is which components to include in the reward package and the associated rationale for inclusion or rejection. Further decisions entail whether to permit employees a degree of choice in the reward 'mix' so that they can, for example, sacrifice salary in exchange for benefits or indeed choose from a menu of benefits to a defined value or cash limit. In addition, employers have fundamental decisions to make concerning whether the reward offering will be standardised and universal (applied to all employees), based upon performance or related to seniority (Marchington and Wilkinson, 2012). Such decisions will be influenced by the nature of the external operating environment, the behaviour of competitors and a range of internal organisational factors; these key determinants of the features of organisational reward systems will be explored later in the chapter.

For almost all workers, base pay forms the starting point in the reward package. The term is used to denote the hourly rate, wage or annual salary employees are paid for the work they do, based upon either some measure of job size or some aspect of the person, e.g. qualifications, skill set or demonstrable competencies. Base pay is a critical component, as it is used as the anchor rate for calculating redundancy payment entitlement, sick pay, pension level in a final salary scheme, overtime rates, as applicable, and other such employee rights. Base pay might be set deliberately low if, for example, commissions can be earned in excess and the organisation is keen to incentivise sales activity; base pay might also be suppressed where benefits are generous and so the overall worth of the reward bundle is considered to be commensurate with market rates. As is detailed later, however, the introduction of the national minimum wage in April 1999 imposed minimum limits on base pay in an attempt to curb the problem of low pay in the economy. As a result, employers are now obliged to adhere to minimum rates and review pay in accordance with periodic changes in the national minimum wage rates. The level of base pay awarded to employees and movement in base pay can be individually negotiated between managers and employees, unilaterally determined by owners/management, the subject of collective bargaining with relevant trade unions recognised within the industry and/or organisation, or, as occurs in some cases, set by National Pay Review Bodies.

Explore

- How fundamental is base pay within your own organisation?
- How is the level of base pay determined?

Over and above base pay, further decisions may be made concerning supplementary payments attributable to skill or performance, for example, and other additions such as overtime, danger or dirt money, shift premium, bonuses or commissions. Dominant reward terminology refers to supplementary payments that are consolidated into base pay as forms of contingent pay and those that are non-consolidated as elements of variable pay (Armstrong, 2012). In practice, both forms of pay described are event- and/or behaviour-dependent and therefore not an assured, regular form of payment. Variable pay, in particular, is sometimes described as 'at risk' pay – by being non-consolidated, employees are compelled to repeat activities and behaviours to trigger variable pay in each subsequent business period and so secure a consistent level of reward. In addition, employees are disadvantaged in the sense that base pay, the driver of other entitlements (e.g. pension plans), remains unaffected by variable pay, regardless of how frequently variable pay is awarded or what portion of total salary comprises variable pay. The combination of base pay plus variable pay and/or contingent pay represents total earnings and is reflected in the employee's pay advice slip, yet entitlement to employee benefits enables the employee to accumulate additional remuneration. Employee benefits, sometimes called 'perks' (perquisites) or fringe benefits, carry a financial value or afford the recipient tax advantages that result in a net financial gain; however, in contrast to earnings, benefits are often presented in non-cash form. Where benefits are particularly generous and constitute a substantial component of the reward package, they tend to be identified in job advertisements to indicate the total financial value of the role to potential applicants (see Box 13.1).

Benefits can be classified as *immediate, deferred* or *contingent*. Employees derive value from immediate benefits instantaneously; such benefits might include the provision of a company car, a laptop computer, discounts, expensed mobile phone or subsidised meals. Where benefits are deferred, their value accrues and has a future rather than present value to the employee; a clear example of such a benefit is a pension plan or share scheme. Contingent benefits are those that are triggered in certain circumstances, e.g. sick pay schemes, paternity and maternity pay, and leave arrangements. Rather than deferring to the aforementioned classification, Wright (2004: 182) prefers to consider benefits in four distinct groupings:

- *Personal, security and health benefits* – e.g. pension, company sick pay scheme, life cover, medical insurance, loans.
- *Job, status or seniority-related benefits* – e.g. company car, holiday leave beyond statutory minimum, sabbaticals.
- *Family-friendly benefits* – e.g. childcare or eldercare facilities, nursery vouchers, enhanced maternity/paternity/parental leave arrangements.
- *Social or 'goodwill' or lifestyle benefits* – e.g. subsidised canteen, gym/sports facilities, cycle to work schemes, discounts, ironing collection/dry cleaning.

Benefits can be voluntary, affording employees the choice of whether to 'opt in' and use them according to their personal needs and financial position. Should employees elect to purchase benefits (eg. childcare vouchers, gym membership, healthcare plans), arrangements are usually set up for deductions to occur at source. This can attract tax advantages for the

Box 13.1 **HR Consultant (I.T Sector), Hertfordshire**

Competitive Salary + Core and Voluntary Benefits Package
HR Manager (Distribution and Logistics), West Midlands
Salary £35,000 – £40,000 p.a. + Company Car + Pension
HR Manager (Chemicals, Oil and Gas), Finland
Salary £64,088 – £80,110 p.a. + Generous Bonus + Benefits

Source: **www.jobs.personneltoday.com**, *4 Feb, 2013.*

employee and be an economical means of obtaining services applicable to an individual's lifestyle. In a recent CIPD survey, 24.7 per cent of respondents reported offering voluntary/affinity benefits (CIPD, 2012) In other organisations, benefits are universal, in other words provided to all and regarded as 'perks' of the job. This is in direct contrast to status or seniority-related benefits, which employees only qualify for if they have accrued the requisite number of year's service or are employed at or beyond a prescribed grade or level; the benefits most commonly confined to senior employees at certain grades include private medical insurance, a company car and a car allowance (CIPD, 2012). Flexible benefit schemes or 'cafeteria benefits', so named because of the menu of choices presented to employees, continue to grow in popularity; in 2008, just 13 per cent of the organisations surveyed by the CIPD (2008) operated flexible benefits, while in 2012 approaching a quarter of all respondents (24.2 per cent) offered flexible benefits (CIPD, 2012). The latter survey demonstrates that systems of flexible benefits are more prevalent in large organisations employing 250–9,999 employees, possibly indicating that larger workplaces are more likely than small and medium-sized enterprises to be able to resource a system of flexible benefits, both financially and logistically. Flexible benefits are offered by divisions of internationally owned organisations (35.8 per cent) more so than by mainly UK-owned organisations (18.8 per cent), which perhaps reflects a response on the part of internationally owned organisations to create sufficient choice to appeal to both home and host country employees. The basic premise of a flexible or cafeteria benefits scheme is that employees can spend up to a points limit or cash total, purchasing benefits from a defined menu. Cafeteria schemes may comprise fixed (inflexible, core) benefits and flexible ones (a so-called 'core plus' scheme) or offer complete freedom of choice to the maximum cash value/points value. In other schemes, pre-packaged sets of benefits may be on offer to employees; these schemes are referred to as modularised benefits (Wright, 2004: 207).

It is difficult to generalise the provision of benefits as part of the overall reward package and predict the types of benefits any one organisation will deem appropriate to adopt. The impetus for providing benefits can be viewed from a number of perspectives (Wright, 2009):

- Do organisations see benefits as a way of compensating for lower pay or do higher pay and generous benefits tend to co-exist as part of a deliberate strategy aimed at attracting and retaining staff?
- Do employers select benefits in the belief that they will motivate employees and instil a greater sense of loyalty and commitment?
- Is benefit provision enhanced by employers where trade unions lobby successfully to expand the reward package on behalf of their members?
- Are benefits a mechanism for employer branding, the costs of which some organisations are prepared to bear?

The answers to these questions are intricate and beyond the scope of this chapter. We do know, however, that while employee benefits in themselves are a fairly steadfast feature of reward in the UK, recent years have witnessed some shifts in the types of benefits more commonly provided by employers. Wright (2009: 175) detects 'cutbacks in the most costly benefits and at the same time a growth in low-cost lifestyle and voluntary benefits'. She attributes such trends to the dual influences of the changing composition of the labour force (particularly the influx of mothers) and the need for employers to be economically prudent and focus on value for money as competition intensifies. These trends would seem to be reflected to some extent in the benefits top 10 (see Table 13.1), particularly in the list of benefits most commonly provided to all employees. While shifts in the type of benefits provided may be detectable, the 2012 CIPD reward survey shows that over half of respondents (55.2 per cent) predict spending as much on benefits in the year ahead as they had in the previous year, just over a third (34.7 per cent) anticipate spending more and only 10.2 per cent of respondents envisage a decrease in benefits spend (CIPD, 2012). Large organisations are most likely to be decreasing benefits spend, a finding inevitably influenced by changes taking place in some of

Table 13.1 Top 10 employer-provided benefits by provision

Provided to all employees		Provision dependent on grade/seniority		Part of a flexible benefit scheme only	
Benefit	% of respondents	Benefit	% of respondents	Benefit	% of respondents
Paid leave in excess of statutory entitlement	65.2%	Car allowance	61.8%	Dental insurance	45.5%
Training and career development	65.2%	Company car	53.8%	Cycle to work scheme loan	43.6%
Childcare vouchers	62.7%	Private medical insurance	40.2%	Childcare vouchers	41.8%
Free tea/coffee/ cold drinks	62.3%	Paid leave in excess of statutory entitlement	27.8%	Health screening	38.2%
Christmas party/ lunch	59.6%	Relocation assistance	24.9%	Critical illness insurance	30.9%
On-site parking	56.9%	Fuel allowance	20.7%	Private medical insurance	29.1%
Eye care vouchers	51.6%	Critical illness insurance	13.3%	Healthcare cash plans	23.6%
Employee assistance programme	48.9%	Permanent health insurance	12.7%	Gym on-site or membership	
Life assurance	48.4%	Health screening	10.7%	Permanent health insurance	16.4%
Enhanced maternity/ paternity leave	44%	Formal coaching/ mentoring schemes	10.7%	Life assurance	14.5%

Source: from *Reward Management,* Annual Survey Report 2012, London, CIPD, pp. 38–39, with the permission of the publisher, the Chartered Institute of Personnel and Development, London (**www.cipd.co.uk**).

the very large public-sector organisations in the sample, which are facing unprecedented cuts in funding. Setting aside multiple sector organisations, manufacturing and production firms are the most likely to be increasing spending, reflecting the expansion of this sector of the economy at present and the imperative to be able to compete for talent in a recovering market (CIPD, 2012).

Non-financial reward

While the components of reward identified and discussed so far have a financial basis, reward can also be non-financial or relational. In order to recognise the work that employees do, praise, thanks and publicly acknowledged awards such as 'employee of the month' can be appreciated by recipients while simultaneously communicating messages to the wider workforce of the employee behaviours that are valued by the organisation. There is arguably also greater awareness that for some workers extrinsic rewards alone, such as pay, do not motivate, and so a focus on the intrinsic rewards to be derived from the nature of the work itself (job content and context) is important (Marchington and Wilkinson, 2012). Consequently, non-financial rewards include the general quality of working life (QWL), e.g. the work environment, the degree of flexibility available, work–life balance, managerial style/attitude, line manager support, job-role autonomy and responsibility, plus opportunities for employee involvement and employee voice. 'Rewards' of this nature help to shape workers' experiences of work (either positively or negatively) and thus command the interest of scholars and practitioners seeking to better understand the key antecedents of job engagement and organisational engagement **(see Chapter 11 on employee engagement)**. It might also be expected that in times of financial constraint the effective deployment and promotion of non-financial rewards becomes a paramount organisational concern.

