

Performance Management for ACCOSCA - Reward systems

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Introduction



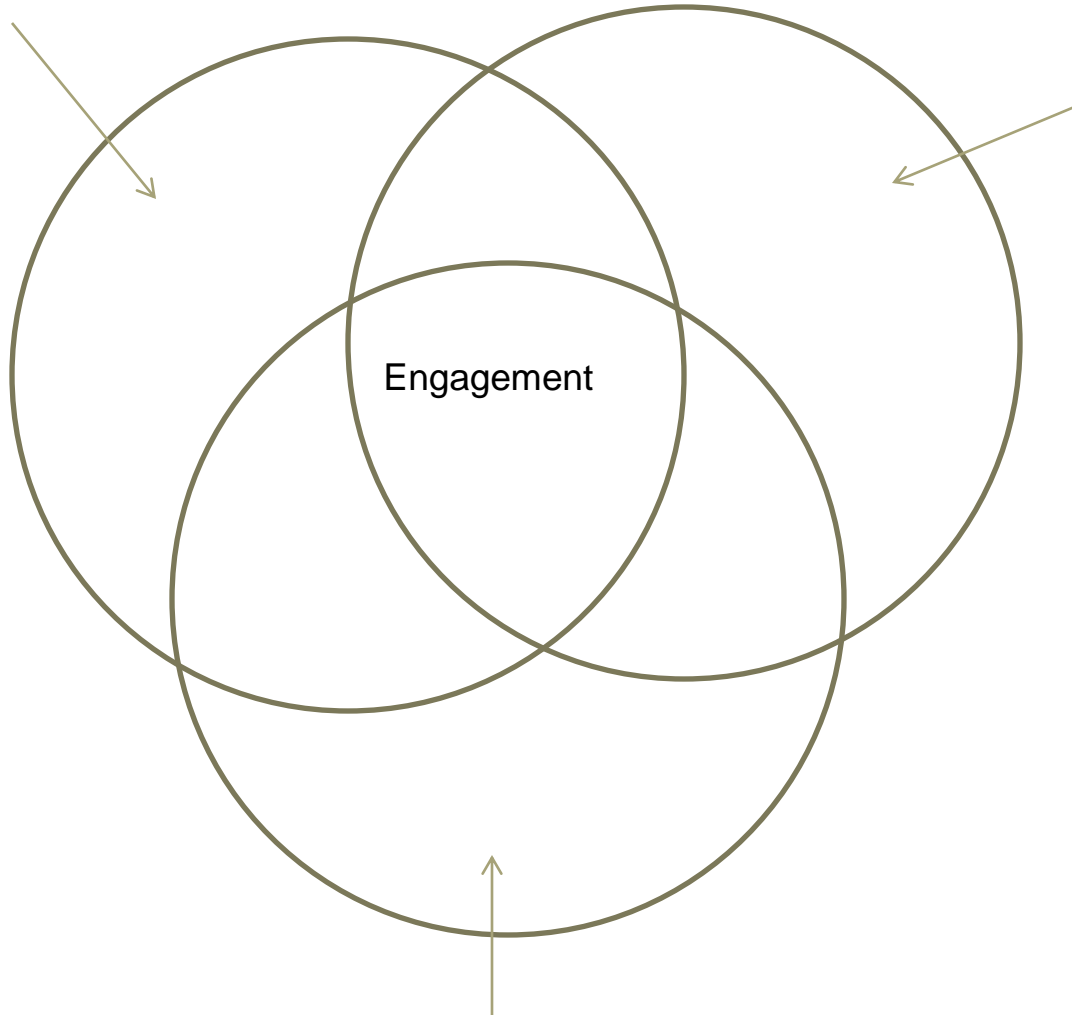
Specific aims of a reward management system

- Support the achievement of organisational goals
- Support and develop the organization's culture
- Rewards people according to the value they create and what the organisation values
- Align reward practice with employee needs
- Help to attract and retain high-quality people
- Defines what is important in terms of behaviors and outcomes
- Win the engagement of people

