

# PART ONE

In Part One we introduce the volume and our rationale for it, and then engage with concepts, theory and the institutional context for reward management alternative approaches and consequences. We review the range of theory that informs ideas and practice on reward management, to help students grasp frameworks likely to be of assistance when addressing subsequent aspects of the book's coverage. We devote a chapter to issues that help locate contemporary reward management systems within institutional contexts.

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# 01

# Introducing the reward management system

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## **LEARNING OUTCOMES**

At the end of this chapter you should understand and be able to explain the following:

- definitions of employee reward and its management through the medium of the 'effort bargain', mindful of managerial approaches advocated as part of a 'new organisational logic';
- alternatives and consequences for managing employee reward, conceptualised in 'systemic' terms accounting for multiple contextual levels for situating 'effort-reward' bargaining;
- the structure of the book and how to use it to grasp concepts and themes intended to help navigate this complex and contested field of study.

## **CIPD REWARD MANAGEMENT MODULE (7RWM) LEARNING OUTCOMES**

Learners will be able to:

- 1 Analyse the relationship between the environment, strategy and systems of reward management.

**2** Explore the conceptual apparatus and theoretical debates informing reward management.

**3** Critically evaluate key issues in reward management.

Please see the full list of module learning outcomes and how they relate to each chapter in the CIPD qualifications map on page 00.

In this introduction we set the scene for readers. Our mission is to provide a systemic framework to guide those learning about and practising ‘reward management’ (defined below) to gain insights into what’s involved and how to approach an area of people management that is as complex as it is fascinating. As media headlines daily attest (*Issues in reward management 1.1*), people who deal in pay determination seem to regularly disappoint. This is in spite of the welter of analysis from academics and advice from popular commentators. Why the disjunction? One likely culprit is the potentially bewildering array of reward management alternatives to consider. And like any other area of people management, while on the face of it self-evident, it’s worth remembering that the focus of attention is *people*. People – managers and employees – in all their diversity interpret and act on their impressions of the world of work and organisations and ways of bringing order to these socio-economic institutions, influenced, in turn, by their unique character and situation.

While numerous attempts have been made to do so, and managements and other stakeholders may judiciously seek to minimise risk of error, the consequences are not easily predicted. Also, like the people who populate them, the contexts for work and organisation are varied and continuously evolving.

Patricia Zingheim and Jay Schuster, US-based authors and management consultants, use the phrase *Pay People Right!* (2000) as a rallying cry to employers to ensure that reward management systems are fundamentally in alignment with their organisation’s strategic goals. Subtling the volume ‘breakthrough reward strategies to create great companies’, they also argue that ‘pay is a powerful communicator of values and directions’ (xv). This commentary (referred to as a ‘normative view’, ie advocating the use of specific reward plans and practices on the basis that choosing these will achieve managerially desired outcomes) builds on a similar line of reasoning by the same writing team a decade earlier. *The New Pay* (Schuster and Zingheim, 1992) popularises the work of Edward E Lawler III, Distinguished Professor of Business at the University of Southern California, who writes the foreword.

Schuster and Zingheim (1992) open this book with a statement similar to the one in their 2000 volume: ‘Pay programs are visible and powerful communicators of organizational goals, values and priorities’ (xv). Those responsible for managing employee reward are told they need to answer one question only: ‘How can we find ways in which the workforce can share in the organisation’s success?’ This is juxtaposed with a ‘straw man’ teaser: ‘Do we wish instead to offer employees anxiety, lost trust and discontent?’ Reward (generally referred to in the USA as ‘compensation’) is put forward as ‘the accelerator pedal for an enterprise to speed the business process and success’, a means of making ‘company performance initiatives... real’. It is ‘part of the formula people look for’ when evaluating whether or not to work for an employer (and by extension whether to stay with it and to work in ways

aligned with the employer's expectations). The authors provide what they describe as a 'road map' metaphorically to help users navigate towards attainment of the 'great company' promised in the subtitle of their 2000 book.

We share the view that the choices employers make between the reward management alternatives open to them – explicitly and implicitly – have the potential to signal managerial priorities and intentions to all stakeholders in formal organisations. That includes at least implicitly communicating the assumptions shared by organisational leaders and those to whom they are accountable (whether these are governments, private investors or trustees) regarding the role and nature of the people wanted to perform work to fulfil the corporate purpose and the basis on which value created will be distributed.

More recently, corporate governance developments (discussed at some length in Chapter 10) have produced a requirement for boards of directors to ensure that reward management policies and practices 'should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy' (ERC, 2018: 13). The board is required additionally to state how employment conditions (including rewards) applicable to other employees in the organisation have been taken into consideration when setting 'top pay', including whether and how employees other than directors have been consulted when drawing up policies for executive director reward management, making reference to any comparative indicators setting the overall context for this corporate activity (KPMG, 2013). From being a confidential activity in the past, reward management at all levels of the organisation has become a matter subject to transparency demands.

The term 'reward management' itself is significant, implying an *active* role for employers; not one in which external forces of supply and demand in jobs and workers regulate employment. We will see in the next chapter, when we discuss theoretical approaches to help evaluate reward management ideas and action, that thinking varies over the role (if any) for line managers in determining wages and other payments to people related to employment. Caution is needed to avoid reading too much in to rhetorical statements to the effect that adopting the 'right' reward practices will produce outcomes that are equally universal in the perceived benefits to the various parties. Even Zingheim and Schuster add the caveat that their reward-business process accelerator 'isn't a quick fix' (2000: xvi). They suggest that: 'Much of the popular literature on management... avoids issues of pay, perhaps because it's harder to address than many of the gentler and less powerful change tools' (2000: xvii). Note here the implication that reward management is associated with progressiveness: travelling from one organisational state to another. Critics such as Heery (1996), long sceptical of 'new pay' discourse (ie writing intended to persuade the reader to a particular world-view, not one shaped by a plurality of interests and contexts), have argued that advocates' practices may be associated with psychological outcomes of the very sort Zingheim and Schuster (2000), for example, say they wish to eradicate: in particular a sense of personal anxiety when faced with pay that remains permanently 'at risk'.

The remainder of this introductory chapter is organised to satisfy three main objectives. First is to clarify meaning(s) attached to employee reward management and the links with relations around employment, accounting for the chosen orientation(s) towards the workforce. Second, to scrutinise repeated references to 'reward systems', and then to appraise the utility of long-standing 'systems' thinking to help assemble and interpret material on the alternatives, consequences and contexts for

employee reward. Third, it fleshes out the ‘book plan’ diagram (page 000) to outline the structure and content of the subsequent three parts arranged over another 11 chapters making up this fourth edition.



## ISSUES IN REWARD MANAGEMENT 1.1

### Reward dispersion

‘The gulf between pay at the top and bottom end of companies... undermines public trust in business,’ Peter Cheese, Chief Executive, CIPD. ‘It is naïve to suggest that what you are paying people at the top has no impact on what’s left for low and middle earners in the business,’ Luke Hildyard, Director of the High Pay Centre.

(FT, 2019c)

### Salaries and sex

‘We need to challenge our blind acceptance that women’s work is less valuable than men’s work. We have to accept that real and lasting cultural change is required if we are going to achieve and sustain gender equality in our workplaces and in society more broadly,’ says Workplace Gender Equality Agency Director Libby Lyons, following a report in August 2019 by KPMG, *She’s Price(d)less: The economics of the gender pay gap*, where almost two-thirds of the gender pay gap is attributed to discrimination and unconscious bias, all other factors being equal between men and women. Using a data set from Australia, the finding is that since 2014 the influence on the gap has worsened.

(Martin, 2019)

### Pensions in dispute

‘The University and College Union, representing about 51,000 members of the Universities Superannuation Scheme, has been in dispute with employers since November 2017, when they announced an intention to withdraw the guaranteed pensions offered to university staff as part of their reward package. Traditional “defined benefit” pensions, which promise beneficiaries financial security in retirement, were said by the employers to have become unaffordable. More risky defined contribution schemes were proposed, where pension values in payment depend on stock market performance. Universities “were forced to drop this proposal [in 2018] following the biggest wave of industrial action on university campuses in decades”. In summer 2019 with the matter still unresolved, UK universities are facing a fresh threat of industrial action by tens of thousands of union members.’