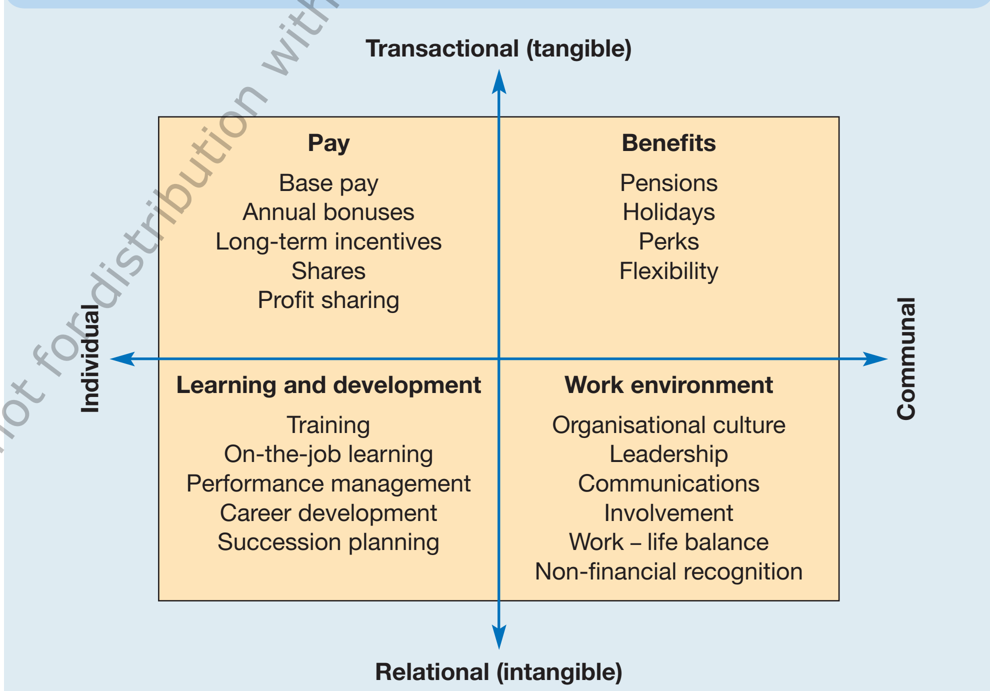
The inclusion of non-financial reward to complement the other components of reward leads to the concept of total reward outlined in the next section. Put simply, total reward emphasises the potential benefits to be derived from considering reward in the broadest of senses, with a keen eye on the quality of the holistic employment experience.

Total reward

In recent years, there has been interest in the notion of managing rewards such that the various components are carefully crafted together to support one another and so maximise the satisfaction experienced by employees in the course of, and as a result of, their employment more broadly defined. The expression total reward is thus expansive terminology to denote everything that is rewarding about being an employee in a particular organisation and all the benefits the employee derives from that employment (Perkins and White, 2011: 304). WorldatWork (2000) concur, describing total reward as all of the tools an employer uses to attract, retain, motivate and satisfy employees, encompassing every single investment that an organisation makes in its people, and everything employees value in the employment relationship. The components of total rewards are succinctly presented in the model shown in Figure 13.2.

Thompson and Milsome (2001) insist that the concept of total rewards is necessarily holistic and integrative; it should also provide an approach to reward in the organisation that fits well with the business objectives and desired organisational culture and as such is conflated with strategic approaches to reward. In addition, it is people centred, customised, distinctive

Figure 13.2 Model of total rewards



Source: Brown and Armstrong (1999: 81).

(offering support to a unique employer brand) and evolutionary, in the sense that it is developed incrementally as opposed to the product of drastic, sudden change. Armstrong (2012) argues that there is a compelling business case for creating a total reward approach; for example, he suggests it can provide a means of enhancing employee engagement, it can help the organisation to secure competitive advantage by offering choice and rewards tailored to the individual that are perhaps not provided by competitors and it can promote a performance culture. Adopting a total reward approach would certainly appear to tick a number of critical boxes for contemporary organisations as they grapple with issues of recruitment, retention and performance in fast-paced and highly competitive environments. In practice, however, the latest CIPD reward survey (CIPD, 2012) reports that only 17.8 per cent of respondents provide total reward statements to their employees, which would suggest that, despite the hype, the concept of total reward remains elusive to the majority of organisations.

Reward management and the emergence of strategic approaches to reward

The term 'reward management' was first used in 1988 by Armstrong and Murlis to denote the development of a new field or collective set of activities to emerge within the arena of HRM. The new term recognised that static techniques, principally concerned with salary administration, were fast giving way to a more dynamic approach emphasising the use of pay (and other rewards) in a strategic, flexible and innovative way with the aim of improving individual, team and organisational performance. The activity 'reward management' has been described as not only encompassing the development, maintenance, communication and evaluation of reward processes, but also being concerned with the development of appropriate organisational cultures, underpinning core values and increasing the commitment and motivation of employees (Armstrong and Murlis, 1998). Reward management in this sense is considered a strategic process and a key element of strategic HRM, as it has the power, if orchestrated appropriately, to leverage employee effort and performance aligned to organisational goals, it is integral to attempts to motivate and engage employees and it compels organisations to consider return on investment when making reward decisions, as opposed to viewing reward purely as a cost drain to the business (Fay, 2011; Perkins and White, 2011; Marchington and Wilkinson, 2012).

Armstrong (2012) proffers the notion of reward decisions corresponding to an underlying philosophy and set of guiding principles designed to convey the organisation's approach to managing reward. Logically, organisations should seek to ensure that the philosophy behind their approach to reward aligns with the organisation's values and beliefs and that reward strategy is consequently directed to support the achievement of wider corporate objectives. This is the essence of the 'total reward' approach referred to earlier, and such sentiments are strongly conveyed in the rhetoric of 'new pay' or 'strategic pay' first purported by American writers Lawler (1990, 1995, 2000) and Schuster and Zingheim (1992). The precise role played by reward in advancing organisational objectives is, however, unclear. Early models of strategic HRM, such as the Harvard model (Beer *et al.*, 1984), placed reward centrally as an integral HR activity, and Storey (1992) identified reward as a 'key strategic lever'. Resource-based models, too, suggest that pay acts as an important lever and can support a firm in achieving sustained competitive advantage. Kessler (2001), however, still needs to be convinced that there is sound evidence, based upon credible methodologies, that reward contributes to business performance and leads to sustained competitive advantage. There must also be a degree of reservation about the ease with which reward strategy can be matched seamlessly with business strategy and the extent to which employees will respond as intended to reward mechanisms designed to elicit certain desired behavioural patterns (Lewis, 2006).

Table 13.2 Examples of alignment: reward strategy and business strategy

Business strategy	Reward strategy
Achieve value added by improving employee motivation and commitment	Introduce or improve performance pay plans – individual, team, gain sharing
Achieve added value by improving performance/productivity	Introduce or improve performance pay plans and performance management processes
Achieve competitive advantage by developing and making the best use of distinctive core competencies	Introduce competence-related pay
Achieve competitive advantage by technological development	Introduce competence-related or skills-based pay
Achieve competitive advantage by delivering better value and quality to customers	Recognise and reward individuals and teams for meeting/exceeding customer service and quality standards/targets
Achieve competitive advantage by developing the capacity of the business to respond quickly and flexibly to new opportunities	Provide rewards for multi-skilling and job flexibility. Develop more flexible pay structures (eg. broad-banding)
Achieve competitive advantage by attracting, developing and retaining high-quality employees	Ensure rates of pay are competitive. Reward people for developing their competencies and careers (e.g. using the scope made possible in a broad-banded grading structure)

Source: from *Reward Strategy: How to Develop a Reward Strategy. A CIPD Practical Tool,* CIPD (2005), with the permission of the publisher, the Chartered Institute of Personnel and Development, London (**www.cipd.co.uk**).

Despite these doubts, it appears to have become established orthodoxy that a strategic approach to reward can be used to leverage the kinds of employee behaviours that contribute to business goals (Perkins and White, 2011). Proponents of strategic reward suggest it is possible for reward strategies, intentionally or otherwise, to signal what the organisation considers important and what it clearly does not value. For example, reward strategies that rest on service-related salary increments are likely to convey messages that the organisation values loyalty and long tenure above all else, whereas the use of competence-related pay would suggest a need for employees to develop and demonstrate both core and job-specific competencies. Table 13.2 seeks to demonstrate a number of aligned relationships between the key thrust of business strategy and the direction of reward strategy.

Despite the rhetoric that strategic pay is the way forward to attract, retain and motivate employees to perform in particular ways, consistent with the goals and values of the organisation, we do not know a great deal about how organisations manage pay and other facets of reward strategically. We also know very little about whether strategic pay will leverage the desirable outcomes advocated.

Key Controversy

Can changes in reward structures and systems be facilitated to ensure that reward strategy is always aligned with organisational goals or is this operationally too difficult to achieve given the pace of change in most markets and organisations?

To what extent do you agree with the managerial assumption underpinning strategic approaches to reward that management can simply choose the most rational form of pay? Is it conceivable or naïve to think that reward alone can realise significant changes in employee behaviours with resultant bottom-line impact?

Reward strategy in practice

In the preceding section, we introduced the concept of strategic pay and began to tease out some of the difficulties associated with mounting strategic approaches to pay and other aspects of reward. There is no doubting that organisations are sold on the desirability of such approaches. In the CIPD (2011) reward survey, 58.5 per cent of respondents from all sectors placed alignment with business strategy as their top reward priority (CIPD, 2011). The latest survey (CIPD, 2012) did not repeat this question and so direct comparison is not possible; however, the 2012 survey does indicate that organisations responding to the survey report were formulating *strategic choices* about reward by engaging in competitive pay positioning relative to comparator organisations (CIPD, 2012). In short there are data to support the idea that many organisations are seeking to offer competitive pay packages designed to attract, retain and engage employees as the economy makes tentative steps towards recovery. Is this adequate evidence of the presence of a strategic model of reward as advocated by the US 'new pay' writers in the 1990s, or a diluted version centred almost entirely on pay competitiveness? Druker and White (2009) suggest 'new pay' as heralded by the US scholars has failed to fully take hold in the UK; instead UK pay practices are dominated by concerns over internal and external equity. They argue that locating pay with the person rather than the job and relating reward to performance, the very concepts at the heart of 'strategic' or 'new pay' approaches, are both highly problematic and there are a number of pressures pushing internal and external equity to the forefront. Where internal equity is concerned, equal pay legislation is particularly influential in guiding practice in public services, which are now subject to equal pay reviews and equal pay reporting. Many, mainly private-sector employers, on the other hand, seek to align closely with the external market, particularly in tight and changing labour markets. Trevor (2009) would appear to concur by arguing that far from devising differentiated practices aligned closely to unique business goals and values, organisations are subject to coercive institutional pressures, such as laws, which promote conformity of practice. In addition, he argues, industry norms and trends are seductive and most organisations will conform accordingly, doing what others do in that sector to keep pace. Such a focus upon comparability may not be quite what the US writers had in mind when they extolled the benefits of 'new pay'/'strategic pay', but as Kessler (2007) argues, internal and external equity and business strategy need not be viewed as competing ideals in pay design; indeed, internal and external equity could quite legitimately be regarded as a key component of reward strategy.

Elsewhere in the CIPD (2012) reward survey, there is evidence of organisations using competitive pay positioning to set salaries for managerial and professional staff. Following Kessler's generous interpretation of reward strategy, the firms engaged in this type of activity can be considered to be making strategic decisions to invest greater resources in those individuals or tiers of the organisation perceived to bring greatest value to the organisation, so contributing to business strategy. In terms of sector-related trends, manufacturing and production firms appear to be positioning pay levels higher than other sectors as they compete for skills and expertise in a demanding market where pockets of skill shortage still prevail; again this form of pay posturing could be conceived as strategic pay in action rather than simply normative practice within industry grouping.

Is it possible to be strategic about reward?

