

STUDENT SUMMARY NOTES

chapter 8 reward management and inequality

Chapter overview

Chapter 8 provides a theoretical framework for examining reward management. It discusses how reward management is central to the regulation of the employment relationship. Employers use a wide variety of rewards to attract, retain, and motivates employees. The design of the reward system is contingent on organizational and external contexts. The pay model emphasizes internal equity and external competitiveness, income inequality and some of the tensions in reward management.

Chapter objectives:

After studying this chapter, you should be able to:

1. Explain the key objectives of reward management
2. Evaluate different approaches to reward that seek to align pay systems with an organization's business strategy
3. Explain the manner and extent to which reward influences employees' attitudes and behaviour
4. Define and evaluate different reward systems and structures related to the job, person and performance
5. Describe and evaluate job evaluation as a method for developing a pay system
6. Explain how governments and trade unions intervene in the pay determination process
7. Explain the importance of inequity in understanding reward management
8. Describe some paradoxes and tensions in pay systems in relation to managing the employment relationship

Introduction

Pay is the centerpiece of the employment relationship as it underscores the fact that the relationship constitutes an economic exchange. Global forces impact

on pay systems. Changes in reward systems mirror changes in work design and organizations, and the emphasis on individual performance. Last three decades wage gap widening and the incidence of low-pay is 'stubbornly high'.

The nature of reward management

Two types of rewards: extrinsic and intrinsic.

Pay or reward strategy is a plan and actions pertaining to the mix of direct & indirect pay.

Objectives of reward system are to attract and retain high performing employees, maximize employee performance, and satisfy legal standards (see **Figure 8.1**, p. 262).

All reward systems contain two elements that are in contradiction with each other:

- cooperation between employee and employer
- conflict surrounds the economic exchange between 'seller' (employee) and 'buyer' (employer) of human capability

A model of reward management

Reward model contains five basic elements: strategic, reward objectives, reward options, reward techniques, and reward competitiveness (see **Figure 8.2**, p.265)

1. Strategic perspective focuses on reward choices which support strategic goals
2. Reward objectives emphasize the linkage between a reward system and human behaviour. The psychological contract emphasizes the importance of reward management.
3. Reward options for the organization include: base pay, performance pay, and indirect pay (benefits).
4. Reward techniques examined include job analysis, job evaluation and performance appraisal. These techniques are used to achieve, internal equity, which refers to the pay relationships among jobs within a single organization.

5. Reward competitiveness refers to comparisons between the organization's pay and that of its strategic competitors. External competitiveness depends upon, in part, labour market and product markets conditions and management's strategy.

Reward objectives: The reward objectives emphasize the linkage between a reward system and employees' attitudes and behaviours

The received wisdom of the reward-performance relationship is that a pay system that rewards workers fairly according to efforts expended and results produced creates a motivating work environment.

Study tip: make sure you consider the strategic perspective on rewards with the discussion on business strategy in Chapter 2. In theory, the approach means that each business strategy should be supported by a different reward strategy. In your peer study group, the 'Reflective Question' on page 268 will help you link the material in chapters 2 and 8.

Reward options

Reward options for the organization are shown in the third box of Figure 8.2: Job-based, Person-based and Performance-based repay.

HRM in practice 8.1. 'Duvet days' or 'presenteeism'

This example (p. 267) discusses whether draconian sickness absence policies can prove counter productive.

Examples of job-based, person-based and performance-based pay systems are shown in **Table 8.1** (p. 268).

Reward techniques

Job analysis and job evaluation emphasize the importance attached to internal labour market equity. See below.

Reward competitiveness

Reward competitiveness draws attention to the importance of external equity and, by implication, why the organization needs to pay 'competitive' labour market rates for a given occupation.

- Labour market – labour economics theory holds that pay is the outcome of the forces of demand and supply

- Product market – the ability of an organization to pay is influenced by prices of its products/services
- Organizational – job evaluation and culture and traditional practice may take precedence over external labour market conditions

Job evaluation and internal equity

Pay equity requires that equal pay be paid for jobs of equal 'worth' or value to the organization. Internal equity is typically established through job evaluation.