Employee Engagement

- “The individual’s involvement and satisfaction with as well as enthusiasm for work” Gallop, (2009)
- An academic definition “A positive , fulfilling, work-related state of mind that is characterized by vigour, dedication and absorption” Maslac et.al, (2001)
- Engagement is a positive attitude held by the employee towards the organization and its values. (Robinson et.al, 2004)

Commitment



Organizational
Citizenship

Engagement

Motivation

Reward philosophy

- If HRM is about investing in human capital from which a reasonable return is required, then it is proper to reward people differentially according to their contribution
- **Distributive justice**: Refers to how rewards are provided to people.
- They will see justice done to them if they believe rewards have been distributed according to their contribution. Leventhal, (1980)

Procedural justice:

- The ways in which managerial decisions are made and reward policies practiced. Tyler and Bies (1990) identify five factors:
 - Employee viewpoint given proper consideration
 - Personal bias towards employee suppressed
 - Consistent application of criteria
 - Employees provided early reliable feedback
 - Employees provided sufficient explanation

Reward systems

- A reward system describes the set of mechanisms for distributing both tangible and intangible returns as part of an employment relationship.

Components of reward systems

- **Business strategy**- include items like high performance, profitability, productivity, innovation, customer service, quality, price/cost leadership etc
- **Reward strategy**; sets out what the organisation intends to do in the long term to develop and implement reward policies, practices, processes and procedures that will further the achievements of its business and HRM goals

Components of reward systems

- **Reward policy**; will cover matters such as:
 - The level of rewards
 - External competitiveness versus internal equity
 - Transparency
 - Pay decisions
 - Assimilation
 - Protection
- **Base or basic pay**; fixed salary, or wage
- **Job evaluation**- a systematic process for defining the relative worth or size of jobs within an organisation in order to establish internal relativities and provide the basis for designing an equitable grading system

Components of reward systems

- **Market rate analysis** – the process of identifying the rates of pay in the labour market for comparable jobs to inform decisions
- **Pay progression**-when base pay advances through pay brackets
- **Grade and pay structure**-a hierarchy of job grades (integrated pay scale)
- **Contingent pay for performance**
- **Service – related pay**

Components of reward systems

- **Service-related pay-** fixed increments, which are usually paid annually to people on the basis of continued services either in a job, or a grade in a pay structure
- **Pensions and employee benefits-** such as sick pay, insurance cover, company cars
- **Allowances-**paid in addition to basic pay

Components of reward systems

- **Total remunerations**-the value of all cash payments
- **Total rewards**- the combination of financial and non-financial rewards available to employees
- **Performance management**- as discussed on day one
- **Non-financial rewards**-do not involve any direct payments

BASE/BASIC PAY

- Given to employees in exchange for work performed
- Includes a range of values, ***focuses on the position and duties performed rather than the individual's contribution***
- It is usually the same for all employees irrespective of their differences
- Differences may exist ***within the base pay due to experience and differential*** performance

COST OF LIVING ADJUSTMENT (COLA)

- Usually the same percentage increase for all employees regardless of their individual performance
- Usually given to combat the effects of inflation in an attempt to preserve the employee's buying power

CONTINGENT PAY (Merit Pay or pay for performance)

- Employees are rewarded based on how well they perform on the job
- Means the amount of additional compensation depends on an employee's level of performance
- The increase can be on employee's base pay or a one time allocation



Reasons for introducing CP

- Performance management systems are more effective when results are directly tied to reward systems (Lawler et.al, 2003)
- High achieving performers are attracted to organisations that reward high-level performance and high-level performers are in favour of CP plans (sorting effect) (Trevor et.al, 1997)
- CP Plans enhance employee motivation to accomplish goals that match organisational needs
- An organisation's ability to retain its top performers is obviously crucial if that organisation wants to win the talent war and have a people based competitive advantage (Sturman et.al.,2003)