Discussion concerning precisely what constitutes a strategic approach to reward is not new; there has also been long-standing doubt surrounding the ability of organisations to mount strategic approaches to reward. In research conducted by the Institute for Employment Studies, Bevan (2000: 2) commented that having a reward strategy sounded like a 'tall order'. To be successful, he argues, reward strategy is supposed to be downstream from business strategy and reinforce business goals, drive performance improvements within the business, deliver cultural and behavioural change, integrate horizontally with other HR practices and keep pay budgets under control, so 'little wonder that so many employers under-perform in the design and delivery of a truly strategic approach to reward – if such a thing exists'. In a similar vein, Druker and White (2009: 12) challenge the notion of 'new pay', which emphasises the importance of developing contingent approaches to reward, designed to align with business strategy. Specifically, White and Druker (2009: 12) question the view that 'new pay' supports the business case on the grounds that there are 'different interests at play within the business organisation and they cannot all be so easily in the pursuit of business goals'. They also argue that it is clear that 'strategic pay' may involve complex and sometimes contradictory objectives'. Trevor (2009) is similarly pessimistic. He argues that where centralised pay systems are in situ, standardised pay policies are seldom enacted as intended, and where systems are decentralised, line managers invariably elect to use pay in ways that are reminiscent of traditional pay management despite the hopes and desires of their superiors. Trevor (2009: 3) concludes that 'despite corporate rhetoric to the contrary, contemporary pay practice operationally is non-strategic'.

Explore

- Having read this section, are you convinced that your organisation delivers a strategic approach to reward?
- What evidence do you have to support your answer?

Key reward choices

Whether or not we accept that it is possible to be strategic about reward, to devise a reward system a number of key, value-laden choices must be made. Marchington and Wilkinson (2012: 376) suggest that there are seven essential reward decisions an organisation needs to draw consensus on:

- what to pay for, job size, time, performance, skills/qualifications or some other person-centred attribute or behaviour;
- whether to pay for seniority (time served) or for performance;
- what position to adopt in the market – at or close to the median pay levels in the market, within the upper quartile or the lower quartile;
- whether to place primary focus on internal equity when determining pay or be more concerned with external benchmarks;
- whether to operate a centralised or decentralised approach to reward or a hybrid with some central control and a degree of localised latitude;
- whether to build hierarchy into the reward system such that there are seniority or status related rewards or to devise a harmonised, single-status approach;
- the precise nature of the reward 'mix'.

Explore

Apply the preceding list of seven essential reward dilemmas to your own organisation or one with which you are familiar.

- What decisions has the organization in question taken.
- Why do you think this particular stance has been adopted?

Getting these decisions right is deemed critical if reward is to begin to reinforce the strategic direction of the organisation. Similarly, the decisions made need to be ones most likely to motivate individuals to orientate their actions and behaviours in the interests of the

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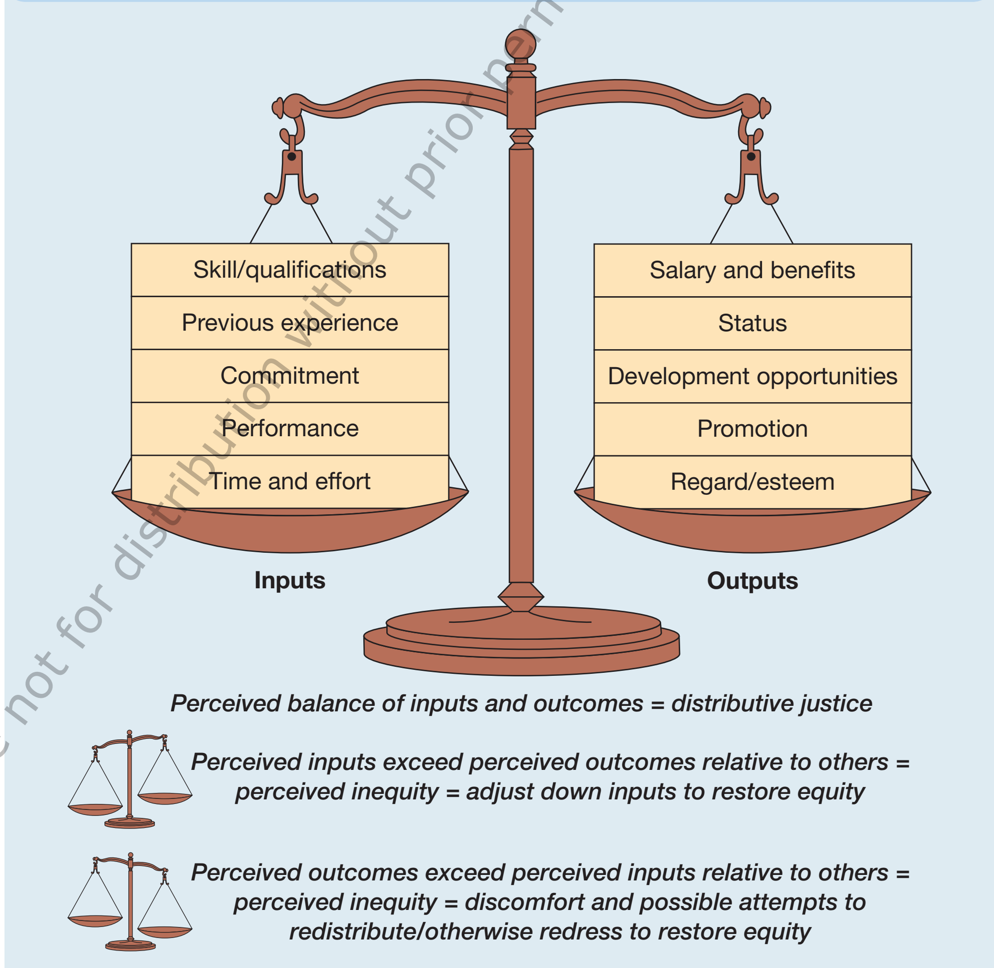
organisation, not against it. This is demanding for any organisation given that motivation is individualised and complex. Thought needs to be invested in considering the extent to which different rewards are capable of motivating employees, the value of intrinsic and extrinsic motivation to employees, the role of pay in motivating people and the importance of equity in reward systems and reward management practices.

Motivation theory offers useful insight and can help to guide the design and management of reward processes. Notably, among the many theories of motivation, Herzberg's 'Two-Factor Theory' (Herzberg, 1966) suggests that pay is a *hygiene* factor rather than a motivator and so, in itself, is unlikely to motivate. Famously, Herzberg contends that pay needs to be adequate to prevent dissatisfaction but other factors induce a motivational state such as responsibility and autonomy. This is a salutary message indeed, particularly to those organisations that attempt to use pay or the prospect of financial rewards as an incentive for greater output, better quality or other outcomes they determine to be desirable. But could these organisations be treading the right path in presuming pay *does* motivate? Rynes *et al.* (2004) believe that there appears to be a continual (yet flawed) message to practitioners that pay is not a particularly effective motivator – a sentiment that, if believed, could very easily result in practitioners failing to recognise the motivational potential of a well-crafted reward system. The key thrust of the Rynes *et al.* argument is that, while employees may report that pay is not an important

Figure 13.3 Adams' Equity Theory



Source: Adams (1965).

motivator, their actions indicate otherwise, suggesting that self-reports are subject to a degree of socially acceptable responding, as though employees feel it is somehow distasteful or morally reproachable to admit being motivated by money. Rynes *et al.* (2004) stress that despite their analysis, pay is probably not *the only* important motivator, nor always *the most important* motivator, nor indeed *equally important* in all situations; it is, however, overwhelmingly evident that it is an important motivator for most people.

In contrast to content theories of motivation, which focus on *what* motivates people, process theories of motivation such as 'expectancy theory' (Vroom, 1982) attempt to explain the internal thought processes that create a motivational state in individuals. Expectancy theory offers us the insight that employee motivation is the result of a complex set of decisions and assumptions made by the individual. For an employee to be motivated and therefore to expend effort, the rewards on offer have to be something that the individual values (hold 'valence') – hence the importance of the reward 'mix'. In addition, the individual must have belief that the rewards are achievable. An appreciation of expectancy theory encourages organisations to construct a clear 'line of sight', so that employees are in no doubt about what it is they need to do in order to gain the rewards offered. If there is ambiguity or partiality disturbing the line of sight, individuals are likely to be demotivated, even if the potential rewards hold personal valence.

Finally, Adams' 'Equity Theory' (Adams, 1965) prompts organisations to consider the perceived fairness of rewards and their application. Adams suggests that employees will compare the rewards they receive (outputs) in return for their effort, skill, qualifications, time and other contributions (inputs). Employees will be motivated where they perceive 'distributive justice' and demotivated where they perceive inequity. Employees may seek to adjust their inputs when they perceive inequity. Using the messages inherent in Adams' theory, organisations would be advised to take steps to ensure that their reward systems are fair, consistently applied and sufficiently transparent so that employees can see for themselves how reward decisions are determined (see Figure 13.3).

Factors influencing organisational approaches to reward practice and pay determination

An organisation's approach to reward generally, and to pay determination, will be shaped by both factors in the external environment within which it operates and an array of internal firm-specific characteristics, namely the nature of the business, the size of operation, organisational structure and culture, types of employees, jobs and technology, management and ownership and so forth. Each of the reward choices posited by Marchington and Wilkinson (2012) in the preceding section cascades a range of further ancillary choices, thus creating the potential for multiple models of reward practice. Because of this, it is difficult to generalise about approaches to reward and impossible to be prescriptive. More safely, an organisation's approach to developing a reward strategy ought to start from the standpoint, 'What makes sense for this organisation?' (Wright, 2004: 8), while subsuming relevant knowledge relating to the internal and external factors influencing choice. In this section of the chapter, we briefly discuss the key factors in the external and internal environment that shape and influence organisational approaches to reward.

The economic climate

In this chapter we have already alluded to some of the ways in which the economic environment might influence reward, notably the way in which employers may favour less costly benefits in tougher economic conditions (or pare back universal benefits) and the way in which employers can reduce risk and financial burden by making more extensive use of variable pay. The economic context is an important determinant of pay levels and a barometer for future trends. In setting pay levels, employers cannot help but be influenced by the market rates for

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jobs. As Kessler (2007: 167) remarks, 'organisations cannot survive if they fail to pay competitive labour market rates to attract employees with the skills needed to provide a service or manufacture a product'. Of course, there is no such thing as a single market rate for a job; rather, there are several rates or a zone of discretion, the spread of which is influenced by the supply of and demand for labour, the relative bargaining power of employees, geographical factors and the actions of employers competing for labour. In tight labour markets, where competition for resources is intensive and supply is low, market rates are driven higher, affecting the price employers have to pay to attract adequate resources. Economic activity rates and unemployment indicators are thus key factors influencing pay levels. In addition, for most organisations, the rate of growth in the economy is a critical benchmark for the salary review process and impacts upon organisations' ability to pay.

A key current concern in the public sector is the inability to raise pay levels due to budgetary constraints (CIPD, 2012) and the risk that stagnation of wage levels poses for employee engagement, productivity and attrition. Pay dispersion is also a sensitive issue for the public sector following the 2011 Hutton Review of Fair Pay, which debated but ultimately rejected a maximum ratio of 1:20 between the actual earnings of the lowest and the highest paid. Understandably amidst pay restraint for the many, the media is adept at drawing public attention to the pay rises and bonus payments awarded to executives in the very institutions widely considered to be responsible for the economic crisis, e.g. Barclays Bank and RBS. The jibes of rewards for mismanagement and misdemeanour that echo around the city are difficult to dissipate given that the UK's economic performance remains, at the time of writing, sluggish. The National Management Salary Survey 2013, published by the Chartered Institute of Management and XpertHR (XpertHR, 2013), claims that company bosses have experienced a 'bonus boom that has raised their pay despite the state of the economy. According to the study, chief executives benefited from a 15.8 per cent increase in their salaries (largely attributable to big bonuses) in the year to 2013. The survey showed the average pay of a company chief executive to be more than £215,000, while middle managers earned, on average, £43,000.