Definition: A systematic process designed to determine the relative worth of jobs within a single work organization.

HRM and Globalization 8.1: Building a hybrid at Samsung

This feature (p. 271) illustrates the difficulty of introducing new management practices, this is especially the case when practices are transferred to another country (see Chapter 17). Question: Will the 'relative worth' of a job differ in a UK and Korean organization?

Job evaluation can help to ensure that reward structures are internally equitable. It is emphasized that the process depends upon subjective judgements.

Process of job evaluation has four steps (p. 272):

- Gathering the data
- Selecting compensable factors
- Evaluating the job
- Assigning pay to the job

Ranking jobs according to relative value is the simplest and fastest method. It is also highly subjective and difficult to defend (see **Table 8.2** p. 273)

Point method establishes a hierarchy of jobs on the basis of three criteria: compensable factors; factor degrees numerically scaled, and third, weights reflecting the relative importance of each factor. This method is the most frequently used. It is emphasized in the text that care should be taken to ensure that gender bias in job evaluation ratings does not exist (see **Table 8.3**, p. 274)

Assigning pay to the job

Final outcome of the evaluation exercise is a hierarchy of jobs in terms of their relative value to the organization. Job evaluation is 'alive and kicking' especially in the public sector.

Establishing pay structure and levels

Job evaluation information and external labour market data are used to determine pay levels. This section examines therefore two aspects of pay structure – pay dispersion and the basis of the pay level. Pay structures can range from 'flat' (with few steps from top to bottom) to 'hierarchical' structures displaying wide differences.

Table 8.4 (p. 275) shows the value we assign to a range of occupations found in the UK economy. Pay survey data are used by organizations to anchor their own pay scale.

Pay level refers to an average of the rates paid by the employer. There are three "pure" alternatives in setting a pay level: to lead, to match, or to lag behind competitor's pay level. Pay level decisions are determined by economic and organizational factors.

Establishing pay rates, see **Figure 8.3** (p. 276). The results of the job evaluation process (plotted on the horizontal axis) and the pay survey (plotted on the vertical axis) are combined to determine the pay policy line (PPL). The PPL represents an employer's pay level in the market and serves as a reference point around which pay structures are established.

Prescriptive approach (as illustrated by Figure 8.3) does not, according to research, reflect reality. That is considerable divergence pay practices operating between and within organizations (p. 277).

HRM and Globalization 8.2: Internships in Australia: valuable experience or exploitation?

This feature (p. 278) illustrates some issues with the growing practice of internships. The report can be used to debate questions of income inequality and social justice. E.g., do they disadvantage graduates from low or middle-income (to use UK Prime Minister May's term, "just about managing") families?

The legal and collective determination of pay

In EU member states and North America, employment legislation directly affects employees' pay (see Table 1.1). Government has a direct impact such as establishing the minimum wage. At the time of writing, for those aged 25 and over, the UK National Living Wage is £7.50 per hour. For 21 to 24 year olds, the National Minimum Wage is £7.05 per hour. For younger workers the NMW is less.

Government also has an indirect impact on reward management. Market forces (supply and demand for labour) as a determinant of pay is curtailed by government intervention in the form of equal pay and pay equity legislation.

Equal pay legislation involves paying the same wage/salary for jobs with same tasks irrespective of gender e.g. a school principal, whether male or female, is paid the same salary.

Pay equity legislation involves paying the same for jobs of equal value. Skill, effort, responsibility, and working conditions are used to determine job worth using job evaluation techniques.

Study tip: Managing the employment relationship effectively and equitably means having a good appreciation of employment law. See, for e.g., Selwyn's Law of Employment text which provides cases to illustrate the point.

In most developed economies and democracies the collective determination of pay and conditions of employment occurs through collective bargaining between trade unions and employers (see Chapter 9).