(FT, 2019d)

### A Brexit festival?

'Uncertainties around the UK's exit from the EU were reported to have caused the organisers of the Edinburgh International Festival to resort to currency hedging as global artists were "no longer willing to be paid in volatile sterling". Almost 3,000 artists from 41 countries are being recruited to appear in around 300 performances at the festival, which operates a budget of some £13m. Reward for artists involved has had to be done in euros and dollars. There's a certain irony given the theme in 2019 of migration; the festival is said to have been set up to promote internationalism.'

(FT, 2019e)

All the above stories were published in the business media in August 2019. Just looking at stories like these in a single month's business media coverage provides a host of examples that, when examined, help reinforce a sense that reward management, whatever else it may be, isn't easy. And however ideas may be put forward as 'solutions' to reward problems, the astute HR professional will appraise such abstract commentary with a critical eye. Effort–reward bargaining as a socio-economic process requires people to work it out. That may be through formalised negotiations in collective settings with intermediaries acting for management and workforce; or in day-to-day interactions between the supervisor seeking to motivate one or more subordinates to 'perform' to achieve the supervisor's goals; or even for the individual working out mentally what and how much to do. It also involves a diverse array of stakeholders making judgements and drawing their own conclusions for how reward management outcomes impact on their own interests. To guide critical (reflexive) thinking about the diverse range of reward management 'issues', Chapter 2 summarises the work of theorists from a variety of disciplines that we argue help interpret problems and help frame and act on practical solutions HR professionals are expected to craft and advise on.

## 1.1 Locating ideas and practices around reward management

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Looking at the basics, we briefly discuss the terms 'employee reward' and 'reward management'. Employee reward represents one of the central pillars supporting the employment relationship (Kessler, 2005). As illustrated in *Issues in reward management 1.1*, its management is likely to influence the character and quality of that relationship and its outcomes.

## DEFINITIONS

Employee 'compensation', 'remuneration' or 'reward' (terms that may be used interchangeably in the literature) may be defined as 'all forms of financial returns and tangible services and benefits employees receive' (Milkovich and Newman, 2004: 3).

'Work under an employment relationship is undertaken in return for pay' (Rubery and Grimshaw, 2003: 12). But the nature of this '*exchange* relationship' (Steers and Porter, 1987: 203, emphasis in original) implies more than an economic transaction.

Classically, employee reward and its management may be perceived as an 'effort-bargain' (Behrend, 1957; Baldmus, 1961) between the parties to the employment relationship, needing to be continuously renewed on either side.

Employee 'reward(s)' may, however, be differentiated between:

*extrinsic*, tangible or 'transactional' reward for undertaking work in employment, on the one hand, and

*intrinsic* reward derived from work and employment, on the other hand.

Extrinsic reward – in the form of salary, incentive pay and benefits – serves the purpose of directly recognising the comparative value of organisational roles and the contribution individuals may make in performing them. Extrinsic employee benefits and 'perks' delivered in a non-cash form (eg company cars, paid holiday and healthcare), or 'deferred remuneration' (eg predefined occupational pension benefits or equity share-based rewards that may be financially realised at a future date), may reflect managerial efforts to keep rewards competitive, intended to recruit and retain sufficient employees of the right calibre, and to secure work accomplishment for the organisation. Benefits may also reflect an employer's interest in employee well-being. The nature and combination of extrinsic reward is dynamic: for example, present-day contributions to an employee's 'portable' retirement income fund (or 'defined contribution' pension scheme) may be offered in place of a 'company – defined benefit – pension', reflecting the increasingly 'flexible' employment relationship. We discuss such complexities in Chapter 8 on pensions.

Intrinsic reward may be further subdivided (Kessler, 2001). On the one hand, 'environmental rewards' may be manifested in the physical surroundings in which work is performed, combined with other factors, such as the values displayed in the workplace by organisational leaders and work supervisors, and perceptions of their leadership quality. On the other hand, 'development-oriented rewards' that tend to be more individually directed may be offered to recognise employee aspirations to receive learning and development opportunities, and to gain acknowledgement of outstanding work and build feelings of accomplishment – wherever possible consolidated tangibly through career advancement (Milkovich and Newman, 2004). It is argued that extending the features of employee reward beyond those specified in



the ‘economic contract’ may help to secure employees’ discretionary effort (Wright, 2005: 1.2.2). This ‘intrinsic’ or ‘psychological’ contract in work relationships (Levinson *et al*, 1962; Schein, 1965; Rousseau, 1995) forms the basis of the ‘total reward’ proposition (see Chapter 9).

## 1.2 Employee reward levels versus ‘labour costs’

Pfeffer (1998) sought to correct what he termed certain myths that he suggested managers may incorrectly embrace in thinking about rewarding people employed in organisations. He was at pains to point out that *rates* of employee reward are not the same as the *costs* of employing someone. It is possible to pay higher rates of reward to employees compared with a competitor and yet have employment costs – as a proportion of the total costs of running an organisation – that are relatively lower. The key ingredient is *productivity* – that is, what the employer is able to achieve in terms of efficient and effective output from the workforce for each component of a person’s capacity to work. Labour costs will also vary depending on whether the organisation is capital or labour intensive.

Pfeffer (1998) gave as an example the comparative position of two steel mills where one pays higher wages than the other but keeps the overall cost of employment at a managerially acceptable level by requiring significantly fewer person-work hours to produce a similar amount of steel. He added that those managers who subscribe to the first ‘myth’ tend to embrace a second misconception – that by cutting salary and wage rates they can reduce their labour costs. However, as he argued:

I may replace my \$2,000 a week engineers with ones that earn \$500, but my costs may skyrocket because the new lower-paid employees are inexperienced, slow, and less capable. In that case I would have increased my costs by cutting my rates.

(Pfeffer, 1998: 110)

The problem, as perceived in Pfeffer’s (1998) terms, implies the need for managerial interventions – active engagement to ensure that not only is employee reward specified and determined. Management is also required to ensure all parties interested in the effort–reward bargain understand what intentions follow from what is on offer and what this implies in what will be rewarded, and how rewards will be delivered.

### DEFINITIONS

Reward management may thus be simply defined as the combined actions an employer may take to specify at what levels employee reward will be offered, based on chosen criteria and data; how the offer will be regulated over time; and how both the intended links between organisational goals and values should be understood and acted on by the parties to the employment relationship.

## 1.3 Situating reward management systemically

In this book, the reader is offered a way of situating ‘the problem of reward management’ (by which we mean patterned activity to be specified and understood, to inform action) within the context of argument and evidence related to the *employment system*. In fact the ‘system’ is multidimensional: it is at the least one that reflects the national and international environment within which employees are contracted to work and employers need to manage their activities. By definition, that ‘system’ is diverse; and we should not assume that it is immune to effects from beyond the immediate arena of organisation and employment. Wider economic, political, social and technological phenomena – set within a historical period, itself affected by the past – create a dynamic setting that employers, and the people management specialists who advise them, need to take into consideration when evaluating the alternative approaches to managing employee reward and the expected return on investment and other consequences that follow. And employment systems will be encountered at a variety of levels below the macro level – eg industry sector, organisation, workplace – each of which is likely to be just as diverse, reflecting the range of people and situations involved. We discuss the dynamic contexts for reward management in greater detail in Chapter 3.

The human resource management literature frequently refers to reward (or compensation, pay or remuneration) *systems* (eg Boxall and Purcell, 2003; Heery and Noon, 2017; Kessler, 2005, 2007; Marchington and Wilkinson, 2005; Milkovich and Newman, 2004; Ulrich, 1997). But as Robert Pirsig observes in his classic 1974 text *Zen and the Art of Motorcycle Maintenance*, ‘There’s so much talk about the system. And so little understanding’. We can find little in the published debates among commentators in the field that explicitly justifies why a ‘systems’ view of employee reward is appropriate, or using ideas that have their roots in ‘general systems theory’ (von Bertalanffy, 1969). This is despite the fact that, as Meadows and Wright (2008: xi) point out: ‘Today it is widely accepted that systems thinking is a critical tool in addressing the many environmental, political and social, and economic challenges we face around the world’.

While pursuing a search for underlying regularities that characterise the world in general Ludwig von Bertalanffy, a biologist and the founding father of general systems theory, adopted the ‘system’ as ‘an organising concept’ to help overcome differences between different academic disciplines (Burrell and Morgan, 1979: 58).