Economic arguments are, of course, difficult to balance, and city institutions would defend salaries and bonuses awarded to senior executives on the grounds that reward packages need to be commensurate with those available to senior executive salaries on the global stage in order to retain talent in the UK. From an ethical perspective, increasing differentials between the highest paid and those on the lowest incomes are hard to countenance.

The legal context for reward

Since the rise of industrialisation, there have been numerous legal interventions into the realm of reward management. These have ranged from the Truck Acts of the nineteenth century, which were designed to ensure skilled workers were paid in cash, through to more recent interventions in terms of minimum wage regulation. These demonstrate the ways in which legal regulation can be seen to shape reward practices. Statutory regulation has been in place in the UK for some 30 years, which was intended to ensure pay equity in gender terms. More recently, legislation has been implemented to regulate pay at the lower extreme of the labour market, to impose minimum holiday entitlement and a restraint on working hours. Here we briefly discuss in turn the ways in which the equality of terms and conditions provisions of the Equality Act 2010, The National MinimumWage Regulations 1999 and the Working Time Directive 1998 constrain and influence employee reward practices.

The Equality Act 2010 (EqA), sections 64–80

Labour market discrimination occurs when groups of workers with equal average productivity are paid different average wages (Baldwin and Johnson 2006: 122). Equal pay regulations have a history founded in the Convention on Equal Pay approved by the International Labour Organisation in 1950–51, a regulation that had antecedents within the Treaty of Versailles in 1919, if not before (Jamieson, 1999). In the UK, the EqPA 1970 was enacted as part of the move towards membership of the European Economic Community (now the EU) in the early

1970s. Employers were allowed five years' 'grace' to voluntarily adjust and to permit them to get their reward structures in order before the legislation came into force in 1975. Broadly, the provisions within the legislation are restated in the EqA 2010 and can be seen as being designed to grant everyone the right to equal terms and conditions of employment in situations where they do the same work as a colleague of the opposite sex. The legislation reflects the pressures applied by the European Court of Justice (ECJ) to the extent that it includes colleagues of the opposite sex who do work that is 'like work', the same or has been rated as equivalent under a job evaluation scheme or where it can be proved by other mechanisms that the work is of equal value. The manner in which this is achieved is to insert into all contracts of employment an 'equality clause' (s 66), which has the consequence of requiring the employer not to treat persons of different genders less favourably simply on the basis of gender. In spite of this legislation, there are still very significant inconsistencies between men's and women's pay. It does not matter whether wages are measured hourly or weekly; women currently receive approximately 86 per cent of the full-time male average, while in part-time work 'almost 50 per cent of women who work part-time earn nearer 60 per cent' of the average for their male counterparts (McColgan, 2008: 401). As McColgan (2008) notes, bringing equal pay claims is a sluggish, unwieldy and costly process, especially as the government refuses to go along with the development of class actions and shows even less willingness to implement legislation that places a positive obligation on employers to eliminate pay discrimination.

In spite of this lack of legislative backing to pursue equal pay, some employers seek to address such inequality within their reward structures. This can be achieved by the introduction of a number of reward policies and practices, such as (Equality and Human Rights Commission, 2009):

- ensuring employees reach the top of a given scale within a reasonable timescale;
- setting targets for all staff to reach pay points within a specific timescale;
- setting competency *and* experience criteria for each pay point;
- shortening the scales;
- reducing the number and range of performance measures.

As Fredman (2008) suggests, the fact that the current difference in gender-related pay was down to 12.6 per cent when measured using the median figure (rather than the usual mean, which rates it at 17.2 per cent) after 30 years of equal pay legislation gives no reason for satisfaction. Indeed, the change in the mechanisms for calculation merely masks the continuing inability of some groups to secure equality of treatment, especially where 'the median part-time gender pay gap was a scandalous 39.1% in 2007' (Fredman 2008: 193). The continuing gap indicates the need for a more complex response that addresses both government and employer unwillingness and the narrow coverage of the current legislation.

Explore

- While some inroads have been made, to what extent do you think the continued reliance upon the three requirements for equal pay claims (same or equivalent establishment, same employer and equal work) limits the progress towards equal pay?
- Consider an organisation of which you are aware and indicate mechanisms they could institute in order to address inequalities in terms and conditions of employment.

National Minimum Wage Regulations 1999

The regulation of wages is a central debate within the realm of 'worker protection, globalization, development and poverty reduction' (Evain, 2008: 20). These were put in place in order to develop the dual goals of fairness and efficiency. As the report of the Low Pay Commission suggested, it can be argued that low wages lead to a malevolent cluster comprising low morale, low performance and low productivity. The introduction of a national minimum wage is said to have benefited some 1.3 million workers (Low Pay Commission, 2001). Many of those affected worked in organisations where pay setting was inexact and did not recognise the need for formal systems; furthermore, the new wage levels benefited women more than men due to inequality and the extent of part-time work amongst women. The UK currently has rates covering those under 18 but over compulsory school age, 18–20 year-olds, those over 21, and apprentices under the age of 19, or over the age of 19 but in the first year of an apprenticeship scheme. The rates are changed in October each year and from October 2013 they were £3.72, £5.03, £6.31 and £2.68, respectively. As with the Wage Council rates before them, these rates are poorly policed and many small employers, especially those in the service sector, avoid enforcement (Arrowsmith and Gilman, 2005). Arrowsmith and Gilman (2005: 169) argue that in such small firms, 'pay levels reflect not only economic, product and labour market factors but also the informality of internal pay structures'. As we note below, such indeterminacy and informality support existing pay bias, as it is often based on predetermined skill patterns, time worked and length of service.

The level of the UK's statutory minimum wage is set at above the equivalent of US$1,000 per month (in the period 2006–07), which locates the UK in the top 18 per cent of countries where such a minimum is set (Evain, 2008) and within a group of industrialised countries where the rate is set other than by government alone. Evain (2008) notes that more than 100 countries that are members of the International Labour Organisation (ILO), which have ratified the Minimum Wage Fixing Convention 1970 (No 131), either enact minimum wage legislation or set such rates following the recommendation of a specialised body, or through collective bargaining. Worldwide, the average range of minimum rates varies from (in US$) $30 in Africa, $75 in many Asian countries, and $480 in Eastern Europe and Latin America to the US$1,000 or above in the majority of industrialised countries. These rates reflect national, regional, sectored and/or global imperatives and satisfy many competitive pressures. By removing wage calculation from competition, organisations can, in domestic and global settings, strive for alternative means of differentiation in terms of product or service. The issue then becomes the enforcement mechanism. Eyraud and Saget (2005) suggest that these regulations are often poorly enforced, leading to a continued decline in working conditions across the globe. The extent to which the legislation in the UK is enforced, and the individualised mechanisms for enforcement, tend to support the view that while the existence of such regulation is designed to ensure a high level of protection, the continued avoidance of such rules, as indicated by Arrowsmith and Gilman (2005), is widespread.

In 2001 a group of parents in East London, unhappy that the level of the minimum wage meant people with two jobs (which were needed to support a family) found they had little time for a family life, launched the 'Living Wage' campaign. The idea behind it was simply that an individual ought to be paid enough to live decently and take care of their family. The movement gained support from the trade unions, all political parties, and many businesses – especially within the public sector. There are two 'levels' of living wage, one for London and one for the rest of the country. In 2013 these were hourly rates of £8.55 and £7.45, which were some £2.24 higher than the national minimum wage in London and £1.14 outside London. While businesses agree these higher rates on a voluntary basis, evidence from Unison (2013) suggests that 'paying the living wage is good for business, good for the individual and good for society' (**www.unison.org.uk**). The level is set by the Centre for Research in Social Policy and the Greater London Authority.

Key Controversy

Minimum wage legislation is said to advance a wide range of policy goals – what are these goals? To what extent does current UK regulation achieve these goals?

If the minimum wage rates are adequate, why did the Living Wage campaign receive so much support?

Working Time Regulations 1998

Placing limits on working hours is an essential activity in the quest for worker protection and ensuring the health and safety of those at work. In the current climate, it has also become a touchstone of the movement towards securing a sustainable work–life balance. In terms of the latter, there are two discourses, each of which has a separate focus: the *personal control of time* and the notion of *workplace flexibility* (see Humbert and Lewis, 2008). In terms of the reward agenda, we concentrate primarily on the latter, in that we are seeking solutions to the question of providing options for people with a workplace focus who also enjoy non-work (chiefly family) commitments. In that respect, the Working Time Regulations (1998) [WTR] offer some attempt to balance the demands of the employer with the needs of family life by placing limits on a range of working time issues. At a glance, the key provisions are:

- maximum 48-hour working week for many groups;
- an average eight-hour shift in each 24-hour period for night workers;
- a rest break after six consecutive hours' work;
- rest periods of 11 continuous hours daily and 35 continuous hours weekly;
- a minimum of 5.6 weeks' leave per annum.

The UK regulations have their basis in the EU Directive (93/104/EC), which is said to have introduced the new principle of 'humanisation' into EU social regulations, under which employers are required to take into account the general principle of adapting work and wage in order to alleviate monotonous work and work at a predetermined rate. That the UK has implemented the directive subject to a number of derogations does not alter the fact that reward managers need to consider the effects of the regulations. That the Employment Appeals Tribunal (EAT) could, in a recent case (*Corps of Commissionaires Management Ltd v Hughes* [2008] EAT`196`08), hold that the rest break is only triggered after six hours and not multiples thereof, is a simple indication of the minimalist approach of the UK government and the reluctance of management to extend the protection within the UK. During 2009, elements of the EU Directive relating to the definition of 'working time' – notably in relation to 'on-call' time and junior doctors – came into force and changed the options for UK reward managers. The development of 24/7 production and 'rolling shifts' has not been unduly limited by the daily or weekly rest periods, due to the availability of opt-outs; however, as these opt-outs are withdrawn, it will present fresh challenges for reward managers in the UK.

Worldwide, most members of the ILO have some form of regulation on working time. In a recent survey (Evain, 2008), attention was drawn to the fact that working time regulation was the subject of the very first ILO convention (Convention 1: 1919) and that the topic has been a major regulatory concern since that date. The general rule, where a normal hourly figure is placed on the working week, is that the figure of 40 or less is applied. In the UK we have no universal normal working limit because the WTR exclude 'professional workers' and/or workers who are not paid in relation to time. The latter group includes many clerical workers, most managers and almost all professional workers. This limitation is not unique to the UK and can be found in some 24 per cent of industrialised countries. A key result of such exceptions has been the development of 'extreme work' hours, most of which are unpaid. It is reported that managers in the UK work the longest hours in Europe, with 42 per cent working in excess of 60 hours a week; this phenomenon runs alongside evidence that work has also intensified (Burke and Cooper, 2008). Hewlett and Luce (2006) describe the amalgamation of these two factors, in the work of 'high earners', as the basis for the creation of 'extreme work'. Such work is portrayed as combining elements such as (adapted from Hewlett and Luce, 2006):

- unpredictable workflow;
- fast pace under tight deadlines;
- scope of responsibility that amounts to more than one job;
- work-related events outside regular working hours;

- availability to clients and/or more senior managers 24/7;
- large amounts of travel;
- a large (and increasing) number of direct reports;
- physical presence at the workplace on average at least 10 hours a day.

For reward managers, these elements present few problems because they tend to either describe the role chosen and adopted by the individual or take place within the terms of the existing contract of employment. As such, they are rewarded by existing reward structures, including PBR and other personalised reward agreements. In their survey of US business managers and professionals, Hewlett and Luce (2006: 54) found that 91 per cent cited unpredictability as a key pressure point, while 86 per cent also included increased pace within tight deadlines, 66 per cent included work-related events outside normal hours, and 61 per cent included 24/7 client demands. Perhaps the words of the eighteenth-century washer-woman Mary Collier are equally applicable to modern managers and professionals, both male and female (quoted in Thompson 1991: 81):

> Our toil and labour daily so extreme,
> that we have hardly ever the time to dream.