Since the 1990s, employers, without the influence of trade unions, determine pay arrangements for the majority of workers in the UK private sector unilaterally.

HRM in Practice 8.1: Is the statutory national living wage a departure from a deregulated labour market?

This feature (p. 281) illustrates the role of government in setting a statutory pay floor. Use the report to debate whether HR reward practices has deliberately bypassed collective bargaining, encouraged labour flexibility and a atomistic view of the employment relationship.

The strategic pay paradigm

The 'new pay agenda' with its focus on aligning reward with corporate strategy is predicated on the notion of 'strategic choice' which involves managers

choosing a pay system that is judged through rational deliberation to be the most fitting.

The strategic pay paradigm is linked to Porter's business typology – differentiation and cost leadership. **Table 8.5** (p. 283) illustrates the alignment of business strategy, work design and reward practices.

Variable pay schemes in UK workplaces

Variable pay schemes (VPS) can take different forms: performance-related pay, merit pay, profit-related pay. Comparative studies have found a growing use of VPS that link pay to some performance variable or indicator.

In the UK, 28% of employees in the private sector received PRP compared with only 7% of public sector employees. **Table 8.6** (p. 285) shows VPS in all UK workplaces, 2004 and 2011.

Study Tip: In study groups, use research on the 'new pay agenda', the data on VPS (Table 8.6) and the HRMiP feature (p. 281) to reflect on whether HR reward practices has deliberately bypassed collective bargaining, encouraged labour flexibility and an atomistic view of the employment relationship.

Inequality, paradox and reward management

Income inequalities are extremely high globally, and have been rapidly increasing over the last three decades. Income inequality is the extent to which income is distributed unevenly in a group of people. There are a number of ways of measuring income inequality.

Drawing on the work of Wilkinson and Pickett and others, the chapter shows income inequality in selective countries (**Figure 8.4**, p. 288) and the rate of income inequality in selective EU counties in 2014 (**Figure 8.5**, p. 289).

Pay inequality has become an issue in public discourse following Brexit and the election of Donald Trump in the USA. So-called '*Fat Cat Wednesday*' – ONS data shows that pay for the top FTSE 100 CEOs returning on Wednesday 4th January 2017 will pass the UK average *annual* pay for workers employed full time (£28, 200) by around mid-day.

Study Tip:

Go to the *HRM As I See It* (p. 292), which features a HR professional, Ruth Altman, discussing the psychological contract. The interview will help you understand perceived internal pay equity issues.

The chapter finishes with an examination of some of the tensions and contradictions inherent in pay systems. Some of the 'alternative' reward systems contradict the espoused goals of HRM. E.g. individualized pay-for-performance undermines the goal of 'team building' and cooperation.

Reward system strongly influenced by perceptions of power between individuals and collective agents (e.g. trade unions) and management.

Engaging in critical thinking

Chapter case study: Cordaval University

This case study examines the challenges of introducing a new salary structure in a public sector organization. The case is designed to illustrate attempts to align a new salary structure to the strategic plan.

Tip to students: One way for students to address the issues in the report is to explain the subjective nature of job evaluation exercises, the links between reward strategy and corporate strategy, and how embedded values can influence the change process. Students should read Tien and Blackburn's (1996) article 'Faculty rank system, research motivation, and faculty research productivity: measure refinement and theory testing, *Journal of Higher Education*, 67 (1): 2-22. A question to reflect upon, if research output is the key measurement determining university staff pay, will high-quality teaching become less valued?

Reflective question/essay question

How does the concept of 'equal pay' differ from 'pay equity' in pay discrimination matters?

Tip to students: One way for students to answer this question is explain that equal pay involves paying the same wage/salary for jobs with same tasks irrespective of gender. Pay equity, on the other hand, involves paying the same wage for jobs of equal value. Relative 'value' is determined by job evaluation techniques. Students' answer should cite both UK and EU legislation and relevant case law (e.g. Garland v. British Rail Engineering Ltd., 1983) to demonstrate their knowledge and understanding of the legal arguments appertaining to pay discrimination.