Possible problems with CP

- **Poor performance management system in place**
 - Poorly conceived and implemented PMS, rewarding underperformers instead
- **The folly of rewarding A while hoping for B**
 - Individual Players paid goal bonus but asked to play as team
- **Rewards are not considered significant**
 - Marginal differences in rewards between top performers and under performers
- **Managers are not accountable**
 - They are likely to inflate ratings or employees may set goals that are easily attainable

Possible problems with CP

- **Extrinsic versus intrinsic motivation**
 - The value of doing one's job exceeds doing it because it is interesting or challenging
 - Sole reliance on reward systems as motivator
- **Rewards for executives are disproportionately large compared to everyone else**
 - Consider CEO pay in the USA vs shop floor attendants
 - A US survey suggests CEO pay 360 times higher than average workers

Bonus schemes

- Variable pay or “pay at risk”
- Cash payments, gifts that are related to the performance of organizations, teams or individuals
 - Business performance schemes
 - Individual bonus
 - Team bonus
 - Combination
 - Cash-based profit sharing
 - Gain sharing

Aims of bonus schemes

- Enable people share in the success of an organisation
- Provide rewards related to business performance in order to increase motivation, commitment and engagement
- Provides rewards that recognizes past performance or achievements and encourages staff to perform well in future

Rationale for Bonus schemes

- The bonus structure should be self-financing when people are over the 100% target levels
- Bonus schemes require branches, individuals and teams to deliver
- A pay for performance culture recognizing high performers

Criteria for bonus schemes

- Must Be based on realistic, significant and measurable key performance indicators
- Must Not create a moral hazard-an incentive to act inappropriately in pursuit of a bonus
- Never reward failure
- Only pay out if a demanding threshold is achieved
- Create clear lines between effort or contribution and reward
- Operate fairly, equitably, consistently and transparently

Recognition schemes

- They enable appreciation to be shown to individuals for their achievements- effective way of motivating workers
- Belief that taking steps to recognize people's contributions and achievements is an effective way of motivating them

Types of recognition

- **Day-to-day**

- Provided daily , orally , on the spot or in a short note (preferably handwritten) of appreciation
- Should take place soon after the event
- Must be genuine

- **Public recognition**

- Public “Applause”
- Employee of the month schemes
- Intranet announcement
- House journal
- Notice Board

Types of recognition

- **Formal recognition**

- Provides tangible forms of recognition such as gifts, vouchers, holiday trips , meals, days or weekends at hotels, etc
- Team awards may be through parties, outings with formal award ceremonies

Benefits of recognition schemes

- Achievements and contributions publicly acknowledged
- Compliment and reinforces financial rewards
- Increases engagement by demonstrating that the org. values employees
- Provides rewards for average performers who may not benefit from performance pay
- Gives line managers the means to provide their people instant rewards

ALLOWANCES

- Allowances including housing and transport or travelling allowance
 - e.g employer can buy a car and employee has the right to use it both privately and for business (SA)
 - Employer pays car allowance as reimbursement for employee to use his/her car for official duties
 - Consider travelling allowance paid to employees to facilitate the journey to work
 - or providing a staff bus!!!!!!!!!!!!!!!!!!!!

INCOME PROTECTION

- Income Protection programs serve as a back-up to employee's salaries in the event that an employee is sick, disabled, or no longer able to work
 - University of Alberta in Canada pays 70% of salary
 - In USA employers pay 50% of total contribution to SS so that income is protected for the family in case one is disabled

WORK LIFE FOCUS

- Include programs that help employees achieve a better balance between work and non work activities
 - Includes time away from work (vacation) services to meet specific needs (counselling, financial planning, on-site fitness program) flexible work schedules (telecommuting, non paid time off etc)
 - Consider six months maternity and two weeks paternity leave

Conclusion

- Rewards must be linked to performance to get the best of staff;
- those rewards must be legally sound to avoid litigation
- Motivating staff requires a good handle on the types of rewards and applying the appropriate ones at all times
- Fatten the cow, if you need the milk; you need to survive as an organization