From this discussion we can begin to see that legislative activity, while a key source for elements that influence reward structures, are not the only, or perhaps the most important, influences.

Internal/organisational factors and the influence of sector

In addition to reflecting factors in the external environment, an organisation's chosen approach to reward will be shaped by the idiosyncratic nature of the firm and sector-specific factors. There are no hard and fast rules, so the full plethora of reward choices is theoretically at the disposal of the organisation. As far as its capabilities stretch, the organisation must seek to develop an approach to reward that is compliant, cost-effective and capable of attracting, retaining and motivating employees commensurate with the needs of the business. It is beyond the boundaries of this chapter to discuss in detail the complex configurations of reward and corresponding internal drivers that are likely to be significant in each case. Instead, a more general stance is adopted, which notes some of the discernible differences between reward practices according to workplace characteristics such as ownership/sector, unionisation and workplace size. We return to these themes in the final part of the chapter, where contemporary trends in pay and reward practices are discussed against the rhetoric of heightened strategic use of reward.

Large-scale surveys such as the Workplace Employment Relations Study (WERS) and the CIPD Annual Reward Survey allow changes and trends in employee reward practice to be tracked over time; they also provide a snapshot of employee reward practices at the time of the survey. CIPD research provides analysis by firm size (number of employees), firm sector (manufacturing and production, private-sector services, public services, voluntary, community and not-for-profit and multiple sectors, a new category since 2012), by employee category (management/professional, other employees) and by ownership (mainly UK-owned organisations, division of mainly UK-owned organisations, division of internationally owned organisations). WERS provides further industry breakdown and, in addition, considers the variance between reward practices in unionised and non-unionised workplaces. A sample of observations is drawn from the 2011 WERS First Findings (van Wanrooy *et al.*, 2013) and the latest CIPD (2012a) survey and these are shown in Table 13.3.

Pay determination – internal or external focus?

As the final segment of Table 13.3 demonstrates, a key decision when setting levels of pay is whether to place emphasis on comparability with the external market or internal equity. As referred to earlier in the chapter, the lure of the external market would appear to be more

Table 13.3 Trends in reward practice

Pay structures	• According to the CIPD, almost half of all respondents said that their organisations use individual rates/ranges or spot salaries to manage base pay; this is the most common type of base pay management for all types of employee. • The management of base pay is an area where there is a marked difference of approach between sectors; in public services and voluntary, community and not-for-profit organisations, *pay spines* or some other forms of service-related structure form the dominant approach, while in manufacturing and production and private-sector services, *individual, flexible approaches* are commonplace.
Pay determination	• For manufacturing and production companies and private services organisations, the CIPD finds that generally ability to pay is the most important factor in pay determination; market rates are also a key factor. • More organisations (37.5 per cent) seek to maintain a level of internal pay equity though the use of a job evaluation scheme along with market rates than just paying attention to market rates without simultaneous use of job evaluation (31 per cent of all organisations). • In public services the most important factor in pay determination is collective bargaining. • WERS establishes that union influence over pay and conditions has continued to decline since the time of WERS 2004. • In the intervening period, 2004–2011, collective bargaining coverage in the public sector has significantly declined. Collective bargaining takes place in less than three-fifths (58 per cent) of public-sector workplaces, settling pay for 44 per cent of public-sector workplaces, down from over 66 per cent in 2004. • Strongly unionised workplaces where 100 per cent of employees have their pay set by collective bargaining have been a rarity in the private sector for some time and are increasingly uncommon in the public sector too.
Pay settlements	• WERS provides data on factors influencing the size of pay settlements; the survey finds that financial performance of the firm dominates in the private sector but is also a salient feature in the public sector. • The cost of living is mentioned by one-third of workplaces in both the public and private sectors as a factor guiding the size of pay settlements, but these figures were significantly lower than in 2004 when it was mentioned by 75 per cent of public-sector workplaces and 55 per cent of private-sector workplaces. • CIPD reveals that ability to pay, inflation and the movement in market rates were overall the three most important factors in determining pay reviews in 2011. Public services organisations, however, consider government funding or pay guidelines the most important factor in determining the outcome of pay reviews. • An increasing proportion of pay settlements result in a pay freeze, especially in the public sector. When periods of pay freeze end in the public sector, future increases are likely to be subject to a 1 per cent cap for two to three years. • As a whole, CIPD survey results show public services as being far more influenced by internal factors than by external market pressures when reviewing pay levels.
Pay progression	• The 2012 CIPD Reward Survey illustrates that length of service is by far the most common criteria for pay progression in public services. • For all other sectors, individual performance is the most used criteria, although market rates also feature highly. • Employers are considerably more likely to progress base pay for reasons relating to employee potential, value or retention for managerial or professional staff than for other employees. • Most in the private-service sector use three or more pay progression factors for managers and professionals and for other employees. The public sector is likely to use just one factor (performance or length of service) for both groups of workers.

Table 13.3 Continued

Paying for performance/ incentives	• WERS shows that 20 per cent of employees received PBR in addition to their fixed wage and 3 per cent of employees were solely reliant on PBR, the remaining 77 per cent receiving a fixed wage only. • Only 7 per cent of public-sector employees received PBR compared with 27 per cent of private-sector employees. • Just over a half (54 per cent) of all workplaces use at least one incentive pay scheme but private-sector workplaces are more than twice as likely as public-sector workplaces to do so. • While the percentage of workplaces using incentive schemes has remained broadly stable since WERS 2004, there have been notable changes in the types of schemes used, e.g. a move away from PBR towards merit pay and a halving of the use of share schemes in the private sector. • More non-managerial employees now have their performance formally appraised and the percentage of workplaces linking pay to the outcome of performance appraisal increased between the 2004 and 2011 WER surveys.
Pay dispersion (difference between the highest and lowest paid employees)	• According to WERS 2011, across all workplaces on average one-tenth of the workforce were paid an hourly rate at or below the adult rate of the national minimum wage. This proportion stood at 11 per cent in private-sector workplaces and 2 per cent in public-sector workplaces. • In 69 per cent of workplaces, no employees were being paid an hourly rate at or less than the adult national minimum wage rate. In 9 per cent of workplaces at least half the workforce was receiving this rate. • Workplaces in the hotel and restaurant sector were most likely to have high proportions of low-paid workers. • Workplaces had an average of 13 per cent of their employees earning an hourly rate of £18.01 or more (the highest pay band specified); 16 per cent in public-sector workplaces and 12 per cent in private-sector workplaces. • In business services and public administration more than one-third of all workplaces had at least a quarter of their workforce earning £18.01 or more an hour. • The CIPD Reward Survey tackles this issue too. It finds that there is greater pay dispersion for managerial and professional staff than there is for other employees. The highest median earnings for managerial and professional staff are more than three times higher than the lowest median earnings of workers in this group, whereas non-managerial staff have a differential between highest and lowest earnings of just over 100 per cent (highest median earnings are just over double the lowest median earnings). • The CIPD finds that for both employee categories, public-sector organisations have the highest levels of pay dispersion (gulf between the lowest and the highest paid).
Pay transparency	• The 2012 CIPD Reward Management Survey contained a new question concerning the extent to which organisations are prepared to reveal to employees information about pay scales, the provision of benefits and allowances, grading systems, job evaluation, performance-related pay schemes and how different individuals or groups of employees are treated in terms of pay decisions. • Overall findings demonstrate that organisations prefer pay confidentiality over transparency: 55.9 per cent of respondents agree or strongly agree that they are compliant with legislation but very much prefer to keep pay information as confidential as possible, while 38.6 per cent agree of strongly agree that they actively publicise pay information and intend to be as transparent as possible. • Most private-sector organisations' responses reflected the least transparent approach of the four choices presented, in contrast to most public services and third-sector organisations, which opted for the approach to disclosure that represents the most transparent and open of the four choices.

compelling for private-sector organisations, whereas the greater use of tools such as job evaluation and the equal pay review process in the public sector suggests that internal equity is more paramount here. Ultimately, however, any approach must try to reconcile the need to keep pace with external market rates with due concern for internal equity.

Suff and Reilly (2006) argue that, since it was first introduced in the 1920s, the popularity of job evaluation as a method for establishing the relative worth of jobs in the organisational hierarchy has ebbed and flowed according to patterns and fashions in reward management. The process has been criticised in the past for being excessively paperwork-driven and costly and too rigid to be of value to organisations trying to be adaptable and flexible in the face of intensive competitive pressures (Watson, 2005). It fell out of favour in the 1980s and 1990s as more flexible, flatter structures became characteristic of typical pay infrastructure, and market rates became the key method of setting pay levels (Suff and Reilly, 2006). Now there is evidence that job evaluation is reinventing itself as a credible tool to support structural pay decisions, to provide a defence against equal value claims, to support organisations following merger and acquisition and to complement broad-banding. Brown and Dive (2009: 29) would appear to agree,

> By evolving to meet the needs of organisations for more fluid structures, more market- and person-driven pay and more talented leaders – as well as performing its traditional function as a foundation for fair pay management – job evaluation seems to be securing its place in the HR professional's toolkit for the foreseeable future.

Job evaluation is described as 'a method of determining on a systematic basis the relative importance of a number of different jobs' (ACAS, 2010). As demonstrated by this definition and the information in Table 13.4, job evaluation is a systematic (yet not entirely scientific) process, as it is about making informed judgments, based upon an analytical process of gathering facts about jobs (based on job analysis techniques). It is also a structured process which occurs within a framework, allowing evaluators to arrive at consistent and rational decisions. Great care must be taken to focus on jobs and not on the qualities and performance standards of job incumbents; this distinction can sometimes be difficult to separate in practice.

It is clear, therefore, that job evaluation is not a 'perfect' determinant of job relativities. As we can see, it relies to some extent on subjective judgments and, as such, it may present some challenges in contemporary workplaces where there is likely to be greater fluidity in job roles. Nor does it pave the way for a perfect salary scale or grading structure or direct the organisation in terms of how much to pay employees for performing particular roles. It can, however, if designed, managed and maintained meticulously, provide the underpinning rationale for grading structures and help safeguard against unfair and discriminatory pay decisions.

Table 13.4 Job evaluation

Job evaluation is:	Job evaluation is not:
Systematic	Scientific
Consistent	An exact measurement of duties and tasks performed
A good basis for a fair pay system	A way of judging a job holder's performance
A way of getting a hierarchy of jobs on which to base a grading structure	A way of allocating pay rates

Source: ACAS (2010), *Job Evaluation; Considerations and Risks,* September 2010.

Devising pay structures

Whether or not organisations engage systematically with the process of job evaluation or take a stronger lead from benchmarking salaries in the external market without recourse to job evaluation techniques, most would agree with Armstrong (2012) that pay structures are necessary to supply a framework within which fair and consistent reward policies can be implemented. Indeed, Perkins and White (2011: 100) suggest that 'grading structures are the core building blocks of any organisation's human resource management system, not just for pay but often for conditions of service and career development as well'. The degree of sophistication characterising the design of pay structures in organisations can vary considerably according to firm size, sector and occupational group. For example, smaller firms are generally less likely to operate formal pay structures, especially during the formative stages of the business, relying perhaps instead on management discretion to set individual rates of pay for employees (Perkins and White, 2011). However, research in small and medium-sized organisations (SMEs) would indicate that as small firms grow, an informal approach to HRM becomes less tenable (Mazzarol, 2003; Barrett and Mayson, 2007; Barrett *et al.*, 2008); it is at this point that SMEs are likely to begin to inject greater levels of formalisation across a range of HR practices, including reward. Furthermore, the 2012 CIPD Reward Survey points to sectoral differences and occupational differences. Responses indicate that pay spines/service-related structures are prevalent in the public services and, to a slightly lesser extent, in the voluntary, community and not–for-profit sectors, while individual pay rates or spot salaries are more common in the manufacturing and production sector and in private-sector services. By occupation, management and professional staff are more likely to be subject to individual pay rates or spot salaries (43.8 per cent) than other employees (29.2 per cent).