A system is formed from ‘elements and parts that are organised and interdependent’ (Holmwood, 2006: 587). Systems can be either ‘closed’ or ‘open’. Closed systems are exemplified by conventional physics that isolates systems from their environments, for example, the ‘controlled experiment’ where phenomena are exposed to testing but isolated from the places in which such phenomena naturally occur. Closed systems, von Bertalanffy (1969) argues, will by definition become independent from their environment, but this will undermine attempts to understand the system as a dynamic phenomenon in continuous interaction with other, contextually linked, systems. Such reductionist thinking may lead to perverse outcomes. Haines (1998) cautions against isolating the elements of a system for analysis to their most basic trait and then reassembling the ‘answer’ without consideration for the inevitable ‘infection’ that will affect the phenomenon once returned as a whole to its environment. In effect one system colliding with other systems. For example, if we

offer short-term cash incentives to financial services executives (see Chapters 6 and 10) it may be assumed that their resultant behaviour will benefit the firm. However, without moderating factors including acknowledging the time lapse between apparent outcomes and actual value creation or destruction, such hermetically sealed incentive programmes may encourage individuals to act in ways that, when ignoring risk becomes endemic to this category of employee, may risk plunging the whole system into crisis. As discussed in Chapter 10, corporate governance has evolved into a risk based approach to reward management due to such evidenced concerns.

In direct contrast to a closed system, an 'open systems' approach draws attention not just to the structure or substance of phenomena but to the processes that impact on the system, and its impact in turn on those other systems with which it interacts. Open systems 'engage in transactions with their environment, 'importing' and 'exporting' and changing themselves in the process', continuously 'building up and breaking down... component parts' (Burrell and Morgan, 1979: 59). Thus, open systems theory offers a route for studying 'the pattern of relationships which characterise a system and its relationship to its environment in order to *understand* the way in which it operates' and so to 'discern different types of open system in practice' (Burrell and Morgan, 1979: 59, emphasis in original).

Controversy regarding the use of incentives to reward certain employees in financial services illustrates the potential hazards of regarding a reward system as 'closed' or self-contained. As will be discussed in Chapter 2, classical economics theory on wage determination assumes away environmental factors (or context), to consider employment market transactions in the abstract, using the 'all other things being equal' caveat. And ideas from psychology such as Vroom's 'expectancy theory' (also considered in Chapter 2) may be seen as drawing on the systems input-transformation-output-feedback model: an incentive system may be designed on the basis of assuming that desired behaviour will result provided the individual can 'see' what is expected, the extent to which achievement is realistic given available resources, and whether they find the incentive offered of sufficient value to them. But again, there is a need for caution in extrapolating from such theorising reduced to the individual disconnected from the wider social context. For example, conditioning what is deemed valuable and the degree of 'contribution' required and the trust the individual has in managerial representatives to honour the bargain, derived from prior interactions with peers and superiors.

The conceptual lynchpin of systems thinking... is that all systems are circular entities. This concept, which is based on the actual nature of systems, is integral to the input-transformation-output-feedback model that forms the framework for systems thinking...

... In viewing our organizations... as levels of systems within, and colliding with, other systems we align ourselves with the principles of openness, interrelation, and interdependence, and so cement the systems concept. When problem-solving, we look for patterns of behavior and events, rather than at isolated events, and we work on understanding how each pattern relates to the whole. We begin to see how problems are connected to other problems – and are forced to look at solving those problems in a new light. In fact, the solution to any systems problem is usually found at the next highest system

(Haines, 1998: 283–91)

Mindful of the importance of paying attention to the hierarchy of systems (or the environment) within which they function, interpreting reward management systems as ‘open’ may be more realistic in the context of the contemporary economy. Organisations and their sub-systems interact with an increasingly interconnected division of labour across a capitalist ‘world system’ (Wallerstein, 1983), in which organisations of different sizes and stages of development enter into a diversity of employment relationships with people in locations that are also at various stages of development and change.

Consistent with the integrationist ‘human resource management’ (HRM) approach we discuss in Chapter 12, within the organisation itself reward management systems may be deliberately located as in continuous interaction with internal ‘environmental conditions’ derived vertically from corporate strategies and horizontally from other people management structures and processes, not to mention the interactions with regulatory system expectations introduced to the organisation from the external ‘political economy’ (ie the intersection of the political and economic systems). Depending on the viewpoint of the commentator, the direction of influence vertically and horizontally is debatable. Nonetheless, ideas from open systems theory may help encourage reflexivity around employee reward. Whether or not specifically goal-directed, a reward system may evolve, regress or disintegrate, not only experiencing change itself but also possibly influencing changes to an organisational environment and spilling over into an external employment and business system in the process.

An example of this may be the arrival of a large multinational corporation in a developing or transforming economy, where the inward investors and their managerial agents may introduce practices that begin to reshape a competitive environment for effort–reward bargaining. Choosing between a closed or open systems perspective has important consequences for the underlying assumptions accompanying the theories that help to interpret and understand how and why reward systems function. Theorists debate alternative explanations for adaptation within and between non-static systems, including provisions for addressing conflict and creating consensus among the actors within the system, underscored by the institutional context for reward management (see below).

### 1.3.1 Criticisms of systems thinking

Despite the influence that the ‘systems approach’ has had on various branches of management and social science since the mid-20th century, systems theory may be criticised when its users do little more than propose the reduction of complex phenomena to elements that may be observed and where possible experimented on, while promising not to forget that in reality the parts need to be considered ‘holistically’ and in ‘interaction’ (Burrell and Morgan, 1979).

Within the social sciences, ‘grand theory’-building attempts to explain modern society in systems terms, such as by American sociologist Talcott Parsons in the 1950s, have been criticised for the implicit assumption of converging values among populations which, given the diversity of people within and across the world’s nations, lacks empirical grounding (Abercrombie *et al*, 2000). A prediction that societies would come to mirror the industrial and employment system characteristic of the USA (Kerr *et al*, 1964) has remained controversial. Important criticisms are associated with the potential of analysts to confer a self-determining (or ‘reified’) status on socio-economic systems, over-emphasising *systems* while neglecting *action* (Holmwood, 2006). In Chapter 2,

for example, we take a critical look at the classical labour economist's view that vests ultimate authority in market forces in regulating the employee reward system.

Another important criticism has been the argument that social systems theory is couched in conservative ideology, and lacks the capacity to deal adequately with the presence of conflict and change in social life. This latter point may be answered to some extent by reference back to the more sophisticated project on which von Bertalanffy embarked. Attention may be paid to sources of influence, for example, in settling the terms of the effort–reward bargain. The necessity for individuals to interpret aspects of both the extrinsic and intrinsic employment relationship implies that, while management – as the ‘keepers’ of organisational and employment resources – may enjoy a ‘dispositional’ advantage in framing the offer (Edwards, 1986; 2003), the position remains indeterminate (Shields, 2007). Managers may not be assumed to act consistently, and employees may interpret their roles in ways that have unforeseen consequences neither with the intended business nor HRM strategy.

In shaping discussion in this volume, while not ignoring the limitations of a systems perspective as this may be applied to reward management, it seems appropriate to remain sensitive to the ways in which reward management design elements interact with one another, and with other systemic features observable at various levels of environmental analysis (eg those connected with managerial strategy and with other human resource management designs and activity inside the organisation; and with economic markets, and other institutions, such as the law, shareholders, trade unions, etc, located externally). In ‘voluntary associations of purposeful members who themselves manifest a choice of both ends and means’ to achieve organisational outcomes (Gharajedaghi, 1999: 12), the parties may be viewed as seeking to regulate the effort–reward bargain, processing information and learning from feedback mechanisms within an open system setting (Haines, 1998), to modify and refine their orientation to the employment relationship. It is our contention that what the CIPD terms ‘thinking HR performers’ will benefit from bearing this in mind when reflecting on theory and practice in connection with reward management systems.

In summary, we have chosen to focus on ‘open’, dynamic systems within which reward management is practised (ie not regarding reward systems as sealed vacuums to be acted on as though in laboratory settings) so as to help readers grasp the fact that more is in play than ‘management’ as a process within which to determine predefined outcomes.



### STUDENT EXERCISE 1.1\*

Discuss the benefits of approaching the analysis of reward management systems as proposed above. Considering the criticisms we have sketched, why do you think a systems approach may have been popular among social analysts?

\* This is the first in a series of two types of activity that we invite readers to engage in, to help them in actively thinking through and

assessing argument and evidence presented.

This ‘student exercise’ may be appropriate as a classroom session or, outside the formal learning environment, informally in conversation with peers or ‘learning sets’; a second set of themes presented at various points throughout the book under the heading ‘self-assessment exercise’ may be undertaken as part of private study.

