

# Session 8 Reward Management for Special Groups & Strategic Reward



# Learning Outcomes

In this topic you will:

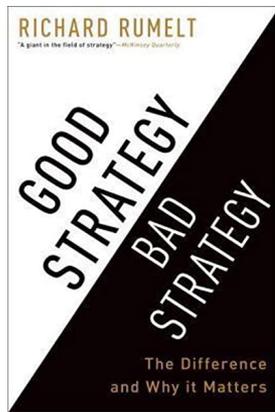
- Examine the definition of strategy and strategic reward
- Analyse the rationale for strategic reward
- Analyse the characteristics of strategic reward
- Define the meaning, aims, content and structure of reward strategy
- Examine the criteria for reward strategy
- Develop and implement the reward strategy

# What is Strategy?

- Not an easy concept to define
- **"A style of thinking; a conscious and deliberate process; the art of ensuring future success."** (Sun Tzu)
- Need to develop the strategist's mind.
- "The Thinking General" has trained themselves to think several moves ahead of their opponents.



# What is Strategy?



A good strategy has 3 key elements according to Richard Rumelt.

- a clear-eyed diagnosis of the challenge being faced.
- an overall guiding policy explaining how the challenge will be met.
- A set of coherent actions designed to focus energy and resources.

# Mintzberg on Strategy (1987)

Strategy can be seen as:

- a deliberate ***Plan***
- a ***Perspective*** to see the world
- a ***Position*** (in respect to competitors or the market e.g. Ryanair)
- a ***Ploy*** to out manoeuvre a competitor
- a ***Pattern*** in a stream of actions (intended or not)



What is Strategic  
Reward?



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Strategic reward is concerned with the process of developing and implementing reward strategies in order to ensure that they are integrated with and support the business strategy.

# 1. Strategic Reward (Definition)

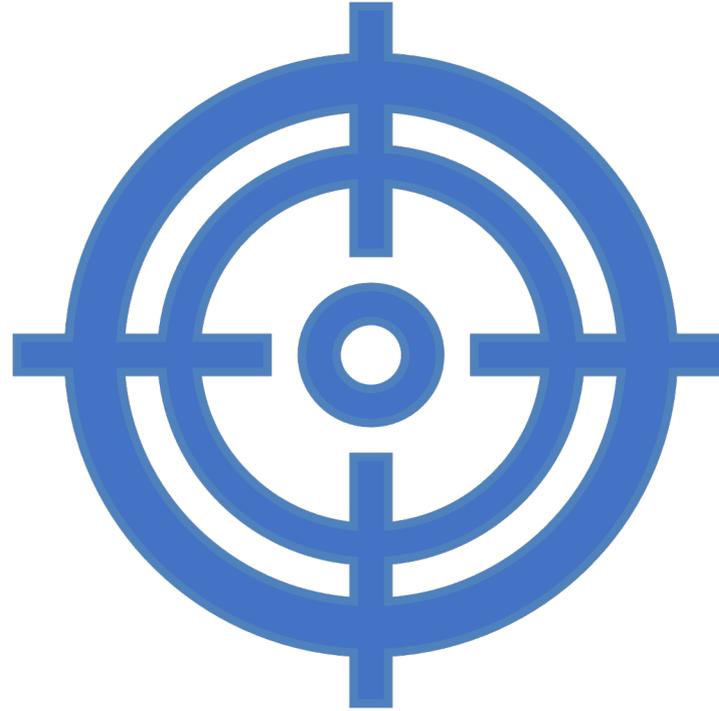
# What are the Characteristics of Strategic Reward?

- Strategic reward is a forward-looking approach to reward management.
- Strategic reward management can be described as an attitude of mind - a belief in the need to plan ahead and make the plans happen.

# What are the rationale for a Strategic Reward?

- Have a clear vision
- Develop a coherent framework
- Align reward to performance
- Have a strategic plan for your pay costs

# **Why implement a Reward Strategy.**



The main aim is to make the reward strategy an operating reality for the organisation.



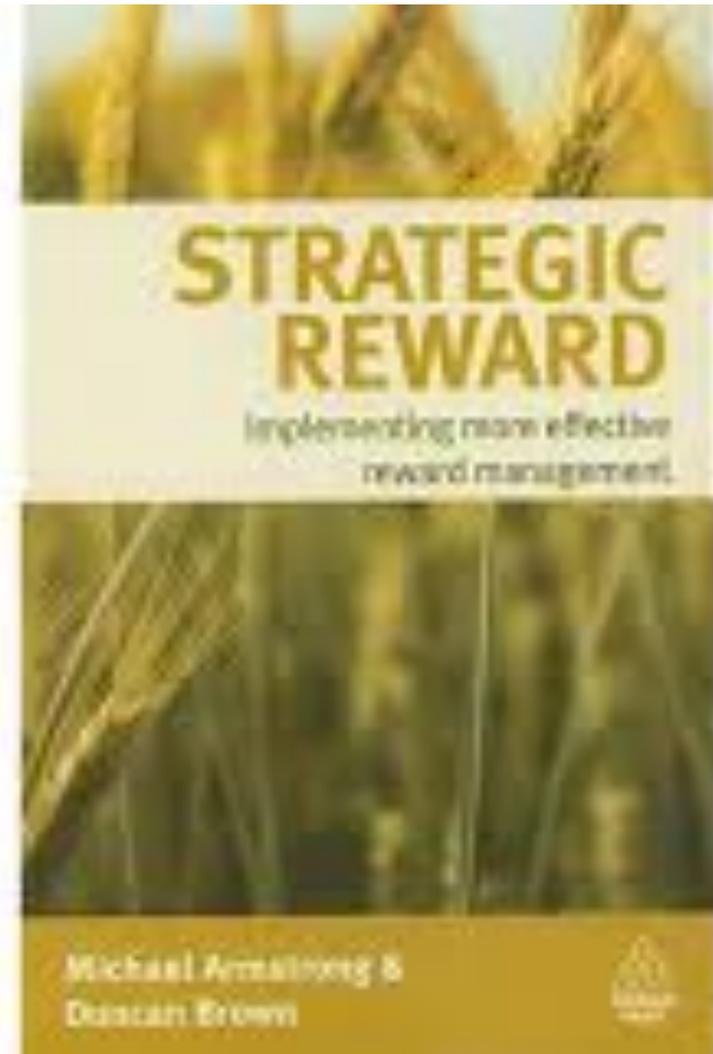
# Components of an effective Reward Strategy.

According to Brown (2001) an effective strategy is one in which there are clearly defined goals and a well-defined link to business objectives; well-designed pay and reward programmes, tailored to the needs of the organization and its people, and consistent and integrated with one another; and effective and supportive HR and reward processes in place.

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# What are the Elements of a Reward Strategy?

- A good reward strategy has some key elements according to Michael Armstrong.
- All reward strategies are different
- Reward strategy is not a linear process.
- Reward strategy must be a balancing act because of potentially conflicting goals.
- A reward strategy covers all aspects of rewards
- Specific reward strategies are focused on single or multiple issues



# Criteria for Reward Strategy



Sets out reward goals to provide direction over the longer-term



Supports the achievement of business and HR strategies



Provides a framework within which reward systems can be planned and implemented



Takes account of stakeholder needs



Operates flexibly in response to changed circumstances

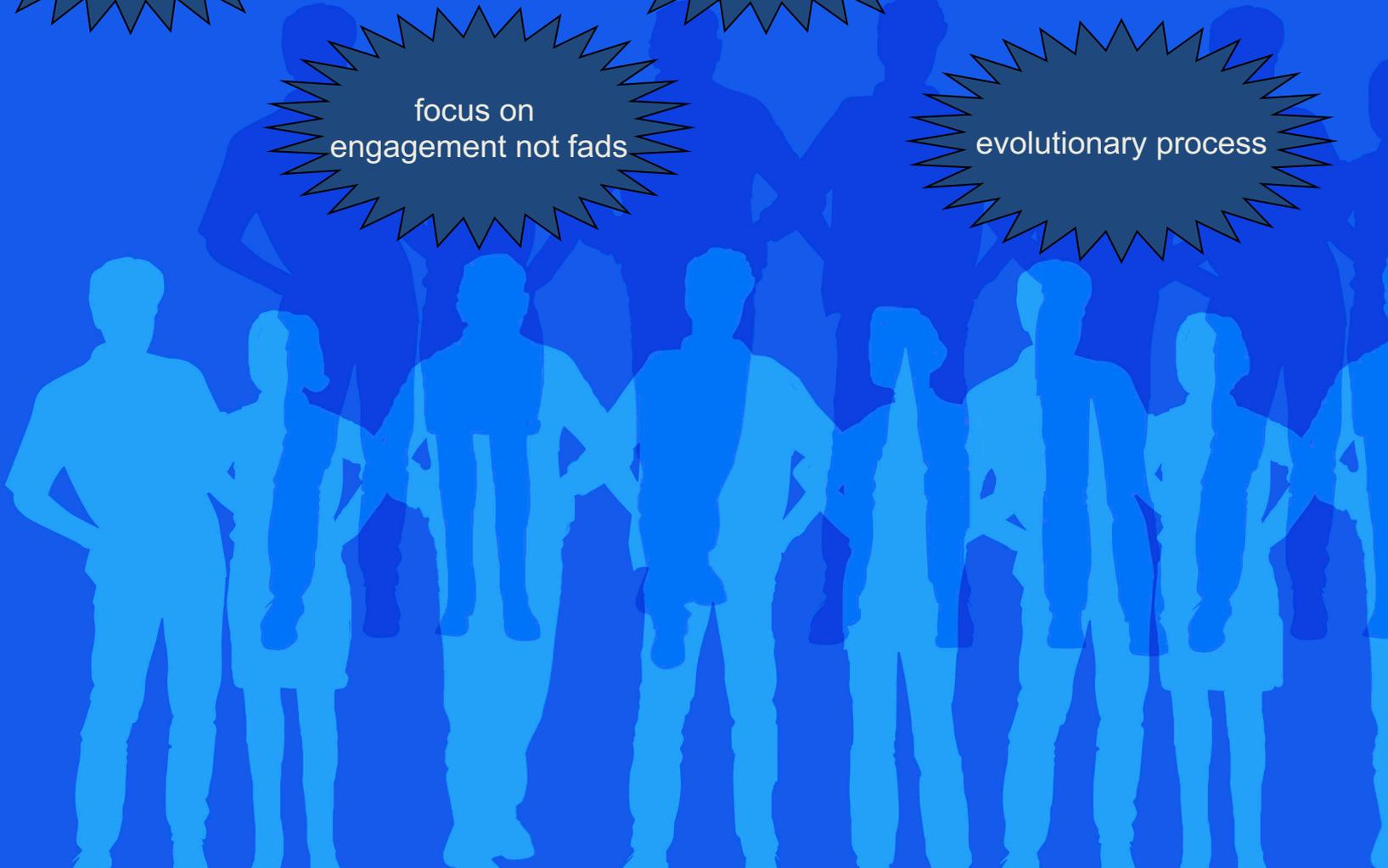
# Develop a Reward Strategy: The main considerations are:

meet individual as well as business needs

flexibility within a framework

focus on engagement not fads

evolutionary process



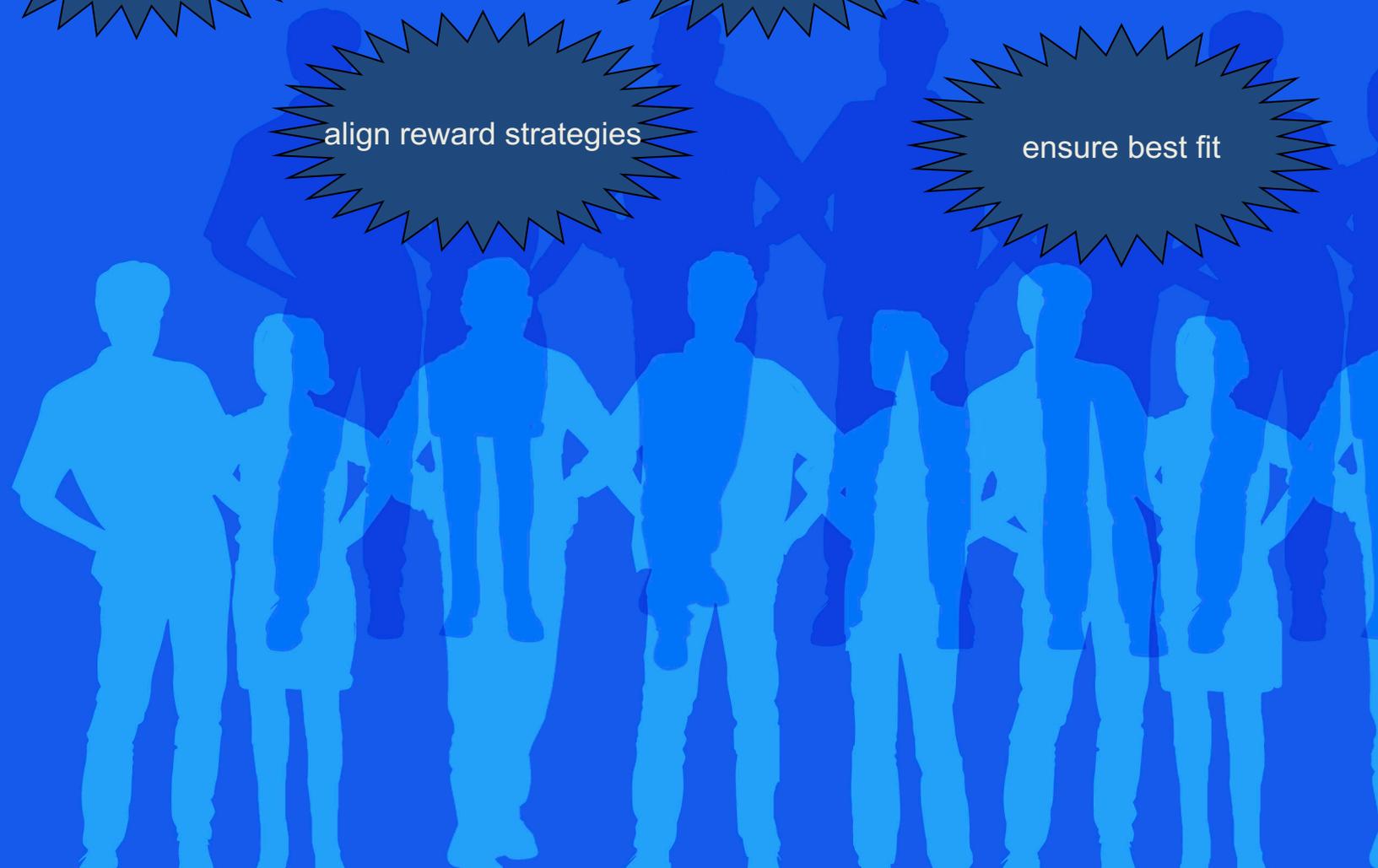
# Develop a Reward Strategy: The main considerations are:

a good strategy is one that works

plan with Implementation in mind

align reward strategies

ensure best fit



# Reward Management: the three questions

Where are we now?



Where do we want to be?



How do we intend to get there?



# Strategic Decisions are about:

- The medium and long-term direction of an organisation
- The scope of an organisation's activities
- **Gaining a lasting competitive advantage over rivals**
- Building on Resources and Key Capabilities
- Pre-empting changes in the external environment
- Addressing the values and expectations of stakeholders

*(Source Johnson et al, 2014)*

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If your advantage is hard for your competition to replicate, and you can continue to build on the lead that you've built, that's what you call a

**SUSTAINABLE  
COMPETITIVE  
ADVANTAGE**

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# Strategy Execution

- Organisational Leadership Drive Strategy Execution
- Talented people are the fuel to get things done and a key competitive asset.
- However it requires a Reward Strategy that is strategically aligned.
- Strategic reward is an aspect of strategic management, the purpose of which is to elicit the present actions for the future and become action vehicles



# Developments in reward management

Business-driven focus



Aligning rewards with business strategy AND employee needs

Isolated initiatives



Integrated reward management

Focus on financial rewards and incentives



Focus on total rewards, engagement and commitment

Reward system: mechanistic, inflexible, over-complex



Reward process: organic, variable, relatively simple

Best practice



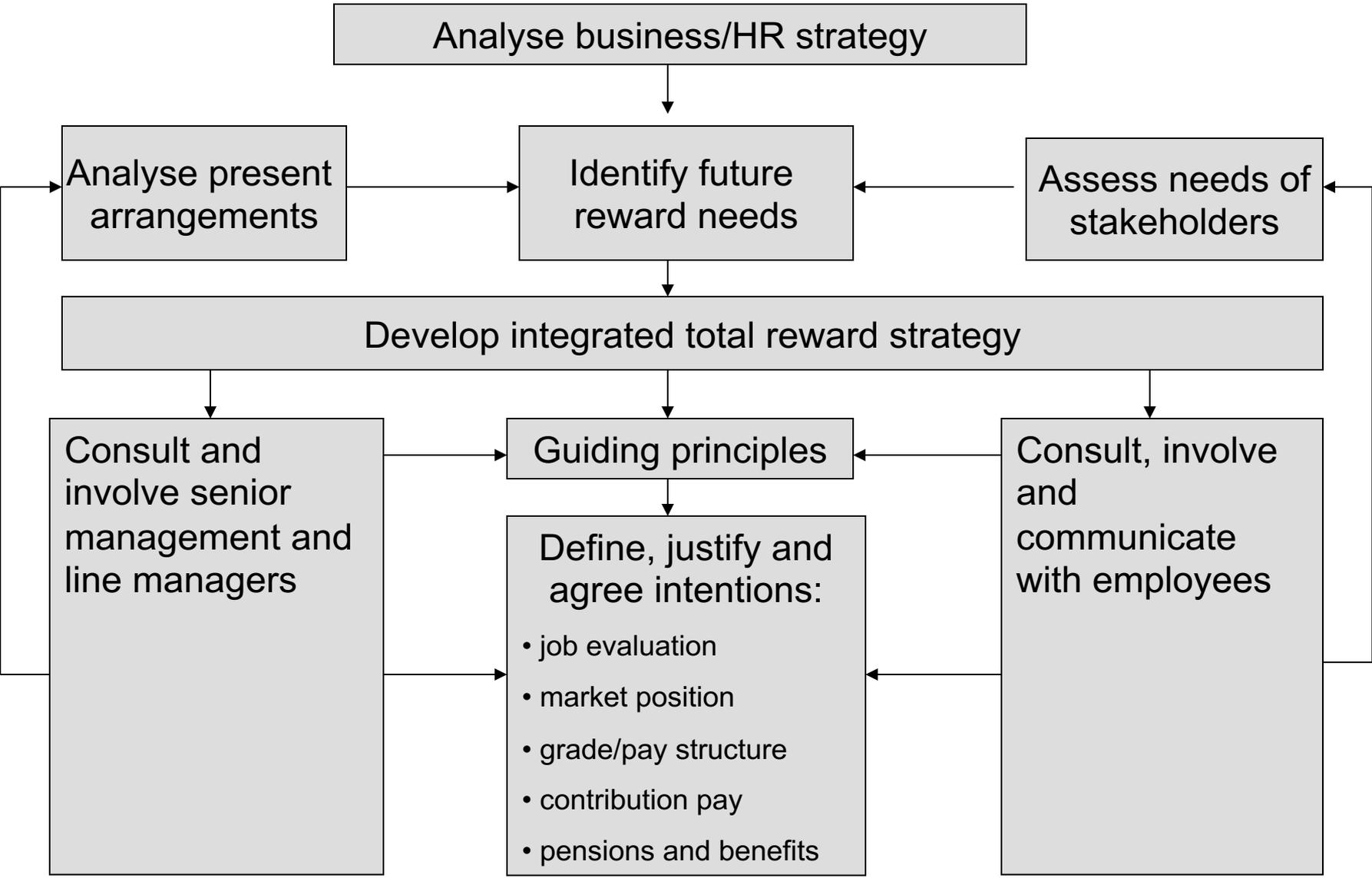
Best fit

Inform (perhaps), management decides

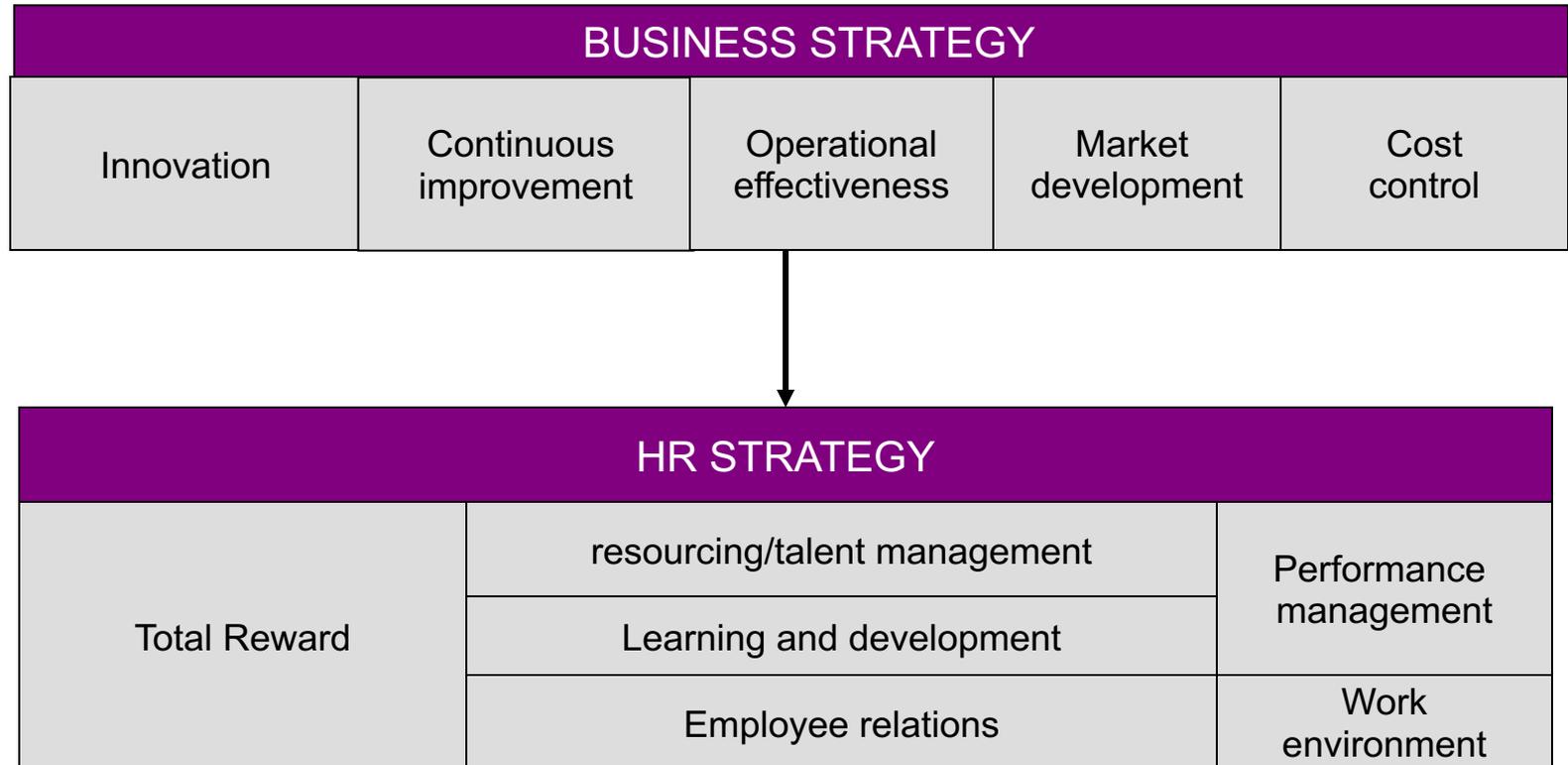


Communicate and involve

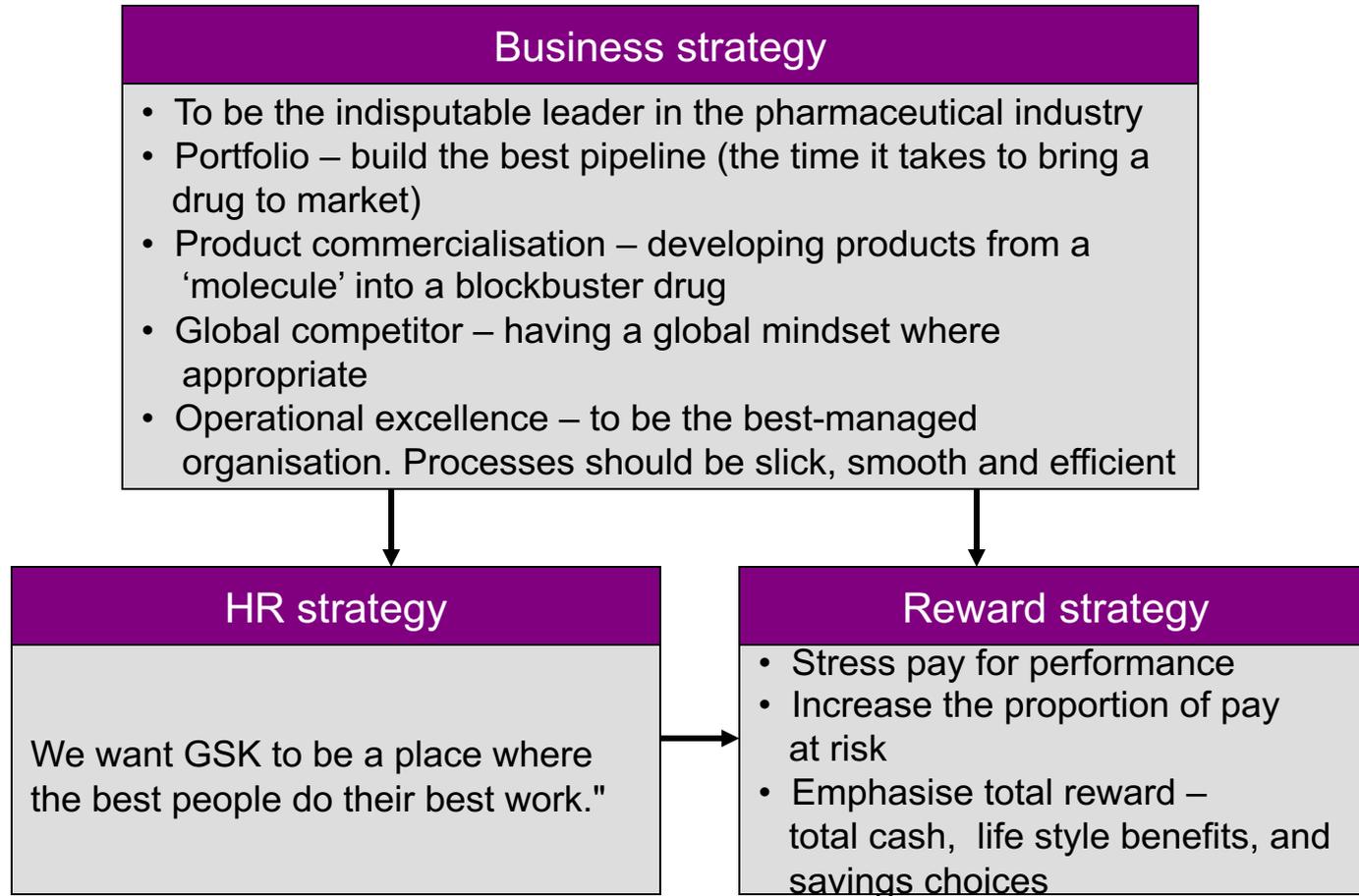
# Developing Reward Strategy Framework



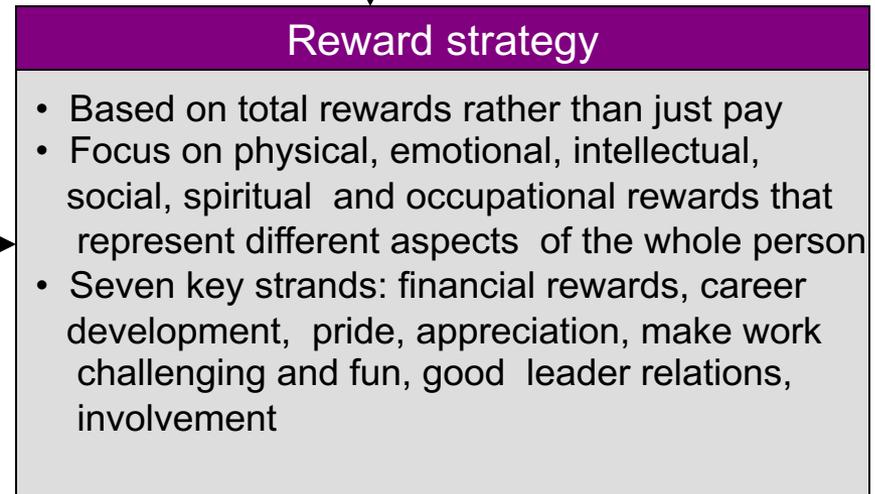
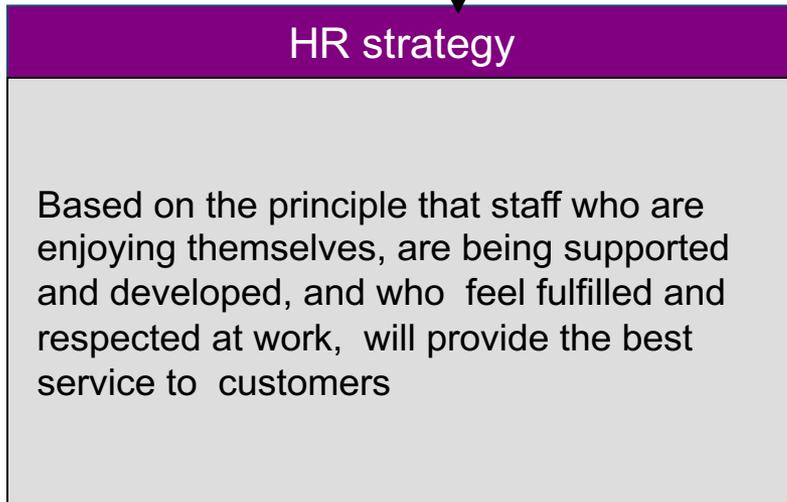
# Developing an integrated Reward Strategy



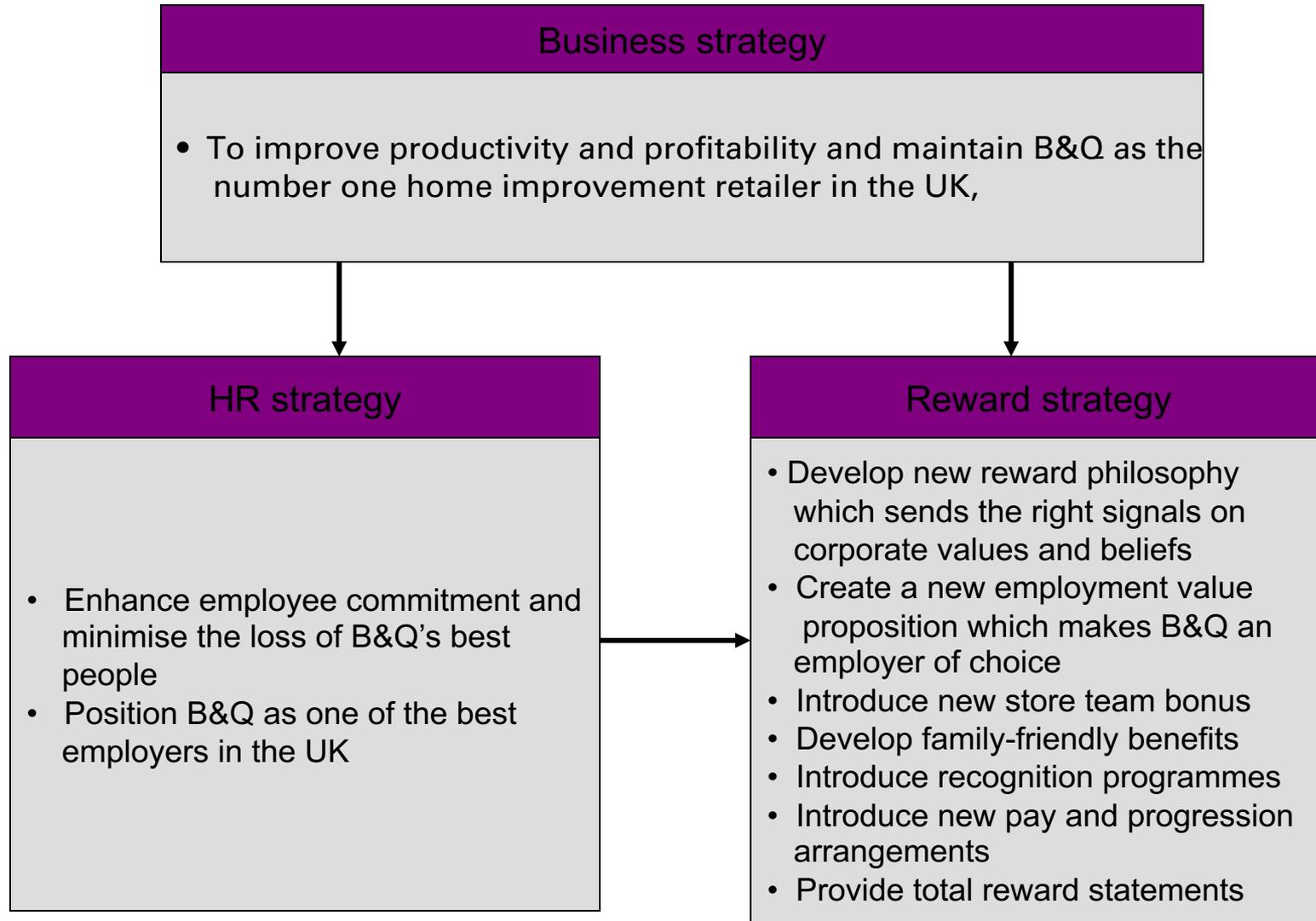
# Integrated Strategic Reward at GlaxoSmithKline



# Integrated Strategic Reward at Lands' End

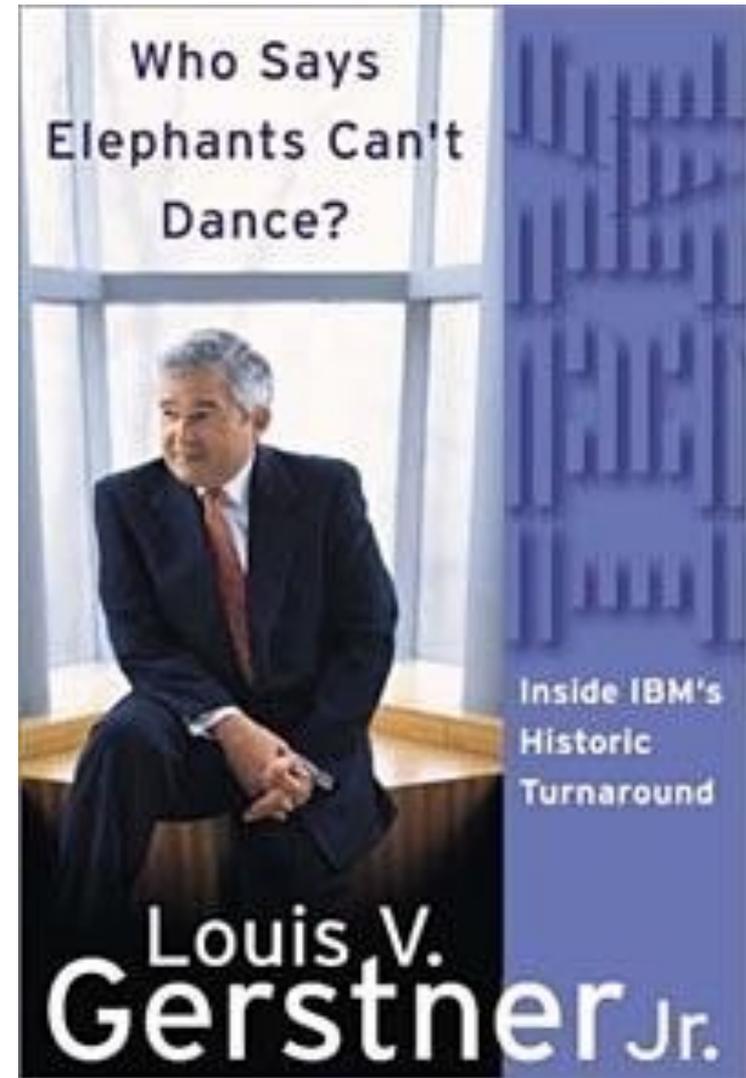


# Integrated Strategic Reward at B&Q



# Critical Evaluation of the Strategic Reward Factors:

- Three factors critical for success in the Business Environment are outlined by Armstrong (2020)
  1. What can be done to integrate the reward strategy
  2. What can and can't be achieved by changing pay and reward arrangements; and
  3. How quickly real change can be delivered and business results secured.



# Guiding principles

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- Guiding principles define the approach an organisation takes to dealing with reward.
- They express the reward philosophy of the organization – its values and beliefs about how people should be rewarded.





# Reward Guiding Principles: Tesco

- We will provide an innovative reward package that is valued by our staff and communicated brilliantly to reinforce the benefits of working for Tesco.
- Reward investment will be linked to company performance so that staff share in the success they create and, by going the extra mile, receive above average reward compared to local competitors.
- All parts of the total reward investment will add value to the business and reinforce our core purpose, goals and values.



GUINNESS



DIAGEO

## Deciding on the Approach - Strategic Reward at Diageo

- Fit what is done to the firm's unique characteristics
- Keep it simple, but simple isn't easy!
- Ensure that the human resource department is not developing policies and practices on its own, which are then tagged as just another HR initiative rather than as something which is owned by the organisation as a whole.
- Explain the planned changes, the rationale behind them, and how they affect people.

*Nicki Demby, Performance and Reward Director, Diageo*

# Developing Reward Strategy: Seven key Learning Points at BT

1. Business sponsorship and ownership is essential
2. Don't underestimate resistance
3. Understand implications of present arrangements
4. Project management skills are critical
5. Cost can restrict speed of change
6. Engage, engage engage!
7. Clear and consistent communication



The image shows a close-up of the Centrica logo on a light-colored building wall. The logo is in a bold, blue, sans-serif font and is slightly angled. The background of the slide is a white silhouette of the United Kingdom, with the building and logo appearing as if they are part of the landscape.

# Developing Reward Strategy: Nine Success Criteria at Centrica

1. Partnership
2. Preparation
3. Business engagement
4. Employee engagement
5. Union engagement
6. Financial modelling
7. Communications
8. Project administration
9. Business-as-usual administration

# Setting the direction - Reward Strategy Development at Lloyds TSB

## Developing reward strategy

- Ongoing five-year reward vision expressing what the company thinks the reward goals should be and why
- Developed reward strategy clarifying what vision means for reward



## Redesigned reward programmes

- Fundamental overhaul of total approach to reward
- Replace multi-grade structure with eight broader bands where each job is linked to a wide salary range
- Market-based approach to pay
- National pay scales replaced with local market-driven pay system
- Switch from central to local administration
- 'Entitlement mentality' challenged – pay increases tied to knowledge, experience, competencies, overall performance and movements in market rates

# A Final word

“You cannot succeed without focusing on business goals and understanding what these mean for your core people goals.

Shareholder value was our ultimate objective. But we unbundled this objective and examined how we would generate shareholder value through our reward strategy.

We wanted to recruit, retain and engage good people. You might do that in the short term by throwing more money at them but we wanted a long-term solution that really focused on individuals and their contribution within the business.

Meeting individual needs by providing flexibility within a framework has enabled us to generate significant value for both employees and the company alike”.



# Class Activity

What are the problems that may affect the adoption of a strategic reward approach?

# Rewarding Chief Executives

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# Learning Outcome

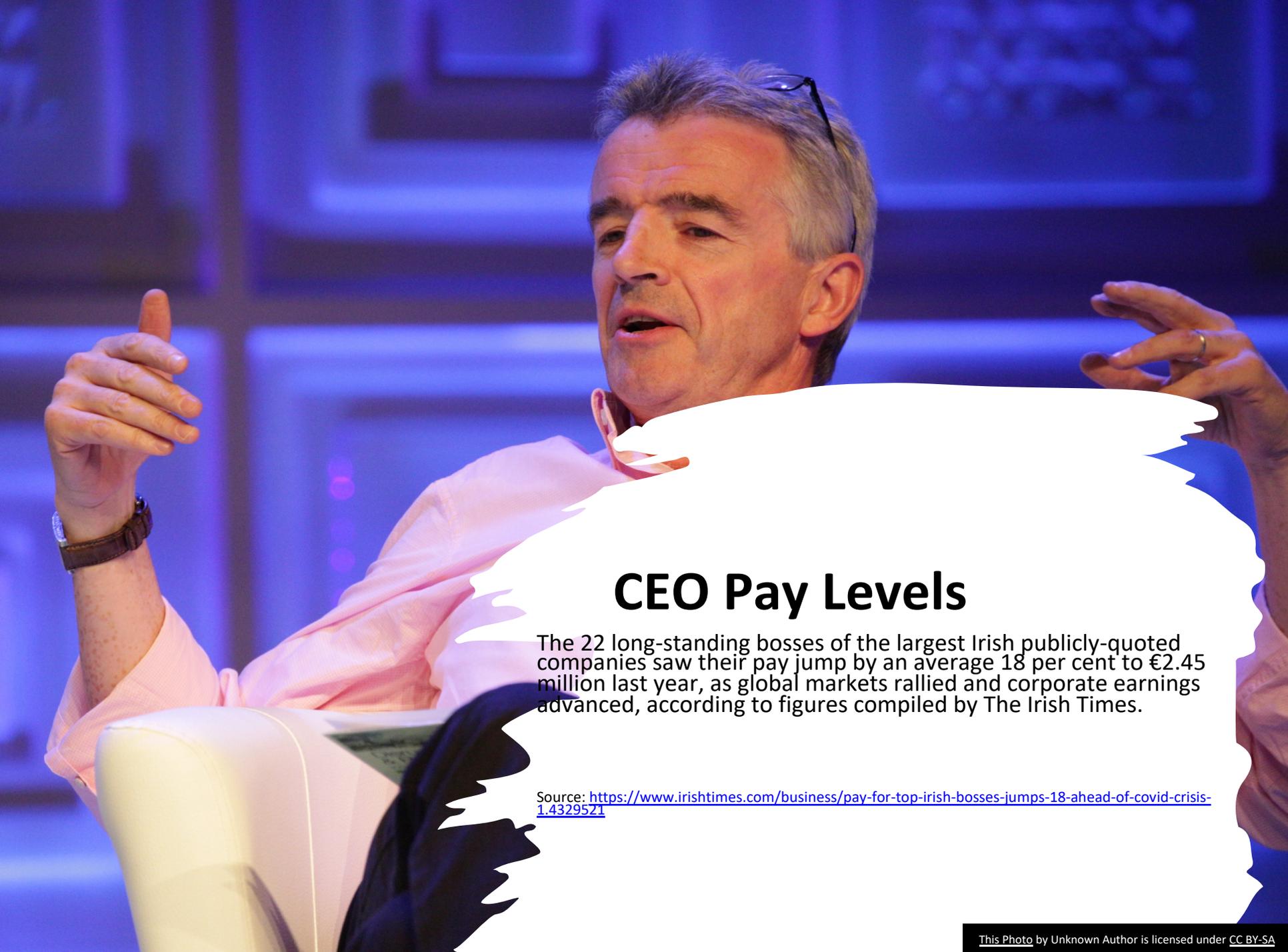
The session will cover:

- Review the problem with chief executive pay levels
- Examine the factors affecting the level and nature of executive rewards
- Examine the role of remuneration committees
- Analyse the meaning and significance of corporate governance
- Examine the combined code on Corporate Governance
- Analyse the components of executives' remuneration

# CEO Pay Levels

CEOs are well paid in the UK The British FTSE 100 figures cited by the CIPD (2017) showed that the median FTSE 100 CEO pay was £3.45 million in 2016.

The remuneration of CEOs affects that of other board members and, some senior executives.

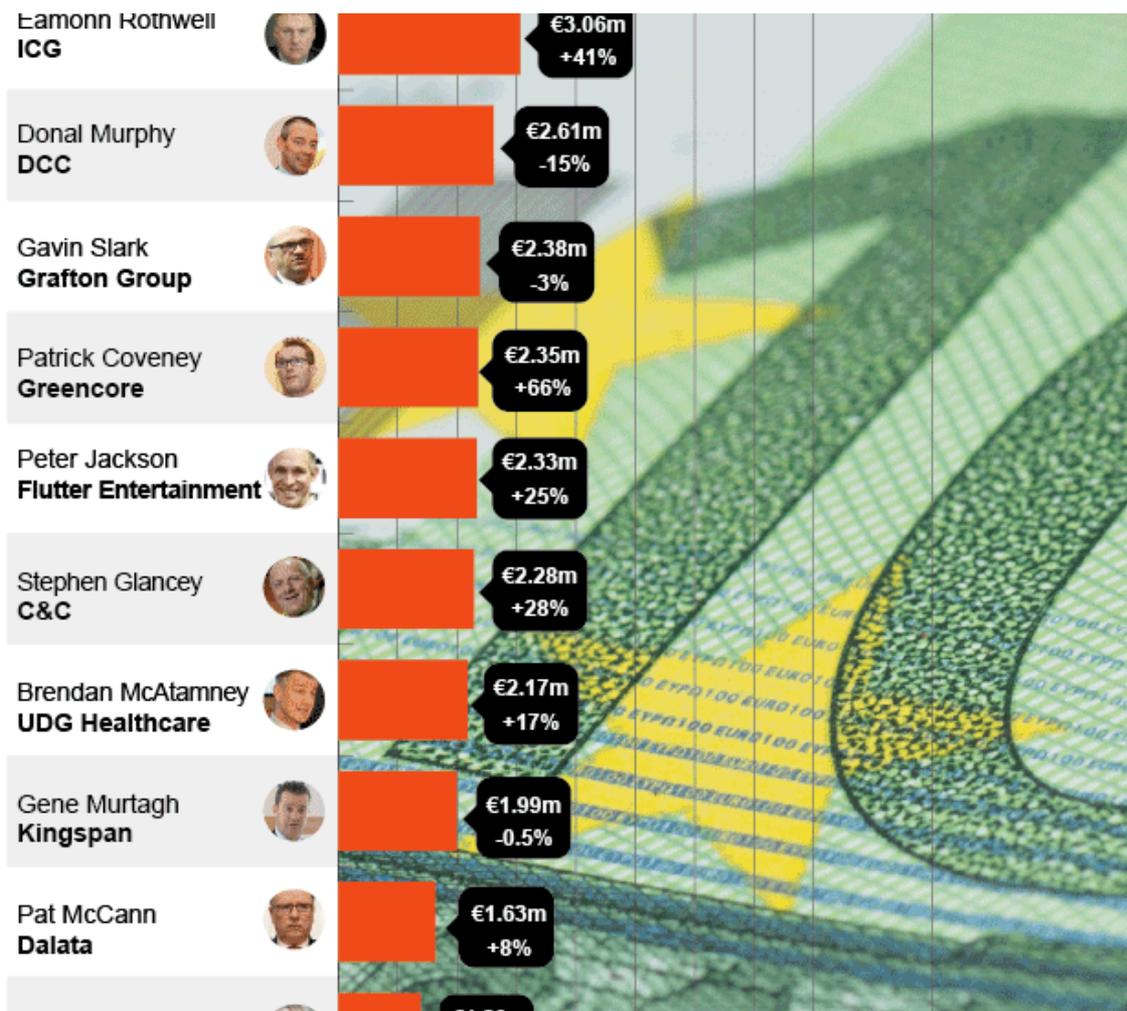
A man with grey hair and glasses on his head, wearing a light pink shirt, is seated in a white chair and speaking. He is gesturing with his hands. The background is a blue-lit stage with some blurred text on the wall.

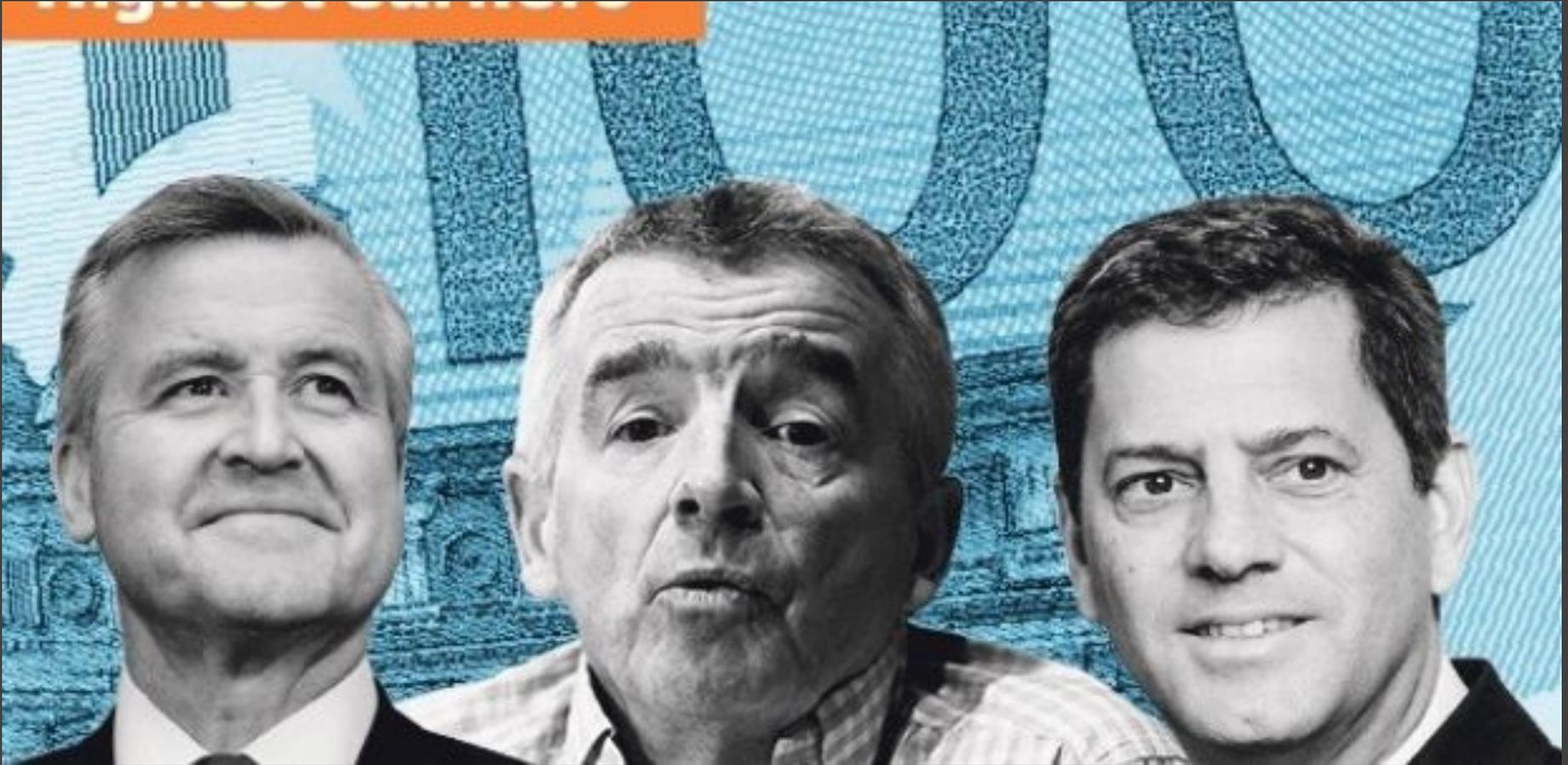
## CEO Pay Levels

The 22 long-standing bosses of the largest Irish publicly-quoted companies saw their pay jump by an average 18 per cent to €2.45 million last year, as global markets rallied and corporate earnings advanced, according to figures compiled by The Irish Times.

Source: <https://www.irishtimes.com/business/pay-for-top-irish-bosses-jumps-18-ahead-of-covid-crisis-1.4329521>

# Ireland's Top Executive Pay





- Top three earners: CRH's Albert Manifold (€8.23m), Ryanair's Michael O'Leary (€3.373m) and Smurfit Kappa's Tony Smurfit (€3.372m)
- Source: <https://www.irishtimes.com/business/economy/ireland-s-top-20-bosses-earn-41-times-more-than-average-employee-1.3990016>



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- Pay for top Irish bosses jumps 18% ahead of Covid crisis.
- Ireland's top 20 bosses earn 41 times more than average employee.
- CEOs have secured collective pay rise of 13% while employee salaries rise just 1.5%

Source: <https://www.irishtimes.com/business/pay-for-top-irish-bosses-jumps-18-ahead-of-covid-crisis-1.4329521>

## CEO Compensation

“Compensation is always a contentious issue and, against the backdrop of the coronavirus, decisions on how to reward executives were thrown into sharp relief. We believe CEOs and boards should lead from the front in these unprecedented times and ‘share the pain’ felt by other stakeholders, including employees, customers, suppliers and the public,” said Hermes EOS, a UK-based proxy advisory firm, in a report sent to clients in recent weeks.

Source: <https://www.irishtimes.com/business/pay-for-top-irish-bosses-jumps-18-ahead-of-covid-crisis-1.4329521>



**What are the factors  
affecting CEO Pay?**



**CEO Pay are been affected by the remuneration package.**

- **Basic Pay**
- **Bonus Schemes**
- **Benefits**
- **Service Package**

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Why are chief executive salaries so high?





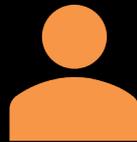
**REWARDING SALES AND CUSTOMER SERVICE STAFF**

# Learning Outcome

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Examine methods  
of rewarding sales  
staff

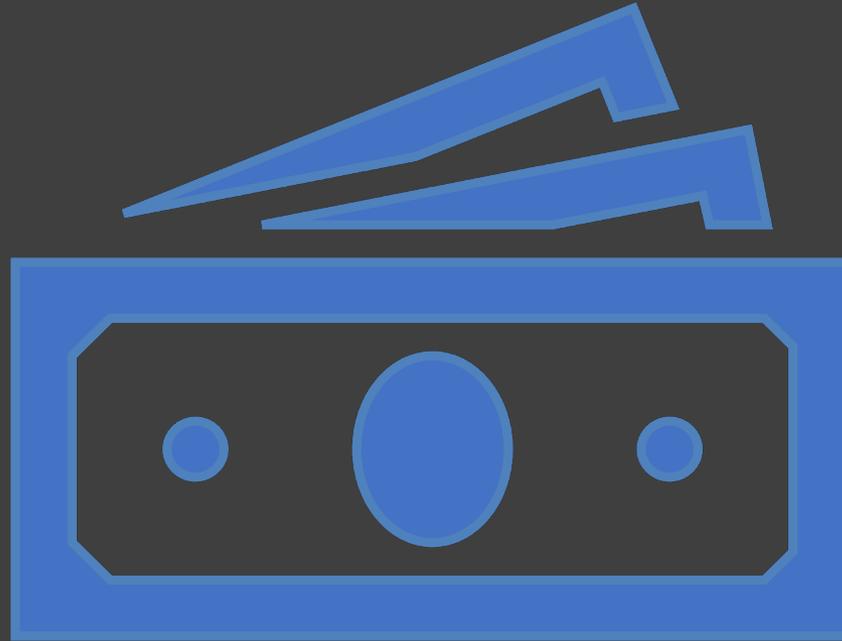


Examine methods  
of rewarding  
customer service  
staff



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| What are the methods for rewarding sales staff?



**The Reward  
Methods are:**

- Salary
- Salary plus commission
- Salary plus bonus
- Commission only
- Additional Non-Cash Rewards

**Other forms of  
Rewards for Sales  
Staff are:**

- Gifts and vouchers
- Competitions
- Cars as perks
- Recognition schemes





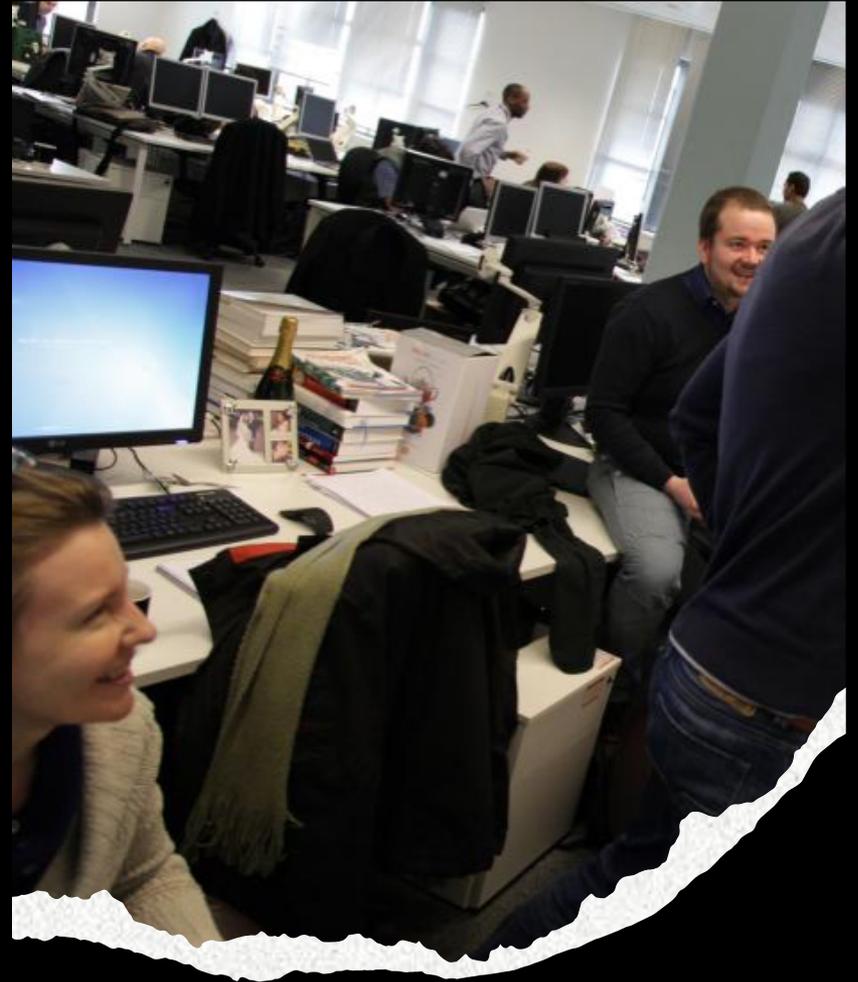
What are the methods of Reward for Customer Service Staff?

Pay structure	Managers	Customer service staff
Grades	6	6
Broad bands	3	3
Individual ranges	4	4
Pay spine	2	2
Pay progression and bonus		
Individual performance-related pay	4	5
Skills/competency pay	2	2
Contribution pay	3	3
Individual bonus	5	6
Team bonus	4	6
Commission	0	1
Profit sharing	2	2

The research conducted by Michael West at Aston University in 2005\* revealed the above pay arrangements for customer service staff.

West, M *et al* (2005) *Rewarding Customer Service? Using reward and recognition to deliver your customer service strategy*, CIPD, London

**How should an organization decide on the best approach to rewarding sales and service staff?**





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## Analyse

- Analyse the business in terms of what is being sold or what customer services are provided to establish what types of people are required.

## Select

- Select the approach to reward that is most likely to motivate the different types of people to deliver results in accordance with the business model.

## Identify

- Identify critical selling and customer service behaviours and capabilities and reinforce them through the reward package.



- Determine the optimum mix of base pay and incentive pay based on selling or service requirements.
- Ensure that incentives and goals are consistent with the business plan.
- Segment the reward package as necessary to reflect the different demands made on members of the sales or customer service teams.



## **Class Activity**

Why do you think sales staff should be offered a different reward package to other employees in the organization?



# Learning Outcome

- Examine what motivates Knowledge Workers
- Analyse the different approaches to rewarding Knowledge Workers

# Who are Knowledge Workers?





Knowledge workers are people whose work requires a marked degree of expertise.

# What Motivates Knowledge Workers?

The four key motivators for knowledge workers are:

- Personal Growth
- Occupational Autonomy
- Task Achievements
- Money Rewards



# Approaches to Rewarding Knowledge Workers

*There are five main approaches to rewarding knowledge workers namely:*

- Total reward policies
- Pay flexibility
- Competency-related pay
- Use of competencies in job evaluation
- Job and career families

## **Class Activity**

Why should knowledge workers be given special treatment?



# Rewarding Manual Workers

# Learning Outcome

- Examine the factors affecting the pay of manual workers
- Analyse the use of time rates and pay structures
- Discuss the types of incentive schemes on the shop floor
- Analyse the factors affecting the use of incentive schemes
- Define the meaning of single status and harmonisation



***What are the Factors affecting the pay of Manual Workers?***

# The main Factors are:

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## ❖ *Time rates*

- Time rates, also known as day rates, day work, flat rates or hourly rates, provide workers with a predetermined rate for the actual hours they work.
- Earnings are predictable and steady.
- They do not provide a direct incentive relating the reward to the effort or the results.



**TIME**  
**OUR MOST**  
**PRECIOUS**  
**RESOURCE**



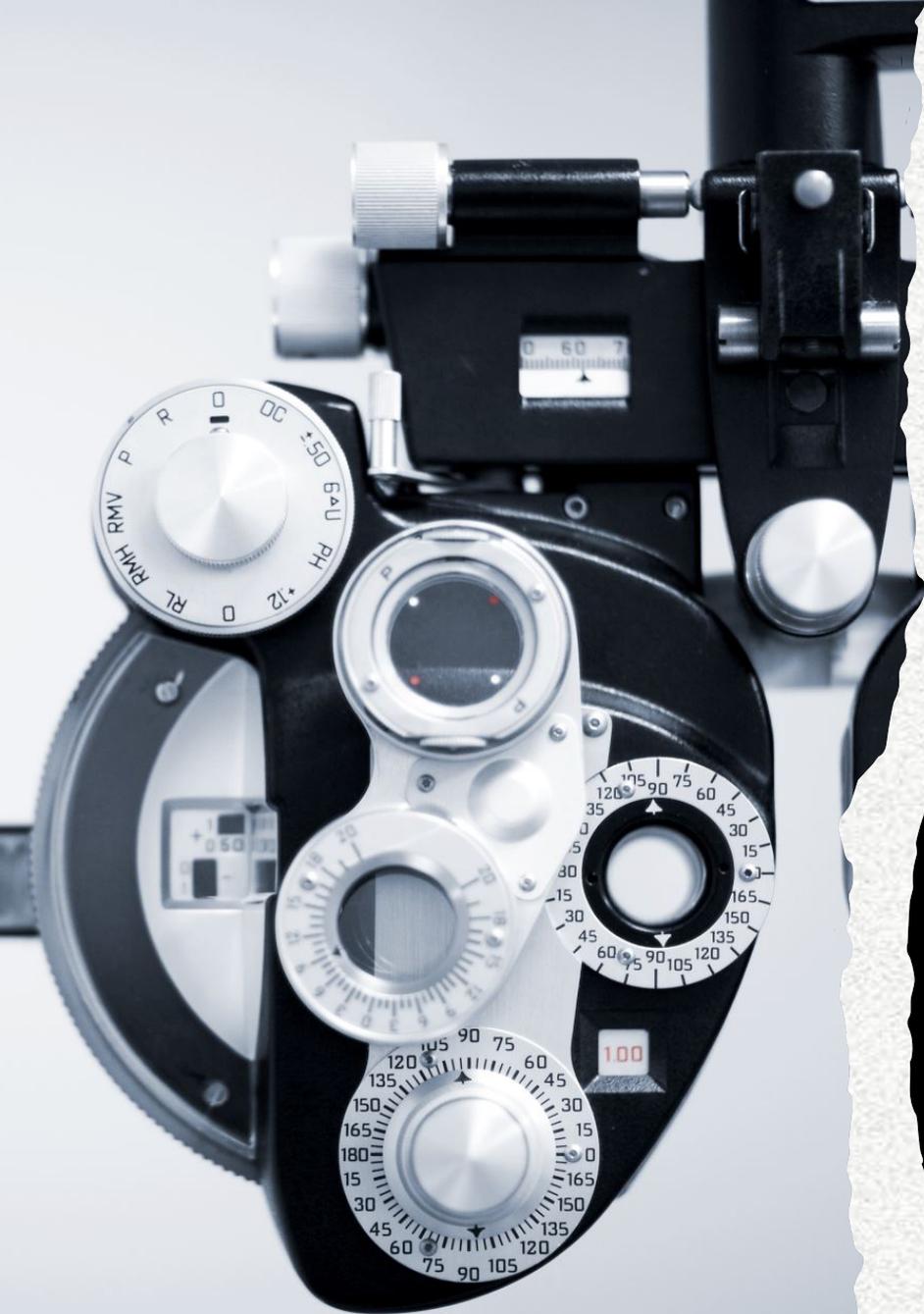
### ❖ *Pay Structure*

- Pay systems for manual workers are seldom graded.
- Time rates are usually paid in the form of spot rates.



### ❖ *Incentives*

- *Payment-by-result* (PBR) schemes, which pay for output, and include piece work, work measured schemes and measured day work.
- *Contingent pay* schemes, which relate pay to performance.
- *Collective schemes* which pay bonuses related to either team or plant performance.



What are the  
criteria of  
effectiveness?



What is the rational for  
Incentive Schemes?

# What are some of the Disadvantages of Incentive Schemes?

***Unfair*** - earnings may fluctuate through no fault of the worker.

- ***Ineffective*** - workers may have their own ideas about how much they want to earn or how hard they want to work.
- ***Penalise skill*** - the more skilled workers may be given the more difficult and often less remunerative jobs.
- ***Cause wage drift*** - earnings can increase at a higher rate than productivity.

# What is Single Status and Harmonization?

- Single status means that manual or shop floor workers on wages are on salaried terms and conditions.
- Harmonization involves the adoption of a common approach and criteria to pay and benefits for all employees.

# Types of Payment by Result Schemes.

Piece work

Work-measured schemes

Measured day work

Performance-related pay

Skills based pay

Group or team basis

Factory wide bonuses



# International Reward Management



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# What is International Reward Management

**International reward management is the process of rewarding people in international or multi-national organisations.**



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## The International Scene

The international scene is composed of international and multinational firms working in the context of globalization.



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# What is the International Reward Strategy?

International reward strategy is concerned with the development of an integrated approach to building reward policies and practices across international boundaries.



How can organisations converge and diverge their rewards strategy globally?

# What are the Guiding Principles of International Reward?

Guiding principles for international reward can be set out under the following policy headings:

- the importance attached to a total rewards approach;
- the use of job evaluation to provide for internal equity;
- the relationship between levels of pay in the local company and local market rates;
- the degree of flexibility present in grade and pay structures;
- the scope for pay progression;
- the importance attached to paying for contribution;
- the use of variable pay – short medium-term and long-term incentives;
- the use of forms of recognition other than pay;
- the use of flexible benefits;



What are the Expatriate Remuneration  
Policies?

# **Expatriate remuneration policies may be based on the following propositions:**

- expatriates should not be worse off as a result of working abroad
- home country living standards should be maintained as far as possible;
- higher responsibility should be reflected in the salary paid (this may be a notional home salary);
- the remuneration package should be competitive;
- in developing the remuneration package, particular care has to be taken to giving proper consideration to the conditions under which the employee will be working abroad;
- account should be taken of the need to maintain equity
- account also has to be taken of the problems that may arise when expatriates are paid more than nationals in the country in which they are working who are in similar jobs:
- the package should be cost effective, ie the contribution made by expatriates should justify the total cost of maintaining them abroad.



# Expatriate Pay

# Approaches to Expatriate Pay

The main approaches to calculating expatriate pay are:

- *Home-based pay*
- *Host-based pay*
- *Allowances*



# **Class Task – International Reward Strategy**

You have received an e-mail from your managing director saying that: While we have a well-developed reward strategy it only deals with Irish conditions. It does not cater for our expanding international interests.

Please outline to me what you believe should be the essence of an international reward strategy for us.

14 May 2020

# Strategic reward and total reward

Outlines the main characteristics of strategic and total reward, from building a business case to designing and implementing a reward strategy across the organisation

## Introduction

Strategic reward takes a long-term approach to how an organisation's reward policies and practices can support its business objectives. The concept of 'total' reward covers all aspects of work that employees value, both tangible and intangible, and may form part of an overall reward strategy.

This factsheet explores the various aspects of designing and developing a reward strategy, from rationale to implementation and gives guidance on the principles to consider. It introduces the various characteristics of total reward (including the elements they may include), before looking at the approaches available, and the advantages and drawbacks of total reward.

## What are strategic reward and total reward?

### Strategic reward

Strategic reward is based on the design and implementation of reward policies and practices that support and advance both the organisation's business and people objectives and employee aspirations.

### Total reward

Total reward covers all aspects of work that are valued by people, including elements such as development opportunities and/or flexible working, in addition to the wider pay and benefits package. Total reward has implications for cultural change as it can focus in part on employee empowerment.

## Links between strategic and total reward

Total reward may form part of a strategic approach to reward for many employers. For example, an organisation might adopt a total reward approach, providing cutting edge learning programmes together with flexible working options, as well as more traditional aspects of pay and benefits, to recruit, retain and engage the staff it needs to secure its business objectives.

The ability to design and implement a reward strategy and a total reward approach is an important aspect of a HR professional's role and it forms part of our [new Profession Map](#).

## The role of strategic reward

### Developing a reward strategy

Deploying strategic reward approaches often involves setting out a formal, written reward strategy, although it's also possible to adopt a strategic approach without the use of such a document.

### Content of reward strategies

In his [Handbook of reward management practice](#), Michael Armstrong has observed that 'reward strategies are diverse and so is the structure used by different organisations to define and present them'. However, four elements are typically included in strategies:

- a statement of proposed reward developments
- a rationale setting out the business case for the reward proposals
- a definition of guiding principles
- an implementation plan.

While varying approaches to strategic pay exist, examples of the type of principles to consider include:

- Designing pay structures and pay progression arrangements that ensure that the values, behaviours, performances and attitudes that the business needs to be successful are rewarded and recognised (for example, linking individual pay progression with those types of performance that are valued by the business such as customer focus).
- Positioning variable earnings carefully against basic pay to encourage appropriate employee performances (for instance, using cash bonuses to drive higher sales levels while also taking account of corporate governance standards, risk and

opportunity management and brand trust).

- Developing a pay policy that's competitive with the external labour market in order to recruit and retain key personnel needed to achieve business success (for instance, paying certain high-performing staff at the upper quartile level when compared with the external labour market) while also taking into account internal market relativities.
- Ensuring both 'vertical' integration of employee reward approaches with business goals (such as developing performance-related pay arrangements to help increase revenues) as well as 'horizontal' integration of reward policy with wider HR policies (for example, ensuring that pay progression arrangements are aligned with an organisation's culture, purpose and mission as well as external factors, such as regulation).

For more on how reward strategies can be supported, see our factsheets on [pay structures and pay progression](#), [performance-related pay](#), [bonuses and incentives](#) and [job evaluation and market pricing](#).

## Putting strategic reward into practice

Although strategic reward – at its simplest, using reward policy to support long-term sustainable business goals – is often taken for granted as desirable, some commentators have highlighted difficulties in translating the theory into organisational practice. [One view](#) concludes that attempts to use strategic pay systems are especially problematic for 'a frustrated and often much maligned pay function and long-suffering line management' and that employers might be better-served taking a risk management, rather than a strategic, approach to reward.

However, the adoption of strategic and risk-based approaches to reward aren't necessarily mutually exclusive. There's more on both approaches to managing reward in our [guide to the pay review process](#).

## Approaches to total reward

By recognising that pay isn't the sole motivator and acknowledging the importance of not only tangible and intangible rewards within the wider context of the work experience, total reward has wide-reaching workplace implications.

As a concept, total reward is not new. As with many management trends, the development originally came from the USA (where the description 'total rewards' is generally used).

## What is included in total reward?

The US organisation [WorldatWork](#) has identified six separate components of the work experience in addition to pay and benefits:

- Performance and recognition.
- Work/life balance.
- Organisational culture.
- Employee development and career opportunities.
- Business strategy.
- Human resource strategy.

Although these components have always existed in the workplace, they've often been taken for granted and managed in isolation. Under a total reward approach, all aspects of the work experience are recognised, and prominence is given not only to remuneration but also to non-financial rewards. This is important since experience shows that employees place great emphasis on intangible rewards when deciding where to work and the level of commitment to give to their job.

Total reward may include some, or all, of the following elements as well as traditional elements of pay and benefits packages:

- Flexible benefits.
- Access to professional and career development.
- Meaningful work.
- Freedom and autonomy.
- Opportunity for personal growth.
- Recognition of achievements.
- Preferred office space or equipment.
- Able to raise matters of concern.
- Involvement in decisions that affect the way work is done.
- Flexible working options, including homeworking.
- Administrative support.

The term total reward can also be used in a more limited way simply to refer to the financial value of the pay and benefits package rather than the value of the total package of financial and non-financial rewards.

## Characteristics

An analysis of various total reward models by Thompson in [Total reward](#), a 2002 CIPD Executive briefing, found that they can be characterised by an approach that is:

- **Holistic:** it focuses on how employers attract, retain and engage people to

contribute to organisational success using a mix of cash and non-financial rewards.

- **Best fit:** it adopts a contingency approach – total reward programmes need to be tailored to the organisation's own culture, structure, work process and business objectives.
- **Integrative:** it delivers innovative rewards that are integrated with other people management policies and practices, such as performance management.
- **Strategic:** it aligns all aspects of reward to business strategy – total reward is driven by business needs and rewards the business activities, employee behaviour and values that support strategic goals and objectives.
- **People-centred:** it recognises that people are a key source of sustainable competitive advantage and begins by focusing on what they value in the total work environment.
- **Customised:** it identifies a flexible mix of rewards that offers choice and is better designed to meet employees' needs, their lifestyle and career stage.
- **Distinctive:** it uses a complex and diverse set of rewards to create a powerful and unique employer brand that serves to differentiate the organisation from its rivals.
- **Evolutionary:** it's a long-term approach based on incremental rather than on radical change.

## Coverage

While private sector employers have tended to be at the forefront of the formal development and adoption of total reward policies, there has been interest in the approach among public sector organisations.

To take one example of heightened interest in total reward in the public sector, there has in recent years been a focus on the non-basic pay advantages of working in the sector, such as high-quality pensions and work-life balance provisions, among the public sector pay review bodies (which recommend pay rises for several groups of public sector workers such as medical staff, teachers and defence staff).

## Advantages and drawbacks of total reward

### Advantages

These can include:

- Helping to attract, retain and motivate employees.
- Meeting both organisation objectives and employee needs.
- Enhancing the reputation of an organisation as an employer of choice through its capacity to place a value on the wider non-financial benefits of working for an organisation.
- Helping the employer better communicate its employee value proposition. Many employees are unaware of the costs to the employer of benefits, such as pensions, which can be very substantial. To overcome this, employers frequently provide individual employees with total reward statements that emphasise the value not only of basic pay but also the wider benefits package and potentially other congenial aspects of employment

## Drawbacks

Research from our Reward management surveys indicates that employers believe they're better at integrating financial aspects (pay and benefits) into a total reward approach than the non-financial aspects. An area of concern revealed by the research is line manager behaviour, with employers expressing concern at how well they've integrated the behaviour of these staff within a total reward approach. Yet, if line managers don't support the organisation's commitment to total reward (for example, over family-friendly working patterns) the approach is likely to fail.

Other potential challenges include:

- Some rewards are easier to provide than others. For example, most employees might prefer a desk located by a window, but office accommodation is a finite and not particularly flexible resource. In such cases, it would often be very difficult to meet everyone's needs.
- Attempting to measure or weigh the value of certain reward against one another – particularly if the aim is to include a numerical or tangible value in total reward statements distributed to employees. Employees can be confused by too much reward choice.
- The need to educate staff by communicating the value of the reward package and what the strategy aims to achieve.
- The danger that the organisation defines the total reward offering with no regard to the needs and wants of its staff.
- The temptation for employers to shift the reward mix from pay to lower-cost

benefits and non-financial rewards.

- Cynicism among some employees that total reward is no more than camouflage for a cost-cutting strategy.

Furthermore, our book [Reward management: alternatives, consequences and contexts](#) notes that there's been a lack of evidence to suggest that this approach improves employee engagement, productivity or well-being. The authors flag that this may be about to change though, citing research looking at the positive impact it can have in recruitment.

## Useful contacts and further reading

### Contacts

[Reward & Employee Benefits Association](#)

[IBEA: The International European Benefits Association](#)

### Books and reports

ARMSTRONG, M. (2019) *Armstrong's handbook of reward management practice: improving performance through reward*. 6th ed. London: Kogan Page.

PERKINS, S.J. and WHITE, G. (2020) *Reward management: alternatives, consequences and contexts*. 4th ed. London: Chartered Institute of Personnel and Development.

ROSE, M. (2018) *Reward management: a practical introduction*. 2nd ed. HR Fundamentals. London: CIPD and Kogan Page.

Visit the [CIPD and Kogan Page Bookshop](#) to see all our priced publications currently in print.

### Journal articles

BROWN, D. (2014) [The future of reward management: from total reward strategies to smart rewards](#). *Compensation and Benefits Review*. Vol 46, No 3, May/June. pp147-151.

DAY, N. (2019) How well do pay and nonfinancial rewards attract applicants to jobs? *World at Work Journal*. Vol 28, 1st quarter. Reviewed in *In a Nutshell*.

FARRAND, L. (2016) Put the scores up on the board: a total reward strategy will enable employees to see the full value of their package. *Employee Benefits*. May. pp18-19.

KUCZMARSKI, S. and KUCZMARSKI, T. (2019) How rewards fuel or fail innovation. *Strategic HR Review*. Vol 18, No 1. pp8-12.

SCOTT, D. and JORDAN, D. (2018) Laying it bare: the business benefits of pay transparency. *World at Work Journal*. Vol 27. Reviewed in *In a Nutshell*.

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This factsheet was last updated by Charles Cotton.

## REWARDING SALES AND CUSTOMER SERVICE STAFF

Method	Features	Advantages	Disadvantages	When appropriate
Salary only	Straight salary, no commission or bonus	Encourage customer service rather than high pressure selling; deal with the problem of staff who are working in a new or unproductive sales territory; protects income when sales fluctuate for reasons beyond the individual's control	No direct motivation through money; may attract under-achieving people who are subsidised by high achievers; increases fixed costs of sales because pay costs are not flexed with sales results	When representing the company is more important than direct selling; staff have little influence on sales volume (they may simply be 'order takers'); customer service is all-important
Salary plus commission	Basic salary plus cash commission calculated as a percentage of sales volume or value	Direct financial motivation is provided related to what sales staff are there to do, ie generate sales; but they are not entirely dependent on commission – they are cushioned by their base salary	Relating pay to the volume or value of sales is too crude an approach and may result in staff going for volume by concentrating on the easier to sell products not those generating high margins; may encourage high-pressure selling as in some financial services firms in the 80s and 90s.	When it is believed that the way to get more sales is to link extra money to results but a base salary is still needed to attract the many people who want to be assured of a reasonable basic salary which will not fluctuate but who still aspire to increase that salary by their own efforts.
Salary plus bonus	Basic salary plus cash bonus based on achieving and exceeding sales targets or quotas and meeting other selling objectives	Provide financial motivation but targets or objectives can be flexed to ensure that particular sales goals are achieved, eg high margin sales, customer service	Do not have a clear line of sight between effort and reward; may be complex to administer; sales representative may find them hard to understand and resent the use of subjective judgements on performance other than sales	When: flexibility in providing rewards is important; it is felt that sales staff need to be motivated to focus on aspects of their work other than simply maximising sales volume
Commission only	Only commission based on a percentage of sales volume or value is paid, there is no basic salary	Provide a direct financial incentive; attract high performing sales staff; ensure that selling costs vary directly with sales; little direct supervision required	Lead to high-pressure selling; may attract the wrong sort of people who are interested only in and not customer service; focus attention on high volume rather than profitability	When: sales performance depends mainly on selling ability and can be measured by immediate sales results; staff are not involved in non-selling activities; continuing relationships with customers are relatively unimportant
Additional non-cash rewards	Incentives, prizes, cars, recognition, opportunities to grow	Utilise powerful non-financial motivators	May be difficult to administer; do not provide a direct incentive	When it is believed that other methods of payment need to be enhanced by providing additional motivators

## Summary of Types of payment-by result schemes

Scheme	Main features	For employers		For employees		When appropriate
		Advantages	Disadvantages	Advantages	Disadvantages	
Piece work	Bonus directly related to output.	Direct motivation; simple, easy and to operate.	Lose control over output; quality problems.	Predict and control earnings in the short-term; regulate pace of work themselves.	More difficult to predict and control earnings in the longer-term; work may be stressful and produce RSI.	Fairly limited application to work involving unit production controlled by the person eg agriculture, garment manufacture.
Work-measured schemes	Work measurement used to determine standard output levels over a period or standard times for job/tasks; bonus based by reference to performance ratings compared with actual performance or time saved.	Provides what appears to be a 'scientific' method of relating reward to performance; can produce significant increases in productivity, at least in the short-term.	Schemes are expensive, time-consuming and difficult to run and can too easily degenerate and cause wage drift because of loose rates.	Appear to provide a more objective method of relating pay to performance; employees can be involved in the rating process to ensure fairness.	Ratings are still prone to subjective judgement and earnings can fluctuate because of changes in work requirements outside the control of employees.	For short-cycle repetitive work where changes in the work mix or design changes are infrequent, down time is restricted, and management and supervision are capable of managing and maintaining the scheme.
Measured day work	Pay fixed at a high rate on the understanding that a high level of performance against work-measured standards will be maintained.	Employees are under an obligation to work at the specified level of performance	Performance targets can become easily attained norms and may be difficult to change.	High predictable earnings are provided.	No opportunities for individuals to be rewarded in line with their own efforts.	Everyone must be totally committed to making it work; high standards of work measurement are essential; good control systems to identify shortfalls on targets
Performance-related pay	Payments on top of base rate are made related to individual assessments of performance.	Reward individual contribution without resource to work measurement; relevant in high technology manufacturing.	Measuring performance can be difficult; no direct incentive provided.	Opportunity to be rewarded for own efforts without having to submit to a pressured PBR system.	Assessment informing performance pay decisions may be biased, inconsistent or unsupported by evidence.	As part of a reward harmonisation (shop floor and staff) programme; as an alternative to work measured schemes or an enhancement of a high day rate system.
Skill-based pay	Payments for acquiring and using new skills.	Encourage skills acquisition.	May pay for skills not used.	Scope to develop.	Proper training may not be available.	Where skills requirements are exacting.
Group or team basis	Groups or teams are paid bonuses on the basis of their performance as indicated by work measurement ratings or the achievement of targets	Encourage team co-operation and effort; not too individualised.	Direct incentive may be limited; depends on good work measurement or the availability of clear group output or productivity targets.	Bonuses can be related clearly to the joint efforts of the group; fluctuations in earnings minimised.	Depend on effective work measurement, which is not always available; individual effort and contribution not recognised.	When team working is important and team efforts can be accurately measured and assessed; as an alternative to individual PBR if his is not effective.
Factory wide bonuses	Bonuses related to plant performance –added value or productivity	Increase commitment by sharing success	No direct motivation.	Earnings increased with out individual pressure.	Bonuses often small and unpredictable.	As an addition to other forms of incentive when increasing commitment is important.