According to the CIPD (2013a), a pay structure is a selection of pay levels, grades or bands which assimilates related jobs within a series or hierarchy. This in turn provides a framework within which reward strategies and policies can be applied. Pay structures are designed for several purposes:

- to bring order and clarity to an organisation in managing pay increases and pay progression;
- to assist with the process of aligning reward strategy with the business strategy;
- to help ensure pay decisions are fair and justified and protect the organisation against equal pay claims

In essence, a pay structure defines the rate, or range of the payment rate, for jobs within the organisational structure. While this might sound a relatively simple task, there are a number of design choices to be made:

- Should the organisation establish spot rates for individual jobs or devise a more complex structure or series of pay structures?
- How many pay structures are necessary?
- What types of pay structures are suitable?
- If a grading structure is deemed appropriate, how many grades should there be; how wide should each grade or band be; and how close should grade differentials be?

Further decisions must subsequently be made about 'whether, or on what basis, employees will progress through the pay structure' (Perkins and White, 2011: 157).

General design features

As a rule, pay structures need to be flexible enough to accommodate change in the organisation or in the external market and sufficiently clear for individuals to understand where in the structure they are placed and how pay progression is achieved. Spot rates are set rates of base pay for individual jobs, independent of one another and not tied to a scale or range. Where there is a spot rate for a job, all employees incumbent in the role are paid the same base rate for the job; this may be supplemented by forms of variable pay, such as overtime and shift premium or attendance bonus. Spot rates tend to preside in manufacturing and warehouse/distribution centres and in other lower-skilled occupations, and they are also relatively common in small firms. On the other hand, they are also found at senior levels where the remuneration package may need to be designed to attract a particular individual (CIPD, 2013a). It is difficult to regard a series of spot rates as a pay structure *per se*; however, spot rates can be customised to personify typical features of a pay structure; for example, a mini-series of spot rates (generally referred to as an individual pay range) could be assigned to a role such that there is scope to pay a lesser training or learning rate to individuals new to the role, a target spot rate for a fully competent employee, and a further (higher) rate to recognise superior skill, experience or performance. In other circumstances, organisations may elect to manage spot rates in such a way as to incentivise consistently high levels of output. This might be attempted in a somewhat punitive fashion, by dropping lower-performing employees to a less favourable spot rate until such a time as higher productivity is resumed.

While, as illustrated, a degree of tailoring is possible, spot rates do not readily offer scope for pay progression; rather, they supply a series of detached job rates. Such an approach may be eminently suitable where jobs are fairly static in nature, and career development opportunities and expectations are limited. In contrast, grading, pay spines and job families more aptly fit the description of a framework for the enactment of pay policy. In addition, they offer options for pay progression, through the spine, grade or family of jobs, based upon length of service or other criteria best suited to the organisation's strategic business objectives.

A single structure or several structures?

An organisation may be able to design and implement a single pay structure to incorporate the entire range of jobs (or the vast majority of jobs) across it. Alternatively, two or more structures may be in place to assimilate different groups of roles represented within the organisation (e.g. a manual pay scale and an office and managerial salary structure). In recent times, both the National Health Service (NHS) and the higher education (HE) sector have untaken extensive pay reform, underpinned by job evaluation to develop single pay structures. The NHS scheme, 'Agenda for Change', succeeded in introducing a single national pay scale for NHS hospital employees (with the exception of doctors and consultants); similarly, the National Framework Agreement in Higher Education has created a single pay spine for support and academic staff in HE institutions.

Explore

- What benefits do you think hospitals and universities are likely to derive from the formulation of single pay structures in their respective organisations?

Pay spines

A pay spine is a series of fixed incremental salary points reflecting all jobs, from the highest paid through to the lowest paid, incorporated in the structure. Incremental points may increase at an evenly distributed rate throughout the spine; for example, each increment might be set at 2.5 per cent above the next, from the bottom to the top of the structure. Alternatively, increments might be wider at higher levels in the organisation. Pay spines are traditionally found in local government or voluntary organisations that mirror local government arrangements (CIPD, 2013a). In these work environments, pay grades are superimposed upon the pay spine to form a structure in which a series of increments apply within each grade. Employees' annual salaries are typically automatically raised to the next incremental point on the basis of length of service. This either occurs on an individual basis, triggered by the anniversary of the employee joining the organisation, or collectively at a fixed date in the calendar. Except in extreme cases of poor performance, where an increment might be withheld or where progression 'gateways' have to be crossed, employees continue to receive automatic annual increments

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(and possibly accelerated increments awarded according to performance criteria) until such time as they reach the top point in the grade. Pay progression thereafter, in the form of increments, is contingent on the employee gaining promotion to a higher grade. In some organisations, further additional discretionary points may be available beyond the upper limit of the grade boundary, reserved for those employees who have performed exceptionally throughout the year or those who have made a special contribution. In public services, where pay spines are prevalent, uplift to the pay spine is the subject of national pay bargaining between trade unions and employers; where a cost of living percentage increase in pay is agreed, the incremental scale is adjusted upwards accordingly. Pay spines offer employees a degree of pay progression certainty and give employers certainty in terms of total salary expenditure, but may be perceived as bureaucratic and excessively rigid.

Key Controversy

Do automatic increments based on length of service risk rewarding for incompetence and poor performance? On balance do you think incremental points are an equitable means of rewarding employees?

Graded pay structures

Aside from the use of a central pay spine, organisations opting for a formal pay structure are likely to use some form of grading. The general principles of a pay-grading structure are that jobs are grouped together into grades or bands, often according to some measure of job size. Graded structures require firms to determine how many grades or bands to build into the structure, the width of each grade ('bandwidth'), the degree of overlap to configure between grades and the size of grade differentials to apply throughout the structure. Jobs should be grouped together such that a distinction can be made between the characteristics of the jobs in different grades, and the grade hierarchy should broadly take account of the organisational hierarchy. Additionally, there should be a significant step in demands on job holders in the next highest grade, such that salary differentials can be suitably justified.

Narrow-graded pay structures

Narrow-graded pay structures, or 'traditional' graded structures as they are sometimes called, comprise a large number of grades, typically 10 or more, with jobs of broadly equivalent worth slotted into each of the grades (CIPD, 2013a). As the name would suggest, the width of each grade within the structure ('bandwidth') is narrow, perhaps amounting to a range where the upper salary limit of the grade is anywhere between 20 and 50 per cent higher than the lower salary limit. Salary differentials between pay ranges are invariably around 20 per cent (CIPD, 2013b), calculated with reference to the grade midpoint. There is usually an overlap between ranges, which can be as high as 50 per cent. The purpose of an overlap is to provide the employer with the scope to recognise and reward a highly experienced and/or qualified employee at the top of a grade more generously than someone who is still in the learning curve zone of the next higher grade (see Figure 13.4) Ultimately, however, individuals placed in the higher grade have greater scope for salary progression. They will be able to move closer towards, and eventually beyond, the target rate for a fully competent employee within the grade, contingent upon satisfying the criteria for pay progression used by the organisation.

For illustrative purposes, Figure 13.5 shows a single narrow grade with a bandwidth of 40 per cent, while Figure 13.6 shows an extract of a narrow-graded pay structure where the bandwidth is 40 per cent throughout the structure, a grade overlap of 20 per cent is applied and the differential between grades is set at 20 per cent.

It is common practice to identify a reference point or target rate in each grade which is the rate for a fully competent individual who is completely qualified and experienced to execute

Figure 13.4 Grade zones

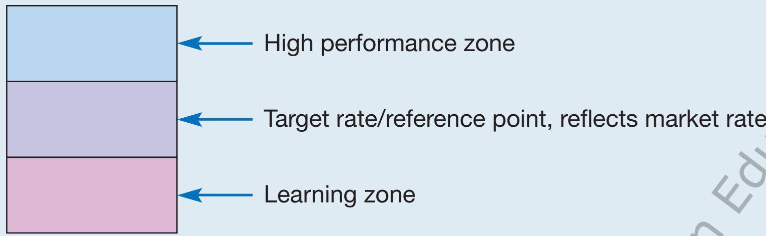


Figure 13.5 Narrow salary grade – 40% bandwidth

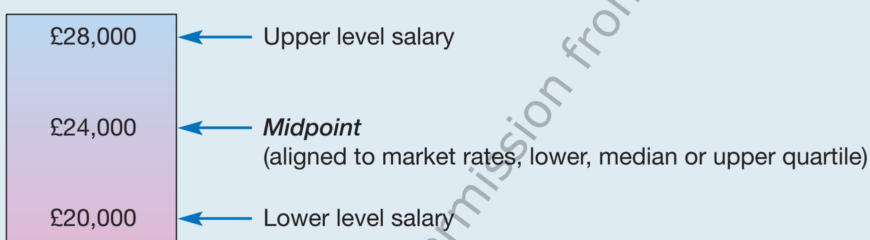
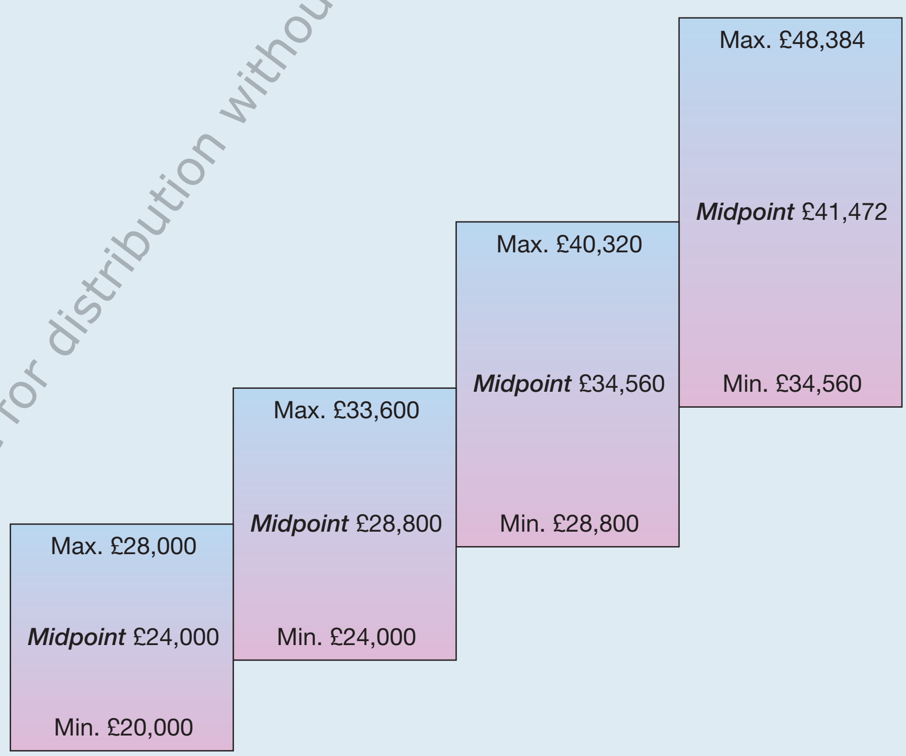


Figure 13.6 Extract of narrow graded pay structure



the job to the required standard. This target rate is frequently, but not always, the *midpoint* in the range, aligned to market rates for similar jobs and set in accordance with the organisation's pay stance (upper, median or lower quartile).