## 1.4 Rewarding the employment relationship

A fundamental principle associated with designing and administering employee reward is that these activities are undertaken within a complex set of people and organisational interrelationships – a series of interconnecting systems coinciding around the employment relationship. Recently, recognising the political context within which reward outcomes are determined, especially concerning the controversy around the widening pay gap between executives in organisations and other employees, reward management is considered a feature of corporate governance (eg Perkins, 2015, Aleweld *et al*, 2015). Managerially the intention may be to design reward so that it acts, in alignment with other features of human resource management, to secure the strategic intentions of the employer, that is to get things done through securing and deploying the capacities of the workforce. The social context for managing employment relationships and the reward dimensions, however, may mean that, while the intent may be strategic, the diversity of people and settings logically gives rise to risks that the outcomes desired by senior management may not automatically appear in practice. As discussed later in this volume, research for the CIPD by two of this book's authors has sought systematically to evaluate claims regarding efforts by organisations to match corporate strategy and systematic reward management (Jones *et al*, 2012b, 2013b).

While organisation leaders may deploy what management guru Peter Drucker called their 'theory of the business' (aka strategy), managers at each level between corporate and 'front line' and, in turn employees, may apply their own criteria to work out how to engage with it. And it would be unwise for any manager to assume that the 'engagement' is unfailingly consistent with corporate intentions. A complex mix of demographic, economic, social and related circumstances – including feelings towards co-workers and managers, including occupational and professional allegiances – act as prisms through which people view what's on offer and what's expected of them in return. As we will see throughout the book, interpersonal-organisational comparative factors impact on sense-making. Prominent among these are considerations of equity ('Does how I'm treated feel fair?'), associated with factors such as ethnicity and gender, and cultural norms and values across social and geographical spaces internationally ('How does my world-view interact with the employer and other key stakeholders?').

According to the provisional results of the Annual Survey of Hours and Earnings published by the UK's Office for National Statistics in April 2015, the bottom 10 per cent of full-time employees earned below £300 per week. This figure contrasts with the position at the opposite end of the earnings spectrum, whereby the top 10 per cent of full-time employees earned well over £1,000 per week (see *Issues in reward management 1.2*). And this gap appears to be structural: 'Since 1997, earnings at the 90th percentile have remained constantly at around 3.5 times earnings at the 10th percentile' (ONS, 2015a: 1).



### ISSUES IN REWARD MANAGEMENT 1.2

Which are the highest and lowest paid jobs in the UK?

In April 2015 median gross weekly earnings for full-time employees were £528.  
Median gross annual earnings for full-time employees were £27,600. Below are

shown the highest and lowest paid occupations according to the 2015 Annual Survey of Hours and Earnings.

**Highest paid (median full-time annual earnings)**

Chief executives and senior officials £87,562  
Aircraft pilots and flight engineers £84,867  
Air traffic controllers £77,860  
Medical practitioners £76,275  
Marketing and sales directors: £73,255  
Advertising and public relations directors £65,721  
ICT directors £65,717  
Financial institution managers and directors £62,678  
Senior police officers £61,841  
Financial institution directors £57,956  
Functional managers and directors £57,956  
Senior professionals: education, etc £51,015  
Train and tram drivers £49,873  
IT project and programme managers £49,337  
Higher education teaching professionals £47,050  
Purchasing managers and directors £47,000  
HR managers and directors £46,723  
Senior officers: fire, ambulance, etc £46,654  
IT specialist managers £45,450  
Health services and public health directors £45,439

**Lowest paid (median full-time annual earnings)**

Play workers £16,150  
Florists £15,982  
Beauticians and related occupations £15,917  
Educational support assistants £15,643  
Teaching assistants £15,620  
Cooks £15,593  
Other elementary service occupations £15,521  
Sales and retail assistants £15,453  
Pharmacy and dispensing assistants £15,330  
Sewing machinists £15,269  
Shelf fillers £15,236  
Elementary sales occupations £15,118  
Cleaners and domestics £14,580

Nursery nurses and assistants £14,521  
 Retail cashiers and check-out operators £14,345  
 Launderers, dry cleaners and pressers £13,983  
 Kitchen and catering assistants £13,863  
 Hairdressers and barbers £13,825  
 Waiters and waitresses £13,379  
 Bar staff £13,043

(ONS, 2015a)

Another recent phenomenon has been the fall in real earnings for most employees in the UK. While ‘wages are finally rising 10 years after the recession’ (Casselman, 2019), on both sides of the Atlantic there have been unprecedented falls in real wages (Blanchflower and Machin 2014). In previous recessions, median earnings growth slowed or stalled but it did not fall, and in past recessions the earnings of the lowest and highest paid continued to grow. It was the unemployed who were most affected through loss of their jobs and incomes. But in the recent ‘great recession’ of 2008–10, the economic damage was spread more evenly, with lower unemployment levels and the earnings of the employed being hit instead. Median real earnings growth (ie taking into account the impact of inflation on earnings) fell by around 8–10 per cent between 2008 and 2013 and this fall in real earnings affected all but those at the very top of the earnings distribution. Young workers (those aged 18 to 24) saw falls of over 15 per cent and those aged 25–29 12 per cent. This pattern of falling real earnings is seen by Blanchflower and Machin (2014) as now endemic to the UK and they remain pessimistic about any rapid return to real wage growth. As they comment:

We believe that unless the division of economic growth becomes more fairly shared to offset long-run trends towards greater inequality and unless productivity can be boosted to generate wage gains for all workers, then poor real wage outcomes for typical workers may be here to stay, just as they are in the United States.

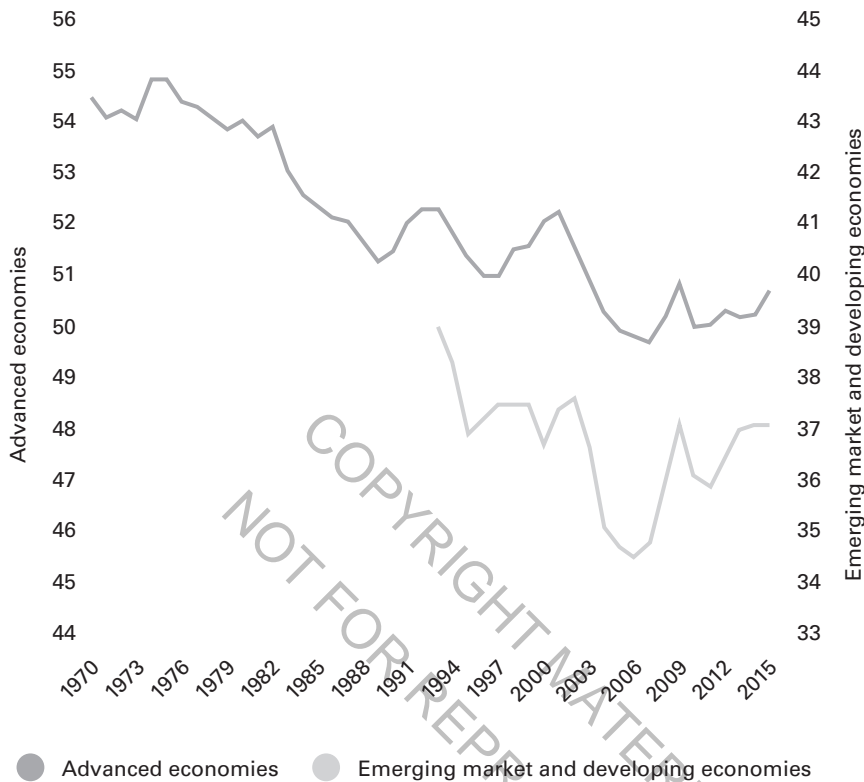
(Blanchflower and Machin, 2014: 19)

This pessimistic view of potential wage growth and improving productivity has been echoed by the CIPD’s Chief Economist, Mark Beatson (CIPD, 2015).

According to research for the International Labour Organization (ILO) (Stockhammer, 2013), the share of wages in national income has declined across the developed world over the last 30 years and similar patterns are now emerging in the developing economies. Distribution has become more polarised in most OECD countries (OECD, 2011), with the very top income groups increasing their income shares substantially in the Anglo-Saxon countries, in particular in the USA. Overall, real wage growth has lagged behind productivity growth since around 1980 and this constitutes a major historical change as wage shares had been stable or increasing in the post-war era. The ILO report found strong negative effects of ‘financialisation’ as well as negative effects of welfare state retrenchment and globalisation on the wage share. While technological change has had a positive impact on wage shares in developing economies, in advanced economies in contrast it has had a (modestly) negative impact. The research also found that globalisation (in production) had had robust



**Figure 1.1** Labour is losing out: The share of national income paid to workers has been declining in many countries (evolution of the labour share of income, per cent)



**SOURCE:** International monetary Fund, April 2017, World Economic Outlook

negative effects, even in developing economies. Another explanatory factor for the decline in wage share is seen as the decline in organised labour market institutions such as trade unions and collective bargaining.

