

Assignment

Human Resource Management

“Evaluate the contribution that individual reward systems can make to the achievement of competitive advantage”

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Introduction

If you take for example two companies with the same financial resources and the same technology, it's the people who make the difference. For that reason the employees are now viewed as a valuable resource and the key to economic success, which if managed will contribute competitive advantage. One way of using the key properly is the implementation of an efficient reward system based on the specific needs of the organisation.

There is a move away from a mere pay function to a HR-function and "a strong will among HR professionals to align reward strategy with their organisation's business strategy" according to Bevan and Corkerton (1998). Therefore lots of companies rethink their reward system, also due to new influences rising from the "new pay"- thoughts.

The need to take changes of pay strategies into consideration is reinforced by the phase out model of the British government's profit-related pay at the end of 1999, which has guaranteed big tax relief up to now. Around three million employees in the private sector have part of their salary paid to them under profit-related pay due to the tax-effect, as Townley (1998) points it out. Therefore it's time to present other important reward systems and evaluate the contribution of them to the achievement of competitive advantage.

Performance-related pay (PRP)

One goal of reward systems and HRM in general is the achievement of financial flexibility, where the organisation tries to adapt its labour costs to its financial situation. In theory PRP should be self-financing due to the additional value produced by the employee, so PRP could be a way to reach that goal. This approach shall improve the individual's and thus the organisational's performance by means of rewards and shall create a performance based culture. A survey in 1991 (Marchington & Wilkinson 1997 p.325) found that two-thirds of organisations has PRP for white-collar staff and it was becoming popular for the shop-floor staff as well. Yet PRP, which was regarded as a panacea, experiences more and more criticism, as I will describe.

The main features of PRP are the setting of objectives, the judgement of performance and finally the reward. In Dowling's & Richardson's survey of the NHS (1997) they found out that most of the managers asked were motivated through clear objectives, as the objective setting and the review give an opportunity for the employer to clearly define what's expected of the employee. Furthermore they felt the objectives challenging but reasonable. That was not the case at Barclays Bank, when the management introduced their PRP-system. They wanted to shift from the traditional system that mainly rewarded long service and seniority to a system that recognises achievements. But the targets were set too high so that the system would be counterproductive if employees perceived it as unjust, according to Duncan Brown in Walsh's report (1997).

The second feature in judging the performance is one of the biggest problems, particularly in the public sector like in a police office or hospital, where one cannot for example spur on sales. In addition as Kessler and Purcell stated 1993 assessors could be subjective and establish criteria to different employees in an inconsistent way and assessors are reluctant to mark people too high or too low (Armstrong 1996). This can be backed up

through the NHS-survey (Dowling & Richardson 1997), where 67 per cent of those asked thought there was a significant degree of subjective judgement in the making of PRP-awards. This could amount to a refusal of this system on the part of the employees, which wouldn't improve the motivation and performance and thus the aim of this pay-system wouldn't be reached.

Another critical development was pointed out by Kohn in 1993 (Harvard Business Review Book 1997 p.15-24) as he said the company runs the danger of encouraging self-interest instead of organisational commitment and that is a fundamental PRP dilemma. Reinforced was his opinion by means of a report by Marsden and French, who researched 1200 Inland Revenue staff in 1996 (Donkin 1998). They found that 63 per cent became less willing to help colleagues, focus on their own interest, and they believed it causes jealousies between staff. This is a serious problem, because a lot of companies have created flat and delayed organisations within an TQM approach to improve the product quality and the customer satisfaction, thus to achieve competitive advantage. But TQM requires considerable teamwork like in problem solving groups or autonomous work groups, so that some payment systems, which emphasise individualism, are in conflict with it.

For that reason some companies have begun to reassess their PRP arrangements (Donkin 1998). Instead of abandoning the PRP principle, many are realigning it to team performance rewards. With such a reward system the organisation communicate the message that one of the core values is effective teamwork, so the behaviour and attitude of the employees is more likely to be changed slowly. A further contribution of team rewards is the willingness of team members to work flexible within their authority and to become multi-skilled and more competent in order to achieve team targets. Lastly this system can encourage less effective performers to reach the team standard or they are encouraged to do it by team members. Yet vice versa above standard performers could be demotivated due to their feeling to work harder than others without additional reward.

Skill-based pay

This pay system links the employee's pay progression to his skills, which are useful for the company's goals. The often-cited competency-based pay is wider, as it incorporates behaviour and attributes rather than simply skills alone and is therefore more likely to be applicable at a managerial level.

Both schemes have one characteristic in common.

They evaluate the person rather than the job, what is getting more and more popular according to Sparrow (1996). The scheme encourage employees to achieve more abilities, so they are not only employable for one particular job, but increase the functional flexibility by means of their multi skills. Employees can be transferred between different parts of the organisation in order to follow promptly changes in market demand. Multi-skilling is especially necessary where teamwork is predominant like in flat and delayed organisations, because they need the skills to help out each other for example in case of illness.

Companies can also achieve a numerical flexibility by means of having a core multiskilled workforce and additional employees in case of business peaks, who could be made redundant more easily. As a survey by Income Data Services of 1992 mentioned by Armstrong (1996 p.284) shows, "all the contacted companies were able to function with a leaner, more efficient workforce than it would have been possible under more traditional job-based systems."

Multiskill is not only required where teamwork occurs, but also where employees work on their own in a constantly changing environment like it is illustrated by Hiltrop and Sparrow (1994 p.541), who describe the reward system of Northern Telecom. Due to permanent new product technologies the field technicians were encouraged to keep their skills current by means of new skill-based pay. Within two years the customer satisfaction had increased.

As described skill-based pay can increase the company's flexibility and the customer satisfaction through better quality whether in products or services. Furthermore the empowerment of the staff may have a positive influence on the job motivation in general, thus it could help the company to retain their competent staff and increase the performance.

Nevertheless there are not only advantages. There is little evidence that this system is self-financing. According to Armstrong (1996 p.287) the payroll cost will rise inevitably, because individuals won't be using all their skills at the same time and some not at all, but the company is paying for them regularly. Employees may also be demotivated, if they reach the top of the skill hierarchy. The latter problem can be solved by means of an additional reward linked to the performance or a company should only introduce this system, where constantly new skills are required like at Northern Telecom. In case of competency-based pay, there is the serious problem of assessing soft skills like teamworking or leadership ability, so that the assessment could be perceived as subjective and unfair and thus it would be demotivating.

Cafeteria Benefits

According to Measures (1998) "flexible benefits schemes has been the key development of the past five years." Under this type of scheme up to 20 per cent of salary is turned into a flexible fund. Employees can select their benefits within this allocated budget but they need not to use it.

How could this system be an advantage for the employer?
All reward systems embody assumptions about attracting, retaining, and motivating people. Motivation, however, is a highly personal concept, and therefore reward policies need to be flexible and should provide individualised packages. The following quotation of Derek Robinson mentioned by Bradley (1997) expresses the key statement clearly. "It is the fish who decide the bait, not the fisherman. We need to ask the fish what it would prefer to nibble."

Someone who must pay a mortgage might prefer money whereas someone without commitments may choose a faster car or additional holiday. Employees have increasingly diverse needs and flexible cafeteria benefits can increase the perceived value of the individualised package, without necessarily increasing costs. It is even possible to reduce costs because flexible pay offers the potential for significant savings for example through bulk buying and group discounts of products, which are given to the workforce (Townley 1998).

Difficulties with such a scheme are the complex administration involved, which could be costly. Each benefit must be accurately costed for inclusion in the menu and must be maintained. As Armstrong (1996) points out, “the greater the opportunity to make choices, the greater the potential complexity and the administrative burden.” Those misgivings towards this scheme are backed up by a study of Arthur Anderson mentioned by Mullen (1998), where 289 companies were surveyed and just ten per cent had adopted flexible benefits. The rest regarded it as too expensive or difficult to manage. However it is getting easier according to Mullen (1998), as much of the administrative burden can now be handled by sophisticated software developed recently. Alcatel Telecom for example placed electronic kiosks in the workplace in which staff can monitor or modify their benefits easily. Yet the company needs to invest lots of effort and money to inform people about the change of the pay-system in order to be accepted by the employees. This could be done by means of a flexible benefits guide, face to face communication or telephone helpline like it was done by the Birmingham Midshire Building Society (Arkin 1997).

The scheme seems to be a great opportunity to involve employees in decisions affecting their pay. As we can see the contribution of this scheme to achieve competitive advantage is big, as it helps to attract and retain staff, and the company shows commitment to the needs of employees. According to HR project leader Claire Pulley of the Birmingham Midshires Building Society, which has recently introduced flexible benefits, the scheme has the

potential to improve motivation and well-motivated and satisfied employees have a direct effect on business performance (Arkin 1997).

Non-financial rewards

It is worth considering whether money is the a motivator at all for people to work. An extreme opinion was represented by Taylor, who was convinced that employees are basically lazy and must be motivated through money as an extrinsic reward. As opposed to this Herzberg regarded money not as a motivator but unless the money doesn't meet the employees' expectations, real intrinsic motivators like recognition, responsibility and personal growth are of little use (Armstrong 1996 p.43).

HR-manager should be aware of the fact that money is of course one main reason to work, but in order to increase the performance through motivation the debate over reward needs to be elevated beyond levels of pay according to recent findings in the Towers Perrin Workplace Index (Donkin 1998). The survey discovered that US-employees regard skill development and career prospects as a very important criterion for a workplace. To underpin the importance of intrinsic rewards the essence of 50 surveys conducted by the Institute for Employment Studies is that only ten per cent of people leaving an employer cited pay dissatisfaction as their main reason and mentioned the work itself among other things (Bevan 1997).

The question is how can a company put the knowledge about intrinsic reward into action in order to achieve theirs advantages?

In terms of responsibility much is already done. Self-directed workteams in delayered organisations give employees a feeling of being able to influence decisions. The need of personal growth, also mentioned by Maslow in his hierarchy of needs, can be satisfied by for example providing training facilities, job rotation or job enrichment. As Armstrong (1996 p.323) points it

out, if this is linked with for example a skill-based pay system the motivation and thus the performance can be considerably increased. In terms of recognition Maslow mentioned the need to have the respect of others and Bill Gates underpins the statement by saying that “prestige is the most important reward factor” (Wheatley 1996). Non-financial recognition can be easily achieved by means of for example positive and immediate feedback, through listening to and acting upon suggestions of employees and acknowledging of their contribution or through allocating the employee to an important project.

As a conclusion one can say that non-financial rewards are powerful as it may have a longer-term and deeper impact on motivation. Extrinsic and intrinsic rewards combined in a reward system can therefore contribute significantly to the achievement of competitive advantage.

Share Schemes

Share schemes and share option schemes were exclusive rewards for directors for a long time, but at least usual share schemes are becoming a standard element in the package for all employees according to Landon (1998). Also Armstrong (1998) regards ownership, financial involvement and participation as a main development incorporated in the reward strategy. Like profit-related pay or gainsharing schemes it provides an opportunity for employees to benefit from the economic performance of the organisation.

But as Hiltrop & Sparrow (1994 p.530) point it out, it may not be highly effective as an incentive tool because only senior executives can normally influence the share price significantly, so employees often regard them just as useful extras. In times of a weak and declining stock market it can be also demotivating.

Apart from that the advantages are that employees are not only involved in the organisation with their manpower but also financially, which can increase the sense of belonging and identity between the employee and the interest of the company. For that reason Kimberly-Clark has launched one of the biggest employee share-option scheme for 51.000 employees, which they call loyalty scheme (Walsh 1997). These schemes also provide a financial incentive to stay as rights are normally forfeited if the employee leaves the company (Landon 1998). The ability of recruiting and retaining key staff through an attractive share-option scheme is the main reason, why KPMG is seriously considering to float 20 per cent of its worldwide consultant division according to an report of The Times (1998).

Reward in an international context

Due to the globalisation of business almost every big company has daughter companies abroad, has merged with another foreign enterprise or works in joint ventures. In order to achieve the same objectives with reward systems, as mentioned previously, the HR-Manager and designer of motivation systems need to know the differences in cultural values and must understand the preferences of local employees in foreign countries. Fisher and Yuan (1998) pointed out that foreign managers might miss the mark in the host country, if they import unexamined beliefs about employee reward preferences from their home country. The following shortened table of a ranking illustrates the differences clearly (Fisher & Juan 1998). One means very important and ten not important at all.

Item	Chinese workers	US workers	Taiwanese workers	Russian workers
Interesting work	7	1	5	3
Feeling of being well informed and involved	10	3	8	2
Good wages	1	5	2	10

Knowing for example that US-employees prefer interesting work, the manager could consider job redesign or job enrichment in order to improve motivation, whereas money could be more successful for Chinese employees.

Nevertheless one should not forget that work values cannot be expected to be stable, when for example an economic system like an Asia is undergoing change.

Conclusion

The HR-Manager has a wide range of reward systems, whereby competitive advantage can be achieved for the organisation. The main objectives of those systems are to motivate employees and to achieve the goals of HRM like commitment and involvement of employees, quality improvement, functional and financial flexibility and attraction and retaining of the “right” people. Therefore the reward package is more than just a payment system, it should be used within the strategic management to achieve organisational goals. According to Brown (1998) 70 per cent of the companies have already developed an explicit strategy, agreed at board level.

The introduced reward systems are in no fixed order and as the Institute of Personnel and Development (1996) points it out, “there is plenty of room for choice, and the mix will depend upon the particular needs, circumstances, and culture of the organisation.” One example of such a mix is illustrated by the Aid Association for Lutherans (Hiltrop & Sparrow 1994 p.529). This enterprise combines a base wage with an individual and team incentive program and adds a skill-based pay program as well. After all, they have increased their productivity by 40 per cent within five years after implementation.

As one final concluding point, managers should bear in mind Kerr’s equation “Ability x Motivation = Performance” stated in the Harvard Business Review Book (1997 Introduction). According to this formula reward systems should always be analysed to what extent the two factors are influenced in order to achieve competitive advantage.

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