Broad-banded pay structures

In contrast to a narrow-graded pay structure, a broad-banded structure involves the use of a small number of pay bands, normally no more than five (Perkins and White, 2011), each with a bandwidth of up to 100 per cent or even more (CIPD, 2013b). The broader salary range attached to bands in the structure gives employers greater flexibility than is possible in a narrow-graded structure and is arguably more suitable for use in flatter organisations where employee development and career progression are not inextricably linked to vertical movement through the hierarchy. Flatter organisations tend to develop a more flexible outlook as far as careers are concerned, promoting lateral career development and 'zig-zag' careers. While narrow grades might inhibit such moves, broad bands allow employers to recognise and reward non-vertical career movement and role growth. For this reason, broad-banded pay structures are sometimes labelled career-based structures. For broad-banded or career-based structures to operate effectively, the organisation must reposition their own and their workforce's perceptions in terms of career development and salary progression. Where narrow bands are simply collapsed to form fewer wider bands, without an overarching change of philosophy the resultant structure might more aptly be termed broad-*graded* because of the continued attachment to the vertical progression mentality more closely associated with narrow-grading structures. In 2000, the CIPD also offered the less flattering term 'fat-graded' to describe such structures.

A further feature of true broad-banded pay structures is that they afford employers greater latitude in establishing starting salaries and so the opportunity to pay more to attract suitably qualified and experienced staff to 'hard to fill' positions. While this facility might be perceived as useful, especially in tight labour markets, the opportunity to place an employee on a salary anywhere within the wide range between the band minimum and maximum gives managers the discretion to apply individual differentiation and therein licence to cloud any notion of transparency (IDS, 2006). Where this is the case, broad-banding would appear to heighten the risk of an equal pay claim while simultaneously loosening the employer's rein on the pay budget, potentially leading to higher reward costs. So can pay levels be managed fairly and cost-consciously within a broad-banded pay structure?

Managing pay within a broad-banded pay structure

The CIPD (2013b) are quick to realise that although modern broad-banded structures allow greater flexibility and wider scope to reward employees for performance or some other measure of contribution, there is a need to curb untrammelled pay progression and maintain control over the pay budget. A range of techniques can be used to assist with controlling pay progression more systematically within a broad-banded structure. Some organisations have sought to mark out zones within bands to indicate the expected salary range for particular roles. The salary level reflected in the zone is likely be arrived at by benchmarking with comparators in the external market. Similarly, a series of target rates for particular jobs in the band could be identified and superimposed upon the band to denote the market rate for a fully competent individual performing in the job. Further, a series of bars or gateways can be etched into the band to serve as thresholds. To cross a threshold and thereby access the higher salary zone beyond the bar, job holders might be required to demonstrate defined competency levels or reach particular standards of performance. These methods of managing pay within a broad-banded pay structure would appear to improve transparency and provide a surer basis for ensuring equal pay for work of equal value. The role for job evaluation in establishing a hierarchy of jobs within a broad-banded structure is also more apparent where zones or target rates for roles are incorporated.

Explore

- Is there a grading structure within your organisation?
- How many grades/bands exist within your own organisation?
- Would you classify your own organisation's pay structure as *broad-graded, broad-banded* or *traditional* (*narrow-graded*)?
- What advantages and disadvantages are associated with the pay structure in place within your own organisation?

Number of bands	Senior executives	Managerial/ professional	Staff/manual
3 or less	❑	❑	❑
4–5	❑	❑	❑
6–9	❑	❑	❑
10+	❑	❑	❑

Job families

Finally, pay structures can be characterised wholly or partially by the use of job family structures, or labour market structures as they are sometimes called. A job family structure consists of separate grade or pay structure for a series of jobs which are related by virtue of the activities carried out and the basic skills used. The jobs, though, will be differentiated by the level of responsibility, skill or competence required. Usually around six to eight levels are represented within a family structure (CIPD, 2013a), ranging from lower-ranking jobs through to higher-ranking posts. In essence, this approach to devising pay structures treats different occupations or functions separately and results in a series of pay ladders for different sets of jobs. Alternatively, a single job family structure could co-exist with a mainstream pay structure in an organisation where the family of jobs concerned cannot easily be assimilated in the mainstream structure without giving rise to anomalies. In practice, job family pay structures are beneficial where an organisation needs to recruit to job roles within a particular occupational group and there is fierce competition in the labour market forcing the price of wages up. A job family pay structure allows the organisation to align to the external market more closely and so improve its chances of attracting and retaining adequate resources.

Pay progression

As Wright (2004: 78) argues 'there is little point in organisations having elaborate pay structures unless they are offering employees some progression opportunities for their pay *within* the pay structure'. A number of means are at the organisation's disposal to manage employees' movement within the salary structure, indeed, the way in which this is done in different types of organisations tends to vary far more than actual levels of wages and salaries (Perkins and White, 2011). *How* organisations pay portrays their stance on reward and is in many ways a more strategic decision than *how much* to pay. Where a strategic approach to reward is manifest, methods of pay progression will be informed by a clear notion of the organisation's values and strategic imperatives, such that the 'right' individuals are recognised and rewarded for the 'right' behaviours. As was suggested earlier in this chapter, strategic approaches to reward are not universally applied, and even where they are, weaknesses and difficulties often mire best efforts. Where pay progression is concerned, sometimes pragmatic decisions, underscored by the lack of resources and expertise to design and manage more elaborate pay progression mechanisms, drive organisations to apply blanket solutions such as automatic annual increments linked to employee service and across-the-board percentage pay increases. Indeed, for some organisations, and the stakeholders involved in the particular employment relationship, annual service-related increments and unified pay awards may signify equity, parity and transparency and therefore be viewed more positively than other means of salary progression.

However, while service-related pay progression rewards the build-up of expertise in the job and may help employers with retention, it risks signalling to employees that longevity of service is more important than the quantity and/or quality of the work undertaken and the manner in which work is conducted. Similarly, universal pay increases, resulting in the same pay award to everyone regardless of their contribution, fail to take into account other factors that might justifiably be used to determine the speed and scale of individual salary progression. Service-related increments are a traditional method of pay progression in the public sector, but they are less frequently used by private-sector employers, who tend to prefer mechanisms that reward other factors such as performance, competence and skill (CIPD, 2012). The 2012 CIPD Reward Survey and the 2011 WERS survey (van Wanrooy *et al*, 2013) also show that the use of collective bargaining, resulting in the same percentage pay increase for represented groups of employees, is more prevalent in the public sector than it is in private sector and voluntary sector organisations. The popularity of collective bargaining as a mechanism for settling pay and terms and conditions is, however, declining overall.

By contrast, a number of alternative means of managing salary progression are available and some of these are discussed in the following sections.

Individual performance-related pay (PRP)

Performance-related pay links individual pay progression with employee performance. The basic notion of individual PRP is that the promise of rewards contingent on performance will incentivise employees to perform optimally, thus raising individual performance and leading to improved levels of organisational performance. Within a PRP scheme, employee performance is typically assessed against pre-set targets or pre-agreed objectives, often at appraisal time, although a separate pay review meeting could be used to determine a PRP increase. PRP payments may be consolidated into base pay or paid as a bonus (variable pay). PRP schemes ebb and flow in popularity and have been the subject of much controversial debate in the reward literature. In particular, the supposed causal link between PRP and performance or productivity has been heavily questioned (Kessler and Purcell, 1992; Thompson, 1992; Marsden and Richardson, 1994). Indeed, rather than glowing accolades heralding the benefits of PRP, much attention has been drawn to the potential negative ramifications associated with using it. Reservations tend to revolve around the following issues:

- PRP schemes operate on the basis that employees will be motivated by money, whereas motivational theories suggest that money is not the only motivator, or even necessarily an effective motivator.
- The size of the 'pay pot' and how to divide this appropriately commensurate with individual performance achievements.
- Problems associated with measuring performance in a fair and objective manner.
- The ability of managers to manage the award of PRP; to make, communicate and justify difficult and potentially divisive reward decisions.
- Potential for pay discrimination/bias.
- Potential harm to efforts to engender teamwork as individual PRP encourages employees to focus on their own performance targets or objectives without concern for the greater good of the team, department or wider organisation.
- Focus on output/outcomes, but not the means used to accomplish performance outcomes.

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Furthermore, Kessler and Purcell (1992) argue that linking assessments of performance to pay can induce tunnel vision, whereby employees concentrate on those aspects of their job that trigger pay increases and ignore other parts of their role. They also suggest that the limitations of the pay pot may mean that even employees with positive appraisal ratings only receive relatively small payouts that fail to measure up to the 'felt fair' principle. In view of the criticisms levelled against individual PRP, the CIPD (2013c) notes that the notion of linking pay to a wider definition of employees' contribution has gained ground. In this approach, individual performance is assessed taking into account processes and behaviour, not simply outcomes.

Pay for contribution

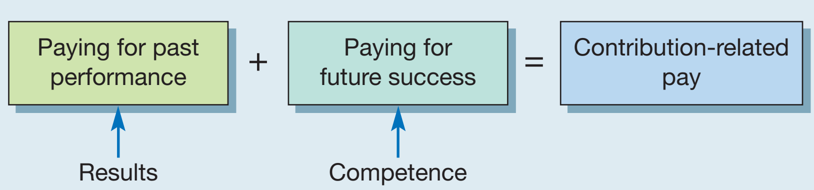
As indicated earlier, interest in paying for measures of contribution is partly prompted by concern that individual PRP takes too narrow an interpretation of performance by focusing on end results in isolation. Organisations expressing a preference for contribution-related pay signal an interest in how outcomes are achieved as well as the outcomes themselves. Indeed, the way in which employees conduct their work and the attitudes and behaviours they display may have been identified by such organisations as a critical factor in securing competitive advantage, so to try to match pay to softer measures of behaviours as well as harder results data would seem to indicate an attempt to design a pay progression mechanism that places due emphasis on strategic fit. Armstrong (2002: 309) defines contribution-related pay as 'a process for making pay decisions which are based on assessments of both the outcomes of the work carried out by individuals and the level of skill and competence which have influenced these outcomes'. It is thus an attempt at a mixed, blended or hybrid method incorporating the ethos of PRP and competence-based pay. It means paying for results (outcomes) and competence, for past performance and potential for future success (see Figure 13.7).

The mechanisms used to pay for contribution can vary considerably. Recognising that paying for contribution incorporates multi-dimensional measures, some organisations reward the acquisition and display of required competencies in base pay, and reward results achieved with an unconsolidated bonus (variable pay), while others arrive at a composite increase in base pay, taking into account both competence and results payouts. Rewards can also be given for combinations of organisational, team and individual performance, not just the latter (Brown and Armstrong, 1999). In essence, the model advocated by Brown and Armstrong entails a customised approach to reward.

Competence-related pay

Competence-related pay, used alone as means of pay progression, adopts a relatively narrow focus akin to the use of individual performance-related pay; however, emphasis is placed on employees' input to the job, rather than performance or output. The aim of competence-related pay is to encourage and reward the development of particular competencies desired by the organisation; it amounts to a method of paying employees for *the ability* to perform as opposed to paying *for* performance (Armstrong, 2002). Perkins and White (2011: 182)

Figure 13.7 Contribution-related pay



Source: adapted from Brown and Armstrong (1999: 137).

Table 13.5 The advantages and disadvantages of competence-related pay

Advantages	Disadvantages
Encourages competence development	Assessment of competence levels may be difficult
Fits de-layered organisations by facilitating lateral career moves	Might pay for irrelevant competencies
Helps to integrate role and organisational core competencies	Links to pay may be arbitrary
Forms part of an integrated, competence-based approach to people management	Costs may escalate if inappropriate or unused competencies are rewarded
Delivers message that competence is important	
Relies on appropriate, relevant and agreed competence profiles	

Source: from *Employee Reward,* 3rd ed., CIPD (Armstrong, M. 2002) p. 306, with the permission of the publisher, the Chartered Institute of Personnel and Development, London (**www.cipd.co.uk**).

comment that 'whereas individual performance-related pay can appear to be simply a punitive system to penalise workers, competency-based systems can in contrast appear positive for employees' own career development'. The introduction of competence-based pay requires a competency framework to be in place and a means for measuring individual competence levels to be agreed and understood by managers and employees alike. Table 13.5 summarises the advantages and disadvantages of competence-related pay.