What are the social justice implications for what is referred to as pay dispersion within the economy? A high-level investigation commissioned by the UK coalition government, led by a well-known economist, Will Hutton, explored questions specifically intended to set some standards for judging 'fair pay' nominally in the public services, although expected to influence practice more generally (Hutton, W, 2010a, 2011). And pressure is building for employers to submit to equal pay audits in the face of the continuing gap between levels of pay enjoyed by men and women in the UK workforce (see Chapters 3 and 4). The political agenda seems set to broaden to questions around equality and fairness more generally. Published in 2008, the University of Kent drew attention for undertaking its 'first ever' equal pay audit:

The purpose of the Audit was to help the University identify any pay inequities arising because of gender. Future Equal Pay Audits will have a wider scope to also include race and disability. The recommendations from the report will be used to assist in reviewing our practices in relation to pay and grading policies and procedures.

(University of Kent, undated)

CIPD research examining barriers to employees improving their level of earnings over time (or ‘pay progression’) indicates that changes to the composition of job types in the UK economy are inhibiting movement ‘up the ladder’ (CIPD, 2015). A squeeze on traditional ‘middle tier’ jobs is apparently disabling significant numbers of people in full-time employment from moving off the bottom rung of the ladder, even if they have capabilities and are willing to work hard. And the research evidences findings that ‘the likelihood of being “stuck” is strongly correlated with being female and increases with age’ (CIPD, 2015: 4).

Another growing influence on reward management in the UK, at least for the lowest paid, is the popularity of the ‘Living Wage’ concept. Originally a device to encourage employers to voluntarily adopt rates of pay required to provide a minimum living standard, this campaign has recently seen strong growth in the number of employers signing up as accredited employers (see Chapter 3 for more details). Indeed, the former Chancellor of the Exchequer, George Osborne, acknowledged indeed its success in naming his new higher National Minimum Wage rate for those over 25 a ‘National Living Wage’.

The scope for what Knights and McCabe (2000) label an ‘interpretative gap’ between reward management designs and how people interpret and react to them is likely, even if at face value the managers and employees espouse a strong sense of what academic commentators have labelled organisational membership (or commitment to corporate aims) and citizenship behaviours (helping those with whom they interact in an unselfish way). People’s orientation to work – why they work and the values they bring to the employment relationship – and their sense of vested interest in accepting the offer of an employment contract is at root ‘indeterminate’ (Marsden, 1999).

Managing people purposively in organisations, under an employment relationship, reflects what over half a century ago economist Hilde Berhend (1957) described as an ‘effort bargain’. While the formal agreement to work for an employer may specify explicit terms, and may be accompanied by statements that describe the job to be performed, the way the bundles of tasks should be approached, and the performance expected, in practice a negotiation is taking place. That negotiation may reflect the employer’s strategic expectations. But it also will be influenced by the employee’s interpretation of what is offered – implicitly as well as explicitly, accounting for psychological, social and economic exchanges. For example, the extent to which employees judge the ‘deal’ to be worth it as a just return for the commitment and capability to work they are investing, in turn needs to be taken into account in designing the ‘reward proposition’ and how it is administered across the variety of people and settings within which employment (and reward) relationships are to be found.

We explore the ‘reward proposition’ over the course of this volume, culminating in a discussion in Chapter 9 on so-called ‘total rewards’. The implication is that, while these days reward management choices are fairly extensive, there are limits to the ‘packages’ and ‘modes of delivery’ to select from. The variety of characteristics attributable to the managers who oversee them and the employees who are targeted for such ‘interventions’ (characterised, for example, by age, ethnicity, gender, bodily status and orientation) and the sectoral, national, regional and global settings inhabited, are in contrast potentially limitless. Recognising this gives pause for serious reflection. What may work to produce specific outcomes among one group and in one setting may result in a completely different set of interpretations and outcomes, and be accompanied by the need for variation in how to approach the effort–reward bargaining process, when transplanted to people and settings elsewhere.

## 1.5 Influences on employee reward thinking

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Much of the literature concerning employee reward is informed by the twin disciplines of economics and psychology (reviewed in depth in the Chapter 2). Our introductory remarks, however, signal the presence not only of phenomena concerned with macro-economic market transactions and/or individual micro-perceptions and responses but also of ethical, moral, political, social and technological factors – as well as managerial strategies and responses from the parties to the employment systems. These parties include finance capital investors, governments, trade unions and other ‘stakeholders’, not least employees. Interest groups may adopt a variety of starting points in their approach to employee reward management and the way it can be objectively described and determined, or subjectively interpreted and socially constructed and deconstructed. The consequence of this is that not only do reward systems designers and decision takers find themselves confronted with conflicting prescriptions on how to derive effective consequences from investment decisions; they also encounter alternative ways of thinking about the subject – whether these feature explicitly in the commentary or lurk implicitly below the contextual surface.

Given the range of factors complementing and supplementing economic and psychological issues, the search for guidance on how to navigate potentially conflicting, sometimes contradictory, ‘best practice’ techniques may be usefully supported by literature drawn from employee relations and HRM, political science, sociology, strategic management and so on (also reviewed in Chapter 2). These ideas and concepts will need careful interpretation and critical evaluation. But they may help to situate alternative reward management principles and practices within the context in which they have been fashioned and in which they will be implemented.

That is the case whether the context is spatial and/or temporal, related to organisation and workforce – as well as managerial – characteristics, and cultural and/or institutional factors, not forgetting philosophical considerations that set the scene for what decision-makers and their advisers think is being observed and acted on, and how knowledge to inform the process is itself constituted. Observing these principles, it seems to us, the reader will be able to adopt a thematic and theoretically grounded orientation to the subject, rather than one overly reliant on ‘techniques’ (even when technical commentary is informed by reports of what ‘works’ and what does not, gathered in ‘real world’ settings).

## 1.6 Reward and the employer–employee relationship

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Three basic reasons are generally given for the importance of rewarding employees, namely to

- secure,
- retain and
- motivate

Employers, or managers and supervisors acting on the employer's behalf, whether they are in 'for-profit' organisations, government agencies or other 'not-for-profit' enterprises, offer reward(s) that may be counted as representing the 'price' for employing 'labour', moderated by particular economic market conditions. But the employment relationship has a complex character. Employees are not selling 'their souls' as a labour market commodity (Rubery and Grimshaw, 2003: 2), but a capacity for and willingness to work. The relative value of economic recognition it is deemed legitimate for an individual to expect in employment is mediated through principles of fairness, equity, justice and respect for the human condition, expressly surfaced in Will Hutton's (2011) analysis.

Because reward is about a relationship, the outcome of which is open to the striking of a bargain (Kessler, 2001), the phenomenon is dynamic and not wholly subject to unitary managerial design or control (Marsden 1999). A formal contract may be entered into between the parties – effort for reward – but the precise details of whether and to what extent employee effort matches managerial expectations remain unpredictable. Managerially, 'performance management' arrangements may be introduced to try to order the process, but the extent of employees' willingness to cooperate in terms of not only 'membership behaviour' (a decision to join and stay with an employer), but also 'task behaviour' (complying with managerial expectations over completing assigned work tasks), and 'organisational citizenship behaviour' (voluntarily and altruistically acting in ways that exceed membership and task compliance) is ultimately a function of employee choice (Shields, 2007).

As we saw in the opening section, influential voices in reward management argue that reward management needs to complement and reinforce a 'new logic' of organising (eg Lawler, 2000). Under this reasoning, reward management needs to match the criteria for judging an organisation as 'effective' (ie that it achieves a fit between the need for capabilities in coordinating and motivating behaviour matched to economic market demands, on the one hand, and competencies that distinguish the organisation from its competitors, on the other). Simultaneously, effectiveness implies that reward management policies and processes are attuned to environmental conditions (contextual influences) while also retaining a focus on enactment of a specific corporate strategy.

### **SELF-ASSESSMENT EXERCISE 1.1**

Draw up a list of factors that employers and employees may hold in common in terms of reward management, and highlight areas where there is scope for interests between the dyad members to diverge. What are the implications for day-to-day effort–reward bargaining?

## 1.7 Orientations towards employees

To develop proficiency in thinking about and practising reward management, it helps to make connections systematically between the alternative approaches available to practitioners and the consequences of the choices exercised, within the context in which decisions will be taken and acted upon. Given the need to continuously renew the ‘effort bargain’, as defined above, one contextual influence on choices between alternative reward approaches and their consequences concerns the dynamic interaction between expectations among those involved regarding the character of their relationships. Explicit and implicit managerial orientations towards workforce members signal to employees how to perceive how their employer regards them. While it is possible the approach may be standardised across an organisation, it is likely that it will differ to some extent at least between different workforce segments/locations/times. The commentary organised in Table 1.1 works through these basic orientations, suggesting possible consequences for the managerial reward agenda.

The commentary in Table 1.1 illustrates the nature and implications of regarding workforce members as assets or liabilities on a ‘human capital balance sheet’. It also casts them in the guise of ‘customers’ for the ‘employment propositions’ an organisation might market, or potential allies in a reciprocal partnership (even if in the final analysis the employer retains residual rights over the economic value created).

**Table 1.1** Orientations towards the workforce: Reward management implications

Interpretation	Issues	Reward management agenda
‘Employees are “our greatest asset” ... they need to be used effectively’		
Employees are valuable objects, but devoid of feeling, which are operated by the owner or agent for maximum utility.	How do we source compliant objects? How do we keep them in prime shape to do our bidding? Pump-priming, instrumental relationship.	Buy on ‘contingency terms’. Service regularly (by service agent?). Run to breakdown: refurbish or write off and replace. Utility (exploitative) orientation?
Employees are a liability ... they need to be controlled’		
Employees are ‘debts’ for which one is liable, or troublesome responsibilities, and therefore need to be limited, assiduously policed or expunged.	How do we minimise our ‘debts’? How do we keep them under close surveillance? Wary, possibly antagonistic relationship.	Minimise cost of ‘debt’. Arm’s-length relations. Ensure ability to write off liability at earliest opportunity. Resigned-utility orientation?
‘Employees are “customers” ... understand and serve them’		

(continued)

**Table 1.1** (Continued)

Interpretation	Issues	Reward management agenda
Employees are independent beings; they exercise choices based on logic and emotion. They will offer loyalty to a 'supplier' of employment/reward if they believe the promise and see results.	What 'customers' do we want? What can we (afford to) supply? What are the alternatives? Active supplier role to continuously renew an employee-centred relationship.	Understand 'customer' preferences. Honest and transparent response with specification available. Regular client relationship review. Service orientation?
'Employees are "corporate allies" ... develop a mutual success agenda'		
Employees are independent beings; they exercise choices based on logic and emotion. They will offer commitment to organisational partners if they believe in them and see results in the substance and process of the effort–reward bargain.	What allies do we need and desire? What can we (afford to) trade? What are the alternatives? Active partner role to continuously renew a mutually profitable employment relationship.	Understand allies' needs and priorities. Honest and transparent response: accommodation available? Regular alliance relationship dialogue. Reciprocal commitment orientation?

**SOURCE:** Adapted from Perkins (2000)

In the first two orientations, employees appear to be viewed either as emotionally inert, despite recognised potential to add value to organisational activity. Or they are perceived as a source of unwelcome intrusion into an organisational model that management would rather do without – perhaps to replace workers with mechanisation through investment in physical technology. A third orientation follows the conceptual thread that if people really do represent 'our greatest assets', the consequence is that the employer needs to find ways of 'selling' an employment 'brand', implying that employees hold the upper hand in the transaction. A fourth orientation towards the workforce signals that, while the employer recognises the latent value in people who may be persuaded to work for the organisation – still carrying a risk that the relationship may become employee-dependent (see eg Pfeffer and Salancik, 2003) – both parties have choices open to them.

A mixture of economic and socio-psychological factors may condition the choices. Rather than risk extrinsic or intrinsic contractual promises, the rhetoric of which may fall short of the reality, owing to unplanned circumstances – for example, changes in investment or trading conditions that might undermine the 'ability to pay' – an employer may signal an orientation in which each party to

the employment relationship focuses on the process of reaching an accommodation, involving continuous and transparent mutual reflection on an holistic 'deal'. As Herriot and Pemberton (1995) argue, this may in turn require a 'renegotiate or exit' orientation on the part of the employee. But the task open to managerial initiative is one of setting clear 'rules of engagement' and, by actions rather than words alone, communicating the potential for an employment relationship, founded on mutual trust and respect. Such 'employment alliances' imply the scope for conflicting positions to arise between the parties – perhaps acknowledged as inevitable – with a willingness to explore the room for compromise and (possibly short-term) trade-off to secure the long-term benefits with which the 'partnership' ideal is imbued by stakeholders.

This may all sound rather esoteric: fine in principle – but what about the practice? Two examples (*Case Studies 1.1 and 1.2*) may help illustrate issues to be weighed in considering alternatives and consequences in employer orientations towards employees.



## CASE STUDY 1.1

### Periphery to core

One of the authors served on a large UK National Health Service Trust board of directors, overseeing a new hospital building project under public/private partnership commercial terms. To the great concern of employees working in 'support' services associated with keeping the hospital running day to day (catering staff, 'domestics' and other ancillary workers), the project plans involved the TUPE-transfer of their employment to the new private management partner. A potentially damaging employment relations dispute was averted when the senior hospital administrators explained to groups of employees affected that, being honest, they would always find themselves as peripheral workers – in effect, 'liabilities' or 'second-class', when viewed against the Trust's clinicians and nursing professionals. Without necessarily

compromising the psychological contract they believed they had entered into in joining the NHS, they would remain members of a 'healthcare partnership', but enhanced by transition to 'core workforce' status in their new employment relationship.

The implication was a basis for effort–reward bargaining where their interests were potentially advanced, not only in extrinsic reward but also in terms of scope for recognition, personal and career development, and the sense of 'involvement'. Irrespective of what transpired, the point is that an employer may find decisive action – in this case transferring a workforce segment into an outsourced arrangement – a more satisfactory option on both sides of the effort bargain than one hampered by half-hearted managerial commitment.



## CASE STUDY 1.2

### Promise meets practice

The same author undertook an enquiry for a sub-set of the European partners of a large professional services firm. During the transformation the organisation was undergoing at the time, an announcement was made by its corporate leadership with great fanfare on both sides of the Atlantic that, with the explicit intention of creating conditions in which the firm's managerial and professional employees would adopt the highest quality service orientation towards clients, the firm would treat its people as 'clients' too in their employment

relationship. The investigation involved focus group discussions with a cross-section of managers and professionals across a fairly wide geographical base, one telling remark from which might be interpreted as necessitating caution when top managers consider 'talking up' the employment promise. The partners 'treat us as no more than money-making machines', the researchers were told. Clearly, although no doubt well-intentioned from the 'bridge', at 'deck' level 'crew members' received a distorted 'orientation signal'.

### SELF-ASSESSMENT EXERCISE 1.2

Two case cameo illustrations have been provided covering the 'liabilities' and 'customers' segments in Table 1.1. To test your understanding, search for some company annual report and accounts statements in which the seemingly ubiquitous 'people as greatest assets' statement appears in the chairman's statement or similar commentary. Then look for statements embedded in reports, or in other sources of corporate information (eg company websites and/or analysts' appraisals). To what extent do you find these consistent with the 'assets' principle, or are there indications of more partnership orientations? You might conduct a similar 'audit' of your own organisation or one known to you.

Discussion to this point has signalled that management faces a series of alternatives for approaching reward management – as do employees. Various consequences follow on from adopting one or other mode of engagement with this complex aspect of organisation and people management. The consequences flowing from reward management choices, whether conditioned by tradition or 'new' logic for organising, may be viewed in terms of the nature of expectations the parties hold, the quality of the relationships and the underlying principles regulating their interaction.



## 1.8 A few words on our tripartite taxonomy

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This book reviews theory and practice associated with reward management systems as these interact with the employment relationship and effort–reward bargain. To create a thematic focus for the discussion of the material assembled, the emphasis throughout is on the alternatives that call for decision-making, carrying consequences in each case, which may be interpreted in and conditioned by particular and changing contexts. Before concluding the chapter with a summary of the book’s overall content and structure, at this point a short statement is appropriate on what the authors intend to convey through the ‘alternatives, consequences and context’ refrain.

An *alternative* is located in a proposition containing two (sometimes more) statements, or offer of two (or more) things, the acceptance of one of which involves the rejection of the other(s). Alternative possibilities, alternative statements of some position, may exist, open to the exercise of choice by social actors. Decision-takers are required to make selections between alternatives, electing for one course of action over one or more alternatives. Exercising ‘choice’ (the ‘act of choosing’), involves ‘preferential determination between things proposed’. A choice may be exercised managerially, for example, to reward employees for time they commit to the employer or on their performance. Each of the parties has a choice of how to approach the effort–reward bargain, and this is likely to be influenced by the assumptions and priorities they bring to the interaction and the nature of the relationship involved.

Being positioned to exercise choice locates decision-takers socially relative to others and implies, among other things, making judgements to secure the most favourable (or fit-for-purpose) outcome, to attain something that is worthy of being chosen, having *special* value relative to other available options. Choices are logically followed by consequences: it is an open question whether or not the decision-takers base their selection between alternatives either on logically conjectured projections or by reference to empirical evidence of past outcomes, to assist the process of judgement in pursuit of a preferred outcome (ie one that is anticipated and accords with the project being pursued by the chooser). Actors called to exercise choices in terms of the effort–reward bargain (managers and/or employees) may be influenced by reference to ‘benchmark’ data on practice reported elsewhere or experience over time during the course of a particular employment relationship or employment relations in general. They may also be faced by ideas from advisers and other opinion-formers about what is deemed fitting or cost-effective in the circumstances.

A *consequence* may be described as something that follows as an action or condition, effect or result, from something preceding or antecedent to that consequence. A consequence following a particular act of choosing may be considered as predetermined (ie located within a cause-and-effect relationship). Where social relations are involved, as in the case of weighing alternatives in effort–reward bargaining, the situation is unlikely to be so clear-cut, however. While consequences may form a logical sequence starting with a specific choice, opening them to logical deduction from certain premises, a caveat is necessary. That the consequence of an action, or decision to act, may be logically inferred (involving the exercise of judgement) is suggestive of a position where absolute certainty may be open to question. Hence, logical deductions may usefully be tested drawing on an existing pool of relevant empirical knowledge.

Adopting an alternative definition, choices may lead to outcomes that are ‘of consequence’: that is, they are endowed with importance (‘assumed consequentiality’). They have an impact (positive or negative) on the people and circumstances in which the choice plays out. The corollary of this assertion is that scope for systematic reflection on inferred consequences – prior to action – merits the attention of parties involved in effort–reward bargaining, and those whose role is to advise them, whether as employees, managers, national/supranational government policy-makers, or other stakeholders in the complex field of employee reward. At minimum, systemic-looped feedback reflection and learning may help improve the quality of judgement exercised under emergent conditions.

Selection decisions between alternative effort–reward bargain approaches do not occur in isolation. In systems terms, the selections between alternatives by groups of decision-takers interact with the choices exercised by others, and in each case their choices may be viewed as reflecting particular interests. For example, managerial decisions to select one ‘reward management strategy’ and thus reject others will interact with decision-taking by other groups of managers, as well as employees who may be the targets of such decision-taking. How alternatives are weighed and acted on, and the consequences that follow, are open to influence from the context (or environment) in which organisations are situated and how it is interpreted by the parties to the effort–reward bargain.

Interaction between the elements perceived as systematically regulating the employment relationship and effort–reward bargain may be theorised as ‘context-bound’ or ‘context-free’. Reference to *context* describes action to weave or sew together ‘contextualised’ phenomena to facilitate interpretation and possibly explanation. If something is contextual the implication is of a situation belonging to the context – if not standing in a dependency relation with then at least influenced *systematically* by the context.

The context for reward management and the alternatives and consequences associated with its determination may be framed in terms of corporate, national and international systems. Managerially, the scale and sector of an organisation, its predominant technological make-up (affecting the balance of emphasis in the capabilities required to resource operations), its history and the predisposition of those who lead and make up the general membership may be viewed as bounding to some extent employee reward policy alternatives deemed legitimate. Adopting an open systems perspective, external to the organisation, context is likely to reflect the nature of its ownership, and the influence of the various stakeholders and other institutions with whom the organisation’s members may be perceived to have a relationship – such as business partners, investor groups, state regulators representing a ‘public interest’, trade unions and so on. Also, the competitive environment, for sources of investment and revenue (not forgetting employee ‘talent’), is likely to influence profitability and the disposition of management to invest in the effort–reward bargain.

It has been remarked that, over two decades, two themes – ‘abiding confidence in the march of globalisation and progress’ – have remained in the foreground (Franklin, 2006). While uncritical acceptance of this position is to be discouraged, beyond the internal organisational setting and its immediate context, as noted earlier, an increasingly significant influence on organisation systems, and on HRM and reward management systems, is attributed to the ‘global context’. A recurring theme in the literature is the question of whether or not approaches to employment regulation

are converging internationally or whether they remain divergent, owing to the influence of culture and institutional factors within particular national systems (Anakwe, 2002; Katz and Darbshire, 2000; Sparrow, 1999).

Whether or not the organisation employs people across geo-ethnic borders, it may be argued that regional and global employment systems need to be factored in to attempts to evaluate the alternative ways of approaching the effort–reward bargain. A common governance architecture for contemporary ‘business systems’ may be assumed (Whitley, 2000): capitalist principles inform the basis on which actors will seek to arrange the affairs of organisations and those of the national and international systems within which they are situated (Coates, 2000; Furåker, 2005).

Even if it is accepted that capitalism provides the dominant organising logic, however, alternative ‘varieties of capitalism’ (Albert, 1993; Hall and Soskice, 2001) have been postulated, reflecting the institutional basis for reaching ‘social peace’ as an antecedent of successful economic production (Roe, 2003: 1). Although a ‘directional convergence’ around particular sets of policies and practices for the management of organisations, including effort-bargaining orientations, may be open to perception, ‘final convergence’ may not be reliably assumed (Tregaskis and Brewster, 2006). Detailed policies and practices may reflect different interpretations of the opportunities and limitations of the global, national and organisational settings in which choices between alternatives are being made. The accent may vary according to the systematic interaction between economic, historical, legal, political, social and technological factors, in turn affected by cultural and psychological factors – that is, the influence of socialisation on decision-makers’ interpretations of perceived opportunities and limitations.

The institutional context for reward management is discussed in Chapter 3 and, specifically in the case of executive reward, in Chapter 10. In-depth treatment of the transnational context for corporate governance and knowledge mobilisation features in Chapter 11. While the latter chapter deals with the topic specifically, given its overriding influence on reward management considerations an eye for the international dimension remains open throughout the volume.

In short, it is our position that understanding reward management will be assisted by attention to themes systematically arising as the parties evaluate and act on the range of alternative courses of action open to them and reflection, conceptually and empirically, on consequences that may follow from these choices. In the case of both alternatives and consequences the influence of the open systemic context in which alternatives occur and are weighed and consequences are played out is something that needs to be accounted for in drawing conclusions, which may in turn inform policy and practice.



### STUDENT EXERCISE 1.2

Consider the argument that, owing to the scale of western multinationals, their preferences for determining reward management systems will tend to prevail across the countries in which they

set up operations. To what extent can you build an alternative, or ‘divergence’, perspective? Are the tendencies polar opposites?

## 1.9 Conclusions and key learning points

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In this chapter, we have defined employee reward and reward management, reflecting on their various manifestations, and introduced the concept of the effort–reward bargain and the consequences of applying this theoretical notion when trying to make sense of interaction between the parties to the employment relationship. We have introduced a model encouraging reflection on the orientations employers may adopt towards their employees when evaluating reward alternatives and the consequences implied, positing four possible scenarios. We have also briefly appraised the merits and criticisms of applying systems thinking when conceptualising reward management. Commentary on developments in the corporate, national and international context for reward management has been briefly reviewed to situate alternative reward management designs and the consequences that may follow from selected applications.

For postgraduate students following a specialist reward management module, the book can be used sequentially. Chapters have been written mindful of the CIPD's 'specialist knowledge' section in the Institute's *New Profession Map*. We have designed the content and style of the book as a text to support CIPD-related students in particular. But we hope the volume will be of relevance to other readers interested in this important subject associated with people at work and their management. Students of general management and those following final-year undergraduate and postgraduate HRM programmes may find it beneficial initially to engage with Part One, in order to locate selective engagement with subsequent content, depending on specific interests or assigned work. Throughout the book, commentary is illustrated using *Issues in reward management* extracts and *Self-assessment exercises* and other exercises, to inform discussion of issues raised. The intention is also to assist readers' preparation in addressing summative assessment questions. *Case study* material appears at various points to illustrate how conceptual arguments relate to practice. To conclude this chapter, a summary follows setting out a plan of the overall text.

## 1.10 Overview of the book

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The book is structured in four parts over 12 chapters, including this introduction.

*Part One* deals with concepts, theory and the institutional context for employee reward management alternative approaches and consequences.

While conceptual and theoretical frameworks inform the treatment of reward management throughout the book, in *Chapter 2* particular attention is devoted to the principal attempts to theorise the subject. Acting as a reference point for what follows in subsequent chapters, models may be identified drawing on a multidisciplinary academic literature: principally (labour) economics, industrial/organisational psychology, employment relations, management strategy, and the sociology of organisations and work. Emerging themes include the extent to which employee reward is something open to 'management'; assumptions about people and work motivation under conditions of employment; and the social and political interactions around the effort–reward bargain. The content of this chapter also enables us to

signal themes traced throughout the volume related to how notions of equity and social justice, diversity and its management, and the possible implications of a 'global' economy interact with ideas and practices making up the reward management field.

A complementary foundational discussion – this time covering the legal, employment relations and market environment – is presented in *Chapter 3*. The material includes the impact of principal legislation and related regulatory developments affecting reward management, beyond economic market influences, along with the role of collective bargaining where applicable. While the future post-Brexit remains to be seen, the increasing impact of European legislation on UK reward management systems design is considered, illustrating the dynamic nature of the institutional environment for managing reward. The chapter also considers the impact of the labour market on reward decisions and pay determination.

*Part Two* introduces and evaluates structures and processes for extrinsic reward management, describing some of the practicalities of their design and operation.

The basic architecture of pay systems is the focus of *Chapter 4*. Descriptions of and arguments for applying 'pay structures' are examined, including alternative types of pay structure, and conditions affecting their design and operation. Many pay structures are underscored by an aspiration to create the conditions for 'internal equity'. The objective has become even more important with the development of anti-discrimination regulatory frameworks. The concept, role, alternative approaches and administration of 'job evaluation' are discussed, together with the impact on pay structures. Debate surrounding 'job' or 'role' analysis as the basis for structuring pay, as well as questions and practicalities regarding alignment of pay structures with external markets for jobs and people, is appraised.

Payment methods, salary progression management and their consequences are reviewed in *Chapter 5*. Wages systems and salary systems are compared, as are 'seniority-' or 'service-'related pay versus pay 'contingent' on inputs (eg skills) or outputs (eg pre-set target achievement) or combined under the rubric of 'contribution-based pay'. The critical part played by 'performance management' and the centrality of line managers to the process of managing contingent pay systems is reviewed. The role of 'compensatory payments' for working 'flexibly', in particular beyond contracted 'basic' hours, such as overtime, shift and call-out payments, is assessed. The practice of augmenting pay using concepts such as 'premiums' related to specific employment locations is also discussed.

Beyond time-based systems, the notion and variety of 'variable pay' (as a performance-motivating 'incentive' or 'reinforcement' device) is reviewed in *Chapter 6*. Short-term and long-term, individual, team and organisational 'bonus' payments, including profit-related pay and profit sharing, gainsharing, as well as equity (share) based 'financial participation' initiatives that may be applied to some or all workforce segments are described and evaluated. The discussion includes 'sales bonuses' and other incentives for particular workforce segments.

*Part Three* reviews principles, policies and frameworks for 'non-cash benefits', 'deferred remuneration' and 'intrinsic rewards' and alternatives to managing them.

Employee benefits and allowances, and policies for their application, are the subject of *Chapter 7*. Typologies of benefits – 'welfare', 'compensatory' or 'status'; types of benefits; 'single status' and 'harmonisation', flexible

(or 'cafeteria') systems – are appraised. The principal employee benefits that may be applied beyond salary and wages and their roles (eg legal minima versus 'perks') are discussed. The interrelationship between employee benefits and taxation and social insurance systems – which vary significantly according to the national context – is reviewed.

Given an increasingly contentious and 'strategic' role within employee reward, *Chapter 8* is devoted to debates around pensions – a 'deferred' form of remuneration. Consideration begins with a discussion of the development and role of 'superannuation schemes', situating the topic in historical perspective, moving to examination of the contemporary and contested role of the state versus employers versus private insurance providers in employee 'retirement' provision. The main types of pension scheme are introduced, linked to their role within a reward management programme. Government policy intervention affecting future pensions provision is also analysed.

The increasing attention directed towards forms of 'non-financial reward' focuses discussion in *Chapter 9*. The concept is defined and related to notions of 'total reward', the 'employment proposition' and emerging ideas around 'employee engagement', aligning extrinsic reward management with management of the 'psychological contract'. The question of why this factor may be of increasing importance in reward management is investigated, accounting for issues such as 'employee recognition', 'workforce diversity' and its consequences, as well as 'career management' and 'employee involvement' initiatives.

*Part Four* gives specific attention to rewarding employees who have a direct influence on corporate governance, as well as the employee reward implications of organisational expansion requiring transnational knowledge mobilisation. Finally, attention turns specifically to questions around alignment between organisational strategy, HRM and employee reward management.

Rewarding corporate executives and directors is discussed in *Chapter 10*. Ideas on the composition and management of reward for employees occupying senior managerial roles are reviewed. This discussion is complemented by engagement with the corporate governance and increasingly emotionally charged 'top pay' debate, including the role of remuneration committees and advisers; 'executive incentives' (short-term and longer-term approaches, cash- and/or equity-based); executive benefits and perquisites; contractual conditions; compliance and public disclosure requirements. Attention is paid to corporate governance developments following-on the controversy about incentive pay in financial services and the outcome of consultation in the UK intended to address public concern about excess with requirements for more disclosure locating executive remuneration in the context of how others are rewarded, requiring a more active role by corporate shareholders.

Developments in international reward management are critically reviewed in *Chapter 11*. Factors impacting on the design of transnational reward management systems are assessed. Questions around 'globalisation' and corporate structure propositions, focused on 'knowledge mobilisation', are considered, along with the extent to which these give rise to standardisation

in reward management practice across ‘multi-local’ environments, as well as the part played by reward management systems in supporting employee expatriation programmes. Expatriate–local reward management opportunities and threats in the competitive climate for multinational enterprise are also critically reviewed. The emerging role of information technology in communicating and calibrating international reward practice is introduced.

To conclude the book on an integrative and thematic note, *Chapter 12* covers the reward management–‘HRM’ axis. The growing importance of a strategic approach to people management in general and reward management in particular, with a focus on vertical integration along one dimension, complementing horizontal integration along another, to ensure consistency across the range of people management policies and practices, is highlighted. Contested literature, where universal ‘best practice’ thinking meets more ‘contingency-based’ and ‘critical’ commentary, is reviewed. Roles attributable to the parties to employee reward management systems, in particular the interface between specialists and line managers under the HRM rubric, are appraised.



### Explore further

For a discussion comparing and contrasting prescription, empirical evaluation, critical materialist and post-structuralist commentary, see Shields, J, Brown M, Kaine, S, Dolle-Samuel, C, North-Samaradzic, A, McLean, P, Johns, R, O’Leary, P, Plimmer, G, and Robinson, J (2015) *Managing Employee Performance and Reward: Concepts, practices, strategies*, 2nd edn, Cambridge University Press, Cambridge.

For a critical appraisal of debates around the imperatives of ‘reward strategy’ as though this were an alternative to managing equity-based factors implicit in the effort–reward bargain, see Kessler, I (2007) Reward choices: Strategy and equity, in

*Human Resource Management: A critical text*, 3rd edn, ed J Storey, pp 159–76, Thompson, London.

For a treatment of employment systems contexts, see Rubery, G and Grimshaw, D (2003) *The Organization of Employment: an international perspective*, Palgrave Macmillan, Basingstoke.

For research and commentary on a range of relevant topics intended to help professionals learn how to implement a reward strategy that supports organisational objectives, the reward strategy section of the CIPD’s Knowledge Hub may be accessed at: [www.cipd.co.uk/knowledge/strategy/reward](http://www.cipd.co.uk/knowledge/strategy/reward) archived at <https://perma.cc/A2UY-SSFY>.