Skills-based pay

Skills-based pay is sometimes referred to as 'pay for knowledge' or 'knowledge-based pay' (Perkins and White, 2011: 187). The aim of skills-based pay is to encourage employees to acquire additional skills, units of skill or specific qualifications that are deemed important to meet business needs. Skills-based pay might be closely tied to National Vocational Qualifications (NVQs) and the units and levels of qualifications set out in modular qualification frameworks of this type; alternatively, the organisation may identify discernible skills or blocks of skills and arrange these in a hierarchy to indicate progressive skill levels. Marchington and Wilkinson (2012) identify both constraints and benefits in the use of skills-based pay. They argue that organisations must be able to anticipate and plan for future skills needs some years ahead to ensure they are rewarding for the acquisition of the *right* skills. They also warn that such a scheme may create frustration and demotivation amongst employees who exhaust the skills hierarchy and so lose access to pay progression. The costs of skills-based pay must also be carefully monitored both in terms of the investment in training to underpin the scheme and in terms of the identification and utilisation of the skills rewarded. While skills-based pay is likely to encourage a desire for upward mobility and thirst for skills acquisition amongst workers, thus enhancing organisational quality and capability, great care must be taken to ensure that only skills that are used are paid for, otherwise costs will escalate and the organisation will fail to profit.

Team-based pay

Team rewards involve linking pay increases or a portion of individuals' pay increase to an assessment of performance at the team level rather than at an individual level. Team-based pay is essentially a variant of individual performance-related pay, designed to reinforce collaborative working and team results. Pay for the achievement of team objectives or targets can be distributed as a fixed sum to all team members or can be calculated as a percentage of individual base salary (Armstrong, 2002). Armstrong and Murlis (1998: 395) contest that 'the case for team pay looks good in theory but there are some formidable disadvantages', as follows:

- Its effectiveness relies on the existence of well-defined and mature teams.
- Distinguishing individual team members' contributions to the team could be problematic.
- It can be difficult to develop fair and objective methods for measuring team outcomes.
- Team rivalry may develop.
- Organisational flexibility may be hampered in the sense that employees in high-performing, well-rewarded teams might be unwilling to change roles.
- High performers in low-achieving teams may feel unduly penalised and dissatisfied.

Perkins and White (2011: 221) highlight the issue of the 'freeloader' as a particular problem. If individual performance within the team is not clearly discernible or is not closely monitored, those who fail to perform a fair share of the work may well remain eligible for the reward, resulting in resentment and disharmony within the team.

Pay progression based on measures of organisational performance

Finally, there are a three main ways in which individuals' pay can be linked to organisational performance, namely gain-sharing, profit-related pay and share-ownership schemes. The general premise of all three schemes is that by linking pay to organisational performance, employees will be encouraged to focus on value-added activities and will identify more closely with the goals of the organisation. Where the organisation is successful as a result of employees' efforts and contributions, due rewards are passed to employees in the form of a consolidated payment, a cash one-off payment (unconsolidated, variable pay) or the issue of company shares, and hence a financial stake in the organisation, where the preferred method of linking pay to organisational performance is a share-ownership scheme. Share schemes are considered to be long-term collective rewards and employees' fortunes are clearly dependent on the longer-term success of the organisation and the resultant rise and fall in share prices. Profit-sharing and gain-sharing, on the other hand, are collective rewards applied at organisational level which tend to deliver the reward within a period of 12 months or less (Perkins and White, 2011: 224). Briefly, gain-sharing schemes apply a formula to award individuals a share of the financial gains made by the organisation as a result of improvements in quality, productivity enhancements or cost-reduction strategies assisted by employees. Profit-related pay or profit-sharing, on the other hand, typically rewards employees with a slice of the company profits generated over and above a pre-specified profit target or level. The latest CIPD Reward Survey (2012) shows that gain sharing occurred in 21.6 per cent of organisations participating in the study and was more likely to be found within the manufacturing and production sector than in other sectors. Profit-sharing schemes were shown to be present in 38.1 per cent of all organisations and in 41.8 per cent of private-sector services firms. Around one in three respondents to the survey operate a share scheme or other long-term incentive plan such as executive deferred annual cash bonuses or an executive deferred/co-invest share plan.

Concluding comments

Trends in reward practice – towards a strategic approach or more traditionalism?

Since the early 1990s, 'new pay' enthusiasts (Lawler, 1990, 1995, 2000; Schuster and Zingheim, 1992) have consistently promoted the efficacy of transforming pay and reward such that it serves as a more effective driver of organisational performance. In essence, 'new pay' or 'dynamic pay' (Flannery *et al*., 1996) advocate a far more managerialist view of the design and application of reward tools, resonating with the acclaimed superiority of strategic approaches to reward and the notion of 'total rewards'. Its key ingredients include a greater quotient of variable pay, a move away from rigid payment structures to fluid and flexible ones, pay centred on the person not on the job, pay progression dependent on performance, competence, skills, contribution or some other form of contingent pay and a shift away from collectivism to individualism in reward. Such practices are considered to offer the organisation greater agility to reward individual employees commensurate with the impact they make upon critical business objectives and greater control over the pay budget. In this final part of the chapter, we discuss the extent to which organisations in the UK appear to echo the new pay rhetoric by marking out the support of business goals as the supreme priority governing reward objectives and throwing out traditional pay practices in favour of the new.

As we have learned throughout this chapter, there are a multitude of ways to do reward. At the same time, there is a strong tide running through business textbooks, the HR practitioner press and the professional body, persuading organisations that the right way to do reward is to align it with business strategy. Much of the evidence would suggest that despite the pressure to make the link to business strategy, few have grasped the nettle firmly. Indeed, the 2012 CIPD Reward Survey distils reward strategy down to measures of the proportion of organisations engaging in competitive remuneration positioning relative to comparative organisations, as if this captures the totality of reward strategy.

While there might be flimsy data to verify a swell of close adherence to the principles of a fully fledged reward strategy, there is evidence that elements of 'new pay' are permeating reward practices, particularly in the private sector. Here we see greater use of broad-banded pay structures, greater reference to market rates when determining salary levels and a higher propensity to use more varied and individualised methods of pay progression. Only in the public sector, voluntary sector and the not-for-profit sector is seniority-based pay (based on length of service) still the most common form of progression (CIPD 2012). The decline of collective bargaining in the private sector and the rise in PRP would also seem to indicate that a managerial agenda of individualism and greater use of contingent pay in place of uniform rates for jobs is winning through (van Wanrooy *et al*, 2013). By contrast, large sections of the public sector, at least in non-managerial roles, remain steeped in traditionalism.

Summary

This chapter began by outlining seven key objectives and these are revisited here:

- Historically, the area of HRM that we now recognise and understand as employee reward primarily concerned wages and payment systems and the ways in which these could be used to exert control over both sides of the wage/effort bargain, enlarge the area of managerial control and so maximise organisational profitability.
- Nowadays, employee reward is defined more broadly to include base pay, variable pay, benefits and non-financial rewards.
- Reward is now recognised by many employers as a key strategic lever that can be used to mould and direct employee behaviour such that it supports and reinforces business goals. Strategic approaches to reward emphasise the importance of matching reward systems and practices to corporate strategy, and integrating reward such that it complements other HR policies and practices. Debates persist, however, as to the precise contribution that reward can make to business performance, and doubts are cast on the ability of employers to design and implement reward strategy effectively. There would appear to remain a gap between rhetoric and practice in this respect.

- There are no right and wrong approaches to employee reward; rather, a myriad choices are available to organisations. Key choices entail whether to pay for the person or pay for the job, whether to centralise or decentralise reward decision-making, whether to place primary focus on internal equity when determining pay or to be more concerned with external benchmarks, whether to build hierarchy into the reward system such that there are seniority or status-related rewards or to devise a harmonised, single-status approach and how to determine the precise nature of the reward 'mix'.
- Reward decisions are influenced by a range of factors in the external operating environment. In particular, the economic climate affects employers' ability to pay and it guides organisations in determining salary levels/size of the pay review. The legal framework surrounding reward is designed to protect the low-paid, set standards for hours of work and holiday entitlement and ensure equal pay for work of equal value.
- In practice, approaches to reward are influenced by the size and nature of the organisation, the presence of trade unions, ownership/sector and types of workers employed.
- Notable differences emerge between the public sector/voluntary sector and not-for-profit sectors and organisations in the private sector in terms of favoured methods for establishing pay levels, the design of pay structures and the criteria for pay progression.
- Despite the rhetoric of 'new pay' and the resounding case for strategic approaches to reward, traditionalism remains pervasive alongside experimentation with the new.

Questions

1. What do we mean by the term reward? How does it differ from 'wages', 'salary' or 'payment'?
2. Identify and briefly describe each of the components of reward.
3. In dominant reward terminology, contingent pay is distinguished from variable pay – explain what reward specialists mean when they use these terms.
4. Briefly suggest why strategic reward appears to be so difficult to achieve in practice.
5. Identify the key strands of the legislative framework affecting pay practices.
6. In a grading structure, what do the terms 'bandwidth' and 'salary differential' mean?
7. Why might an organisation use job family structures?
8. Explain the differences between individual performance-related pay, competence-based pay and pay related to contribution.

Case study

Shop Guru

Shop Guru is an independent consumer service operating on a not-for-profit basis. The service is funded primarily through membership subscriptions to its magazine and website. Shop Guru employs approximately 520 people across two sites; the head office in Cambridge and a contact centre in Leicestershire. Its employees comprise researchers, editorial staff, PR and lobbying specialists, marketers and customer services agents. Given the range of roles in the organisation, employee expectations and experiences vary considerably.

The diversity of the workforce posed the biggest challenge for the HR team as they set about the task of devising a reward strategy to align with organisational values. Historically, reward practices had developed in a piecemeal, ad hoc fashion, leading to an unmanageable number of salary bands (over 100 across the two sites) and considerable variation in the award of performance-related bonuses for managers. More fundamentally, however, there were divided views as to the role of reward and how it should be managed. For most managers and employees in the organisation, reward was considered in monetary terms only, and in some factions of the organisation the firm belief was that service-related pay provided the only fair way to manage salary progression. Faced with an inordinate challenge,

Case study continued

the HR team constructed an evidence-based argument, using metrics, to persuade the senior management team that changes would reap dividends for the organisation. With senior management backing, the HR department embarked upon a lengthy consultation and communication process to explain the changes, collect employee views and elicit feedback.

The resultant reward process for Shop Guru rests on a strong set of total reward principles based upon pay, benefits, the values and culture of the organisation and learning and development. Pay is now linked to performance for all employees, with expectations for each generic job level clearly identified in a transparent job family framework designed to reflect the discrete job groups within the organisation. The benefits package is generous and is benchmarked at the upper quartile level. Benefits are harmonised across the organisation and include a contributory pension scheme, personal private medical cover, flexible working practices and on-site Pilates classes and health screening. Career progression is facilitated via a range of learning and development interventions designed to provide opportunities for all members of the diverse workforce.

The most innovative feature of Shop Guru's new reward strategy is the way in which the organisation has linked the reward framework to its six core organisational values: aspiration, courage, flexibility, teamworking, personal responsibility and decisive action. Alongside performance measures for each job level within the framework, Shop Guru has translated how each of the values should be enacted. This brings the values to life for employees and ensures that positive behaviours are viewed alongside performance outputs as critical to the reward proposition.

Source: case adapted from 'Case study – Which?' CIPD Reward Management Annual Survey Report 2012, p.24.

Questions

1. Suggest reasons why Shop Guru opted for a job family structure when reconfiguring pre-existing pay structures.
2. What measures or mechanisms should Shop Guru put in place to help safeguard the organisation against equal pay claims?
3. Consider the factors you believe to be critical to the success of the new reward framework at Shop Guru.
4. What metrics/tools might Shop Guru use to assess the effectiveness of the new reward